



Ease of doing business 2.0: Accelerating transformation for India @100

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Foreword

The Union Budget 2022-23 heralded India's aspirations to enter into what is being termed 'Amrit Kaal', the 25-year-long leadup to India@100. This all-encompassing vision aspires to attain inclusive growth and universal welfare; and with this end in view, focuses on key enablers such as technology-driven development, radical energy transition and climate action, seamless multi-modal transport and logistics connectivity, and infrastructure creation and renewal based on sound public-private partnerships. Recently announced flagship programmes like the PM Gati Shakti National Master Plan, the proposed Ease of Doing Business 2.0 version (EoDB 2.0), the MSME-focused programmes – all seek to upgrade infrastructure, support business and industry, and improve the ease of living for all.

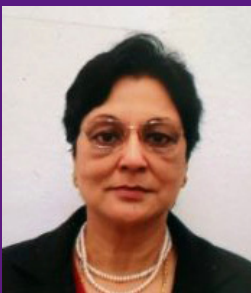
The U.S. and India have had a natural, trusted, and strengthening partnership which is now well-positioned to support India's Amrit Kaal vision and aspirations.

The U.S., as a global leader in technological innovation, is well-poised to support India's aspirations for

inclusive growth. Global supply chains are also rapidly mutating on the back of recent geopolitical developments, and India is attempting to seize these opportunities for becoming a central node in the value-creation map of the world.

In order to further enhance India's positioning as a prime locus for inward investment, the EoDB 2.0 initiative is expected to be driven by even more active collaboration with the various state governments, digitisation of manual processes, integration of Central and state-level systems through IT bridges, standardisation of overlapping compliances, and further reduction of process friction and legacy procedures that tend to impede the objectives of business and industry.

In light of the joint objectives of the U.S.-India partnership, and the common aspirations of both nations, we are offering these suggestions, which will hopefully provide a measure of impetus to the goal of accelerating India's economic transformation.



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Executive summary

As India celebrates its 75th year of independence, its size with diversity, often remains a mystery for most of the investors and businesspersons who get very easily attracted to it because of its enormous market and potential.

India has been one of the fastest growing economy in the world with the Real Gross Domestic Product (GDP) growth in the range of 4 - 8.3 per cent in the last 5 years¹. It has seen a sharp rebound after the first-two waves of the pandemic. It is further expected that with the bold reforms, continued higher capital expenditure, investment in sectors like infrastructure, the Indian economy is poised to grow stronger in the years to come.

Since 2014, the Government of India launched an ambitious initiative of regulatory reform aimed at making it easier to do business in India. These efforts yielded substantial results with India jumping 79 places i.e. from 142nd rank in 2014 to 63rd rank in 2019 in the World Bank's Doing Business Report (DBR)². The prime reason for India's rank improvement






includes the outcome-based approach of the government departments which engaged business users and other related stakeholders along the reform journey through roundtable discussions and digital mediums.

While the Doing Business Report (DBR) limit itself to two cities only, India chose to drive the reform objectives by launching its own sub-national ranking framework on ease of doing business (i.e. Business Reform Action Plan (BRAP)), which assess the Ease of Doing Business (EoDB) performance of all states and UTs³. This is a real test case of 'doing business' coverage on the ground, where actual investments settle.

The challenges for the investor while considering India as investment destination emerge from myriad policies of various States, approvals and permissions from various Government agencies and lack of consistent approach towards investor protection. A few ease of doing business related factors which impacts the decision making are:

 <p>Transparency in Government processes</p>	 <p>Removing duplicate and redundant requirements</p>
 <p>Predictability in law/ policy making</p>	 <p>Encouragement for environment friendly business regulations</p>

The road ahead i.e. EoDB 2.0 remains challenging. Beyond digitisation, the focus would include:

 <p>Enhance interoperability among Government departments</p>	 <p>Reducing regulatory compliance burden, along with focus on quality of regulations</p>	 <p>Institutional setups that allow central and state governments to transition from 'data rich' to 'data intelligent' economy</p>	 <p>Factor-in environment sustainability in policy making</p>	 <p>Competitive federalism enabling an effective EoDB environment</p>
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1. Economic Review, Reserve Bank of India, May 2021 (Year 2020-2021 is not considered due to the onset of COVID-19 pandemic)
 2. Doing Business Economy Profile 2015: India, World Bank Group, October 2014 and, Doing Business 2020: Comparing Business Regulation in 190 Economies, World Bank, 2020
 3. EoDB Booklet v10, Department for Promotion of Industry and Internal Trade, October 2021



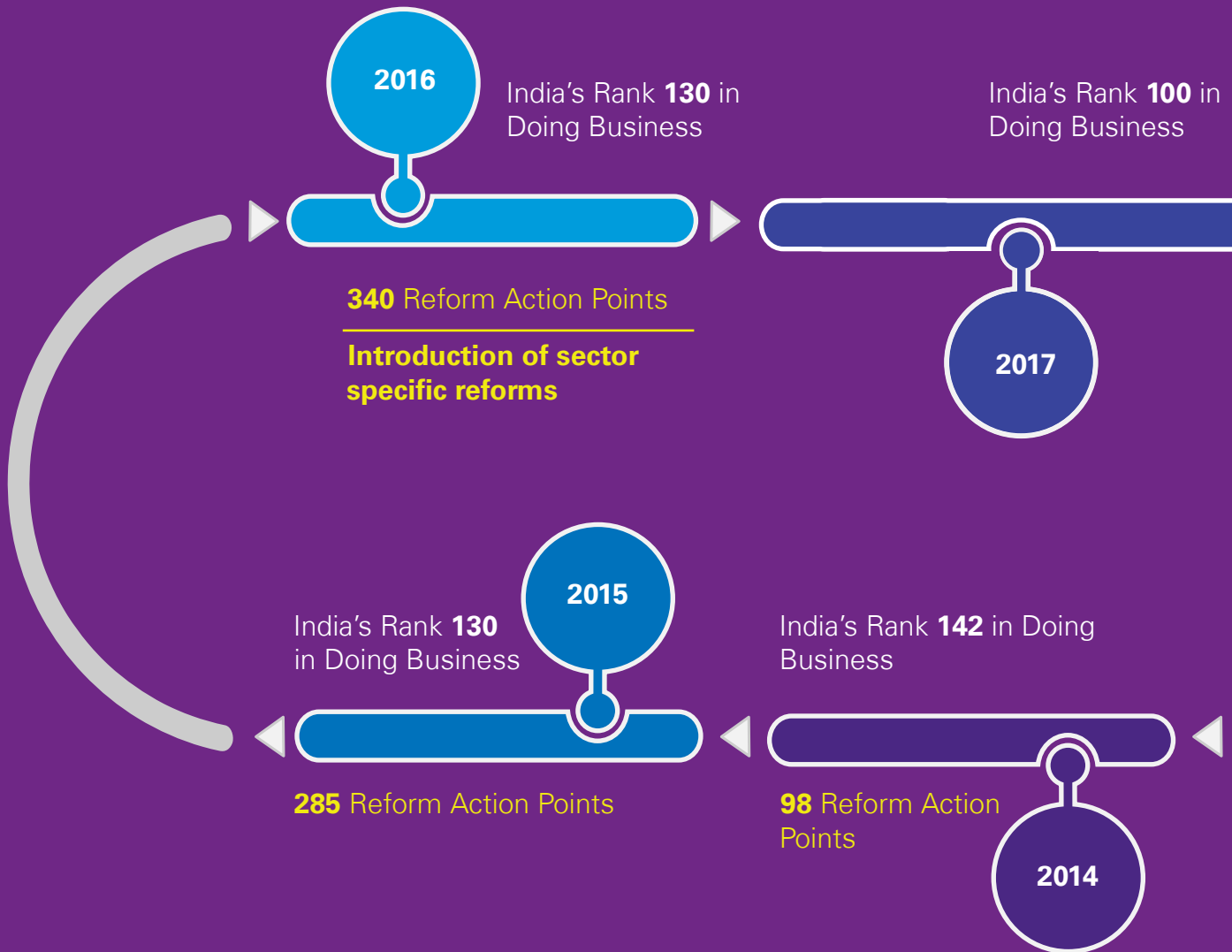
The Union Budget 2022-23 laid the foundation and presented a blueprint to steer the Indian economy over the Amrit Kaal of the next 25 years. It provided an impetus to the vision of an 'Atmanirbhar Bharat' and encouraged the mission of 'Make in India'. To enhance productivity and encourage investments, Ease of

Doing Business (EoDB) and Ease of Living (EoL) have been highlighted as key enablers for growth. The budget emphasises the need to create a supportive ecosystem, which shall boost India's manufacturing competitiveness, through the next phase of Ease of Doing Business (EoDB 2.0)⁴.

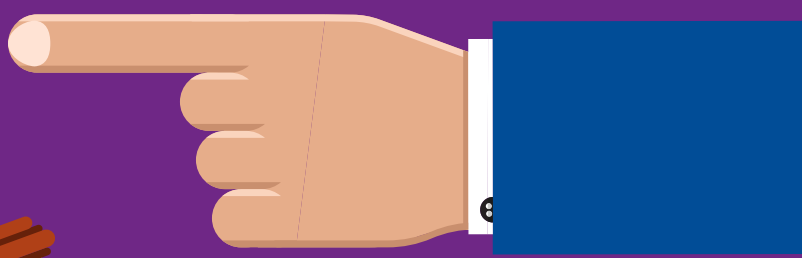
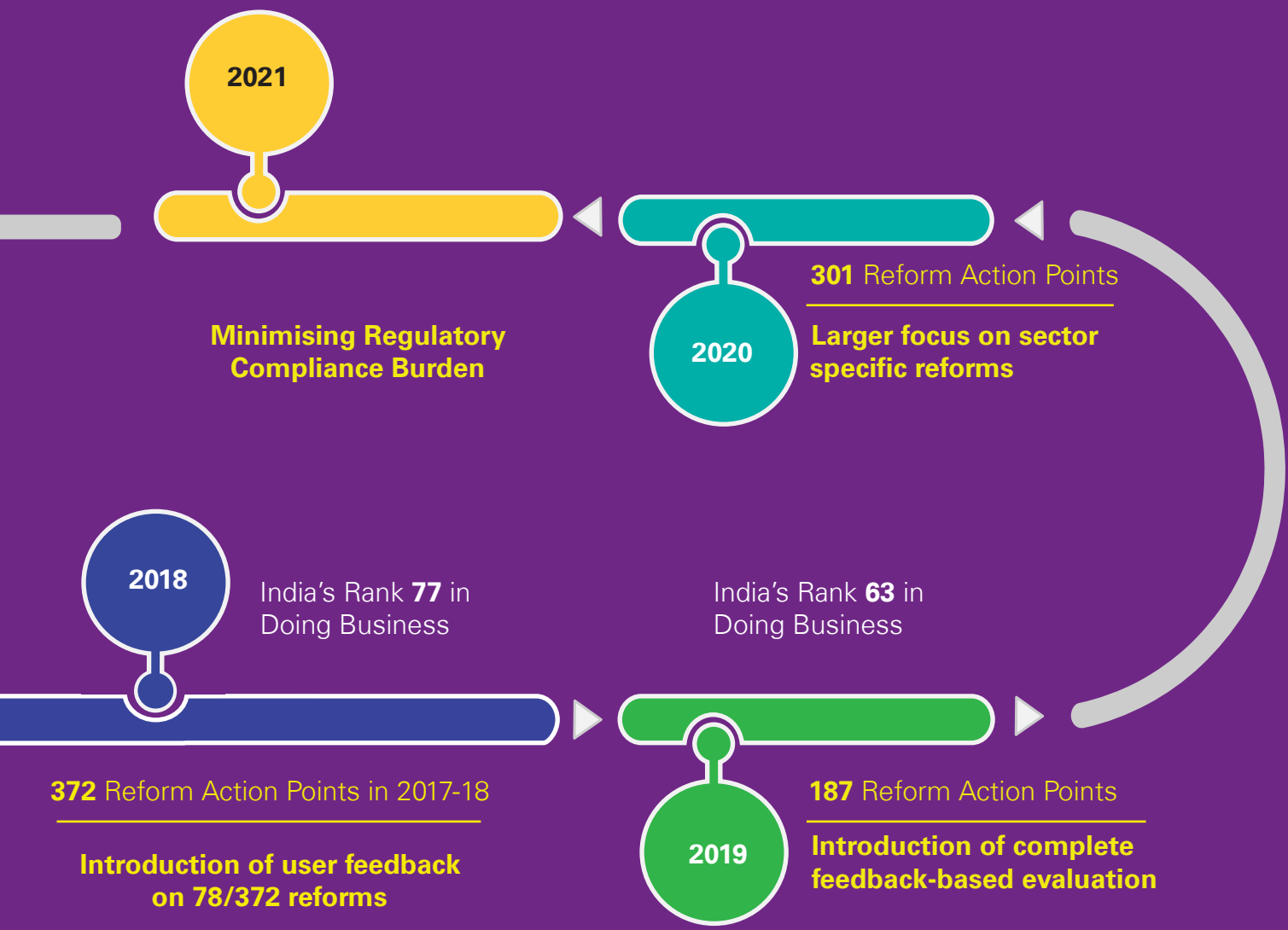
4. Budget 2022-2023, Ministry of Finance, February 2022



The journey so far



1. Data on State BRAP Ranking, Department for Promotion of Industry and Internal Trade, 2014-2021
 2. World Bank Open Knowledge Repository, The World Bank Group, 2015-2020
 3. KPMG India Analysis



Doing business report
 BRAP



2022 Onwards: Amrit Kaal - Ease of doing business 2.0



Robust inter-departmental co-ordination

Starting and running a business requires various registrations, approvals, filing of periodic returns, renewals, permissions, etc. during different stages of the business lifecycle. Multiple touchpoints and repetitive processes add to the time and cost burden on businesses, especially on MSMEs. Thus, breaking silos and enhancing synergies among government departments is the need of the hour.

Under the ambit of Digital India, multiple technology driven solutions have been developed within

the government. The next phase is to rationalise and utilise the digital infrastructure to remove redundancies. This necessitates the need to develop interoperability among electronic systems to enable seamless exchange of information that will both enhance transparency and reduce procedural times.

India needs to examine the following approaches to streamline the existing systems and enhance the data exchange mechanism among various government departments:

Examine the existing operating systems, database management systems and development tools for interoperability

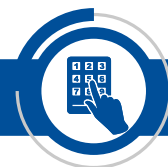


It is imperative to examine the current state of infrastructure that enables exchange of information across government departments involved in the process of setting up and operating a business. By

linking the databases of government agencies, the chances of errors and the administrative burden of submitting the same information to multiple departments can be minimised.



Create a Unique Identification Number (UIN) for businesses



In India, businesses are provided separate identification at the time of incorporation for starting a business and then during operations of business (PF, ESIC, LLPIN, GST, PAN, CIN, TAN etc.). Creation of a Single Business ID has been long pending in India. MSMEs lack access to formal credit as banks face challenges in credit risk assessment of MSMEs on account of lack of financial information, historical cash flow, etc. One of the reasons for non-availability of information has been non-existence of any Unique

Identification Number to correlate various information related to an MSME.

Unique Business ID aims to develop a solution that all Government agencies can rely upon for business related data. One authority will serve as a source for an information, while the other authorities collect that information as and when required, especially real-time updating of information at the source, through push or pull mechanism.

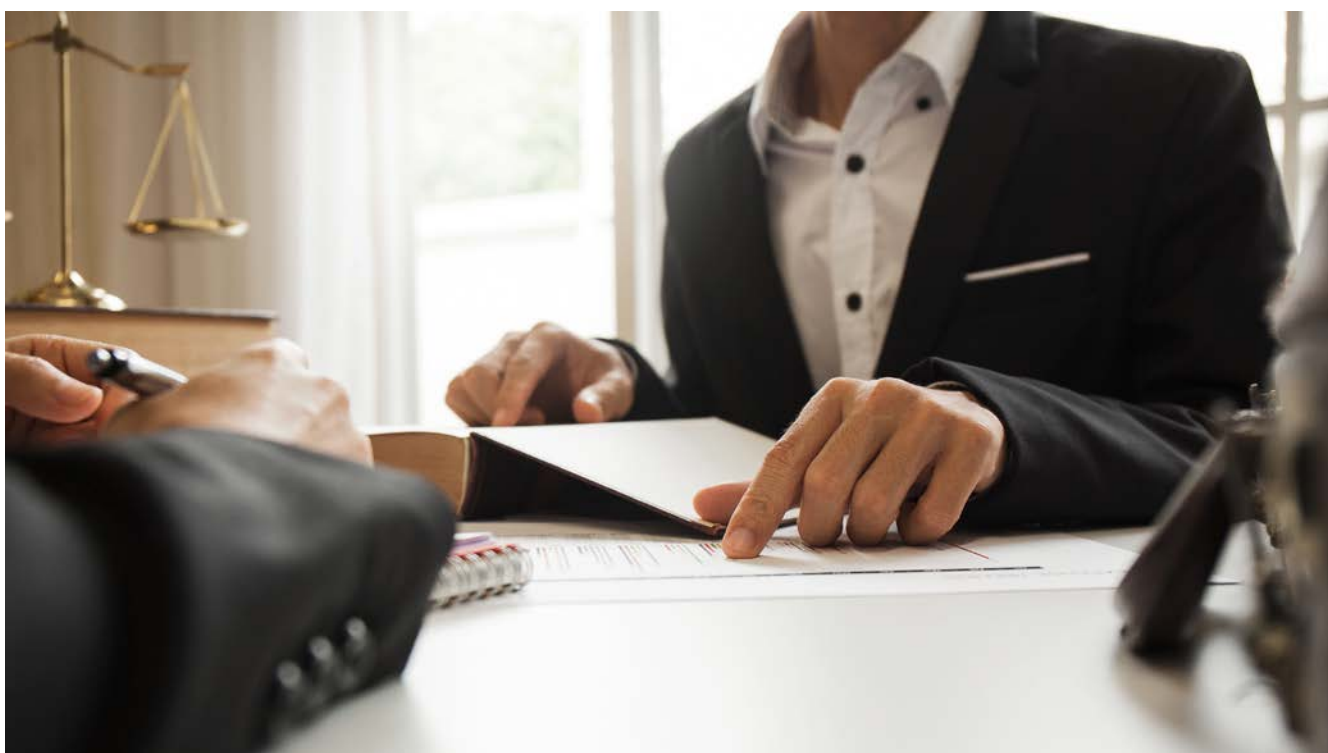
Common forms



There is a need to identify separate forms that can be merged to arrive at common asks from the industry for applications and renewals. The common form may be linked National Single Window System (NSWS) and State single windows This should enable interoperability of key information using the Unique Identification Number.

The common single tool is already available i.e. National Single Window System. The coverage of NSWS needs to be expanded to include registrations and other compliances of existing businesses also.

This may be completed through an API based integration of ministries, departments and states, and will potentially weed out the duplicate and redundant requirements.





Enhance clarity in regulations

Despite the well-articulated and well administered system of regulations in India, the possibility of ambiguities leading to multiple interpretations cannot be discounted. With the country aspiring to accelerate its economic growth, it is imperative that the regulations governing various facets of business are unambiguous, simple and transparent.

Need for clarity in regulations

The clarity in regulations signifies a simple and clear language leading to an unequivocal and specific interpretation, leaving no scope for confusion or misinterpretation. Predictability of regulatory changes will support in developing a trust based economy. Effective businesses planning and clarity in investments will improve the overall productivity for industry.

Following measures are required such that there is clarity of regulations for businesses in India:



Simplification: In order to drive 'clarity of regulations', the language of the Acts/ rules/regulations must be precise and unequivocal, with clear interpretation. Any misinterpretation due to ambiguous language of regulations in place open doors for multiple interpretations, unclear compliances and resultant defaults. Lack of clear language in these regulations might drive businesses into unnecessary litigations, adding costs to business.



Open-ended laws: Regulations which are not specific and lead to open-ended interpretation are often misused due to lack of expressive ambit within which such regulations operate. For instance, discretionary administrative power which is provided to any officer/public servant/inspector under the garb of '*Reason to Believe*', pertains to rightful application of mind to the facts and circumstances of each independent case/scenario at hand. Such open-ended interpretations need to be examined to ensure clarity of regulations.



Centralised repository of applicable laws: Small businesses are generally unaware of the applicable regulations and compliances which exposes them to non-compliance.

A centralised digital repository of Central and State laws/rules, which has the ability to inculcate the periodic amendments effected by the Governments. The repository may contain usable data which is intelligent for business compliance.

Repository should use API integration and trigger Central and State compliances along with inspection requirements, in advance for businesses.



Rationalisation of codes: Accelerating harmonisation of HS codes with global standards and promoting manufacturing excellence for propelling India's growth, thereby making India domestically sustainable and globally scalable.



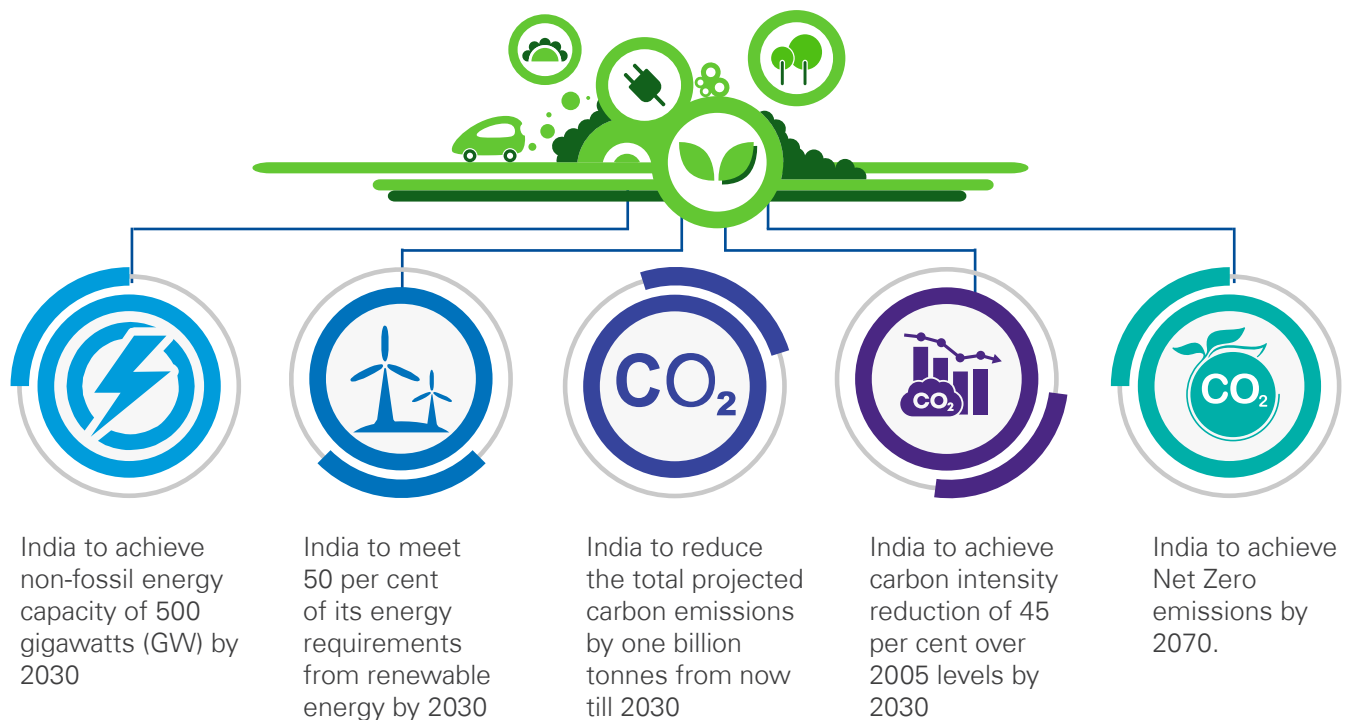


Environment sustainability

In a historic summit in 2015, 193 member countries to UN General Assembly including India adopted The 2030 *Agenda for sustainable development* which enunciated 17 sustainable development goals and 169 associated targets¹. Progressive policies and schemes underpinning India's "sab ka saath, sab ka vikas" or "development with all, and for all," motto aimed at inclusive development converge well with the central,

transformative promise of the SDG's i.e. "Leave No One Behind".

More recently in 2021, Hon'ble Prime Minister Shri Narendra Modi while addressing 26th Conference of Parties (CoP26) held in Glasgow, Scotland, declared a five-fold strategy – **Panchamrit** to achieve Net Zero Emissions. The five-fold strategy encompasses following the aspirations²:



1. Transforming our World: The 2030 Agenda for Sustainable Development, Department of Economic and Social Affairs, Sustainable Development, The United Nations, 2015
 2. National Statement by Prime Minister Shri Narendra Modi at COP26 Summit in Glasgow, Press Information Bureau, November 2021

India should focus on following initiatives during AmritKaal (referred to the 'next 25 years' for India)

The Emissions Gap Report 2021 of the United Nations Environment Programme shows that new national climate pledges combined with other mitigation measures could result in a pathway that leads to warming of 2.7°C by the end of the century³. Although an improvement over the trajectory of the world pre-Paris Agreement, it still doesn't meet the temperature goals of the Paris agreement. Such a pathway has the potential to severely impact economies and disrupt trade and development in the future. In the 'Amrit Kaal', India will have to increase its focus on the environment across economic activities through the following initiatives.



Clear and easily accessible information on environmental regulations:

Environmental licence requirements shall be integrated with unified business registration procedures (Know Your Approval module) through integration of Parivesh and National Single Window System, specifically incorporating simplified environment-related notifications for activities with low or negligible environmental impact.



Enabling environmentally sustainable trade: Provision of lower tariffs for trade of environment-friendly goods should be explored, and the allied trade procedures need to be streamlined for maximising the benefits and/or minimise the restrictions provided by existing regulations. In addition, it is important to harmonise the policies specific to international trade and draft 'Green policy for ports'⁴ to ensure government incentivises the products landing at these ports.



Increased role of banks and greater momentum towards green financing: Green financing is increasingly being recognised as a priority for India. Multiple initiatives have been taken by the central bank, including issuing green bonds and recognising small renewable energy projects under the Priority Sector Lending scheme. In the union Budget 2022-23, the issuance of sovereign green bonds was proposed for mobilising resources for green infrastructure as a part of the government's overall market borrowing in the year. This can send a strong signal which reinforces the country's commitment to a low-carbon economy, lowers the cost of capital for green projects, and mobilizes private capital for long-term sustainable development. However, India needs to further support the momentum through fiscal measures such as a supportive taxation policy for green finance, green infrastructure investment trusts, and other innovative financial instruments.



Devising cluster based "Environment impact assessment": For saving time and cost to business, the government may devise a mechanism to improve Environment Impact Assessment (EIA) process by promoting industries with similar operations or similar levels of emission standards to set up in a single industrial park for smoother cluster-based EIA process and environment clearance.



Creating a sustainable environment friendly ecosystem in Tier 2 and Tier 3 cities: Tier 1 cities are already crowded. Focus on sustainable environment-friendly ecosystem, social and economic infrastructure in Tier 2 and Tier 3 cities shall attract MNCs leading to increased investment and employment.

3. Emissions Gap Report 2021: The Heat Is On, The United Nations Environment Programme (UNEP), November 2021

4. Draft Policy- Strategic Action Plan towards a Safe, Sustainable and Green Port sector as envisaged in MIV 2030, Ministry of Ports, Shipping and Waterways, February 2022



COMPLIANCE



Regulatory Impact Assessment

Regulatory Impact Assessment (RIA) can reform the regulatory architecture of the country through assessment based on utility and impact of regulations. With a holistic framework, institutional set-up and required guidelines, RIA has the potential to ensure efficient and effective regulatory environment.

Globally implementation of RIA has led to several benefits, including:



Cost-benefit analysis has become a guiding norm for policy making in most countries



Many countries noticed increase in quality of regulatory content, design and implementation



Enhanced transparency and good governance through clear and quantifiable justification



Implementation of effective policy options thereby doing away with ineffective alternative.

Way forward for India

RIA is new to most regulators in India and implementation of the same will require assessment of current regulatory scenario before its complete implementation. The following aspects may be provided a direction towards RIA's implementation.



As-is assessment of the existing regulatory landscape: In a dynamic world with disruptive technologies bringing real ground level solutions, it is imperative that the regulations must be revisited to identify the bottleneck and thrust areas for key sectors. Based on the principle of “trust-based governance” and “maximum governance, minimum government”, the existing regulations must be tested for its impact on time, cost, environment etc.



Enacting a legislation mandating adoption of RIA: An enabling legislation mandating adoption of RIA in India should be promulgated for regulatory efficiency and effectiveness. The act must mandate that all new legislations, policies, executive orders/actions and regulatory instruments be backed up with impact assessment.



Designing an institutional mechanism to implement proposed regulatory effectiveness act

- Establishment of a Law Commission for a defined period to develop a strategy and regulatory interventions required for RIA
- RIA section in all relevant ministries, departments and states should be created and mandated to implement the guidelines and conduct cost-benefit analysis for any proposed regulatory change. This can be added under the existing ‘Ease of Doing Business’ sections
- Ministry of Commerce and Ministry of Finance should mandate any regulatory reform post extensive consultation with industry stakeholders



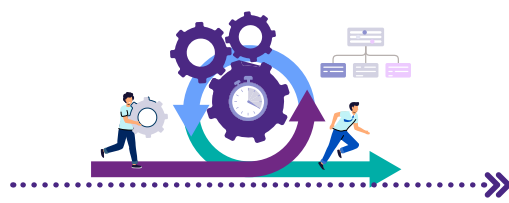
A **‘One in One out’ policy:** Adoption of such policies by advanced countries such as the UK, Germany and the US could be studied¹. In case a government agency proposes to include one set of regulations, then the other set of regulations must be reduced to keep the impact either same or reduced.



Capacity building activities and early practice/piloting of RIA that enhances the acceptance and enables skill building related to RIA.

1. The Jury Is Still Out on One-In-One-Out, The Regulatory Review, Elizabeth Golberg, February 2020

Winning mantra - ACTNOW



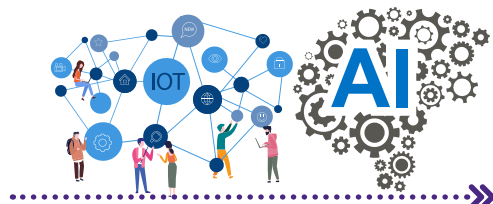
A ccelerate

Be fast and agile



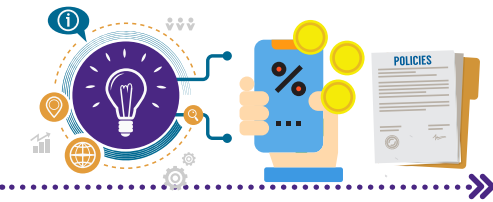
C hange

For better – Reduce compliances, globally competitive, drive change in a systematic manner so that people/stakeholders adapt to



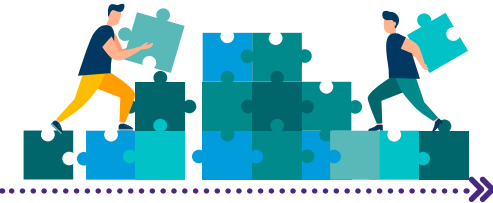
T echnology

Emphasis on Smart Technology and Technology advancement



N ovel

Look at innovative ways for Smart governance / policy making / attracting investments / fostering innovation and entrepreneurship



O ne

Together / collaborate / Centre and state / One stop solution



W in-win

Through sustainable development, trade and business ecosystem.



India@2047 - Ease of doing business



**Leading
manufacturing
and export hub
of the world**

**India as the
growth engine
for world
economy**





Simplification

Agility

Technology

Transparency

Collaboration

Innovation

Transition to carbon neutral economy

Movement towards paperless economy

Pre-dominantly business resilient economy

Acknowledgement

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