



‘Ease of doing Business’ – Historical Perspective, Real issues and What needs to be done?

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Abstract

Ease of doing Business Index’ is a barometer of reforms undertaken by a country/region to attract investments. It is a measure of investor friendliness that determines investment in the region. Broadly, the set of indicators considered under ‘ease of doing businesses are government regulations such as grant of construction permit, supply of electricity, getting credit and enforcing contracts etc.

Keywords

World Bank Methodology, Best Regulatory Performance, Starting Business, Trading Across Borders, Business Score, Composite Index, BRAP, B2G, C2G, National Judicial Grid.

1. Introduction

The decision to invest is generally influenced by multiple factors such as laws & regulations of the country, infrastructure – its reliability, availability of skilled labour, market size and taxation etc. ‘Ease of Doing Business index’, in turn, is a measure of investor friendliness that determines investment in the region. It is also a barometer of reforms undertaken by a country/region to attract investments. The World Bank came up with a methodology for computing ‘Ease of Doing Business index’ in 2004.

It is a composite index that has been developed jointly by three economists of World Bank namely Simeon Djankov, Michael Klein and Caralee McLiesh. A set of 10 indicators relating areas such as the time taken in getting the clearances for establishing a business and the cost involved therein have been included in preparing the index. The 10 indicators have been furthermore split into 41 sub-component indicators to make them measurable.

‘The ease of doing business score shows an economy’s absolute position relative to the best regulatory performance.’ (World Bank, 2020). Since each parameter (sub-component indicator) in the composite index are assigned a weight, the total score is the sum total of the values that are a multiplication of the initial score and the weight assigned to it. Based on the total score, the World Bank has been ranking the nations in ‘the Ease of Doing business index’.

At the sub-national level, competition among the different states in India became quite fierce for attracting investment in the post-liberalized (post-1991) era. The states have thus been observed to compete with each other through offering various forms of support packages to the investors. Faced with multiple packages, the investors often face the uphill task of assessing the overall investment climate in the state.

With a view to enhance the ease of doing business in the country, the Department for Promotion of Industry and Internal Trade (DPIIT), Government of India has been also nudging the various states and Union Territories (UTs) for adopting reform measures for removing the regulatory impediments that discourage investment. The 'Business Reforms Action Plan' (BRAP) that was launched by the DPIIT oversees progress made by each state in regard to reforms in areas of introducing the Single Window Systems, Information Wizard, Online Building Permit System, Inspection Reforms and Labour Reforms etc.

The paper is divided in three parts. Part-I of the paper dwells upon the World Bank methodology of measuring 'Ease of doing Business Index' and the ranking of different nations based on this methodology. Part -II dwells upon the initiative taken by the Government of India in ushering reforms in the direction 'Ease of Doing Business'. Part – III provides a critique of the reforms undertaken so far, and concludes by giving some recommendations.

Part -I

World Bank methodology of measuring 'Ease of Doing Business'

The World Bank methodology of measuring 'Ease of Doing Business index' is based on an annual survey of 192 countries across the globe. The survey consists of a questionnaire designed by the *Doing Business* team with the assistance of academic advisers. The questionnaire centres on a simple business case that ensures comparability across economies and over time. Broadly, the areas of concern for measuring 'Ease of Doing Business' relate to opening a business, getting a location, accessing finance and dealing with day-to-day operations in a secure environment as shown in Figure 1. below.

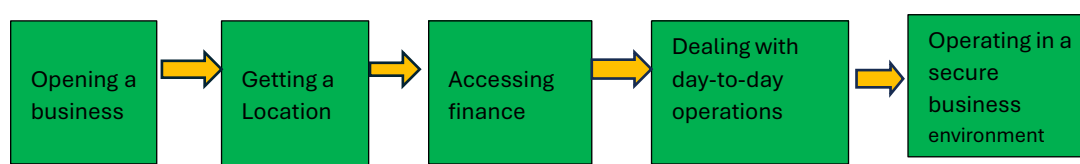


Figure 1.

These broad areas of concern have been covered under 10 indicators, which, in turn, have been further split into 41 sub-component indicators to make them measurable (Table1). In any given year, the score earned by a country measure how close its economy is to the best regulatory performance at that time. 'In this formulation the highest score represents the best regulatory performance on the indicator across all economies....Both the best regulatory performance and the worst regulatory performance are established **every five years** on the basis of the Doing Business data for the year in which they are established and remain at that level for the five years regardless of any changes in data in interim years' (Ibid).

Table 1. Measurement of Twelve areas of Business Regulation

Indicator set	What is measured
1. Starting a business	Procedures, time, cost, and paid-in minimum capital to start a limited liability company for men and women
2. Dealing with construction permits	Procedures, time, and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system
3. Getting electricity	Procedures, time, and cost to get connected to the electrical grid; the reliability of the electricity supply; and the transparency of tariffs
4. Registering property	Procedures, time, and cost to transfer a property and the quality of the land administration system for men and women
5. Getting credit	Movable collateral laws and credit information systems
6. Protecting minority investors	Minority shareholders' rights in related-party transactions and in corporate governance
7. Paying taxes	Payments, time, and total tax and contribution rate for a firm to comply with all tax regulations as well as post filing processes
8. Trading across borders	Time and cost to export the product of comparative advantage and to import auto parts
9. Enforcing contracts	Time and cost to resolve a commercial dispute and the quality of judicial processes for men and women
10. Resolving insolvency	Time, cost, outcome, and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency
11. Employing workers	Flexibility in employment regulation
12. Contracting with the government	Procedures and time to participate in and win a works contract through public procurement and the public procurement regulatory framework
Source: The World Bank, <i>Doing Business 2020</i> , Washington DC, 2020.	

Calculating the Score vis-à-vis each Sub-component Indicator

The performance of a country is measured and score assigned in the range of zero to hundred; with the best performance given hundred and the lowest performance given zero value. 'Calculating the ease of doing business score for each economy involves two main steps. In the first step **individual component indicators are normalized to a common unit** where each of the 41 component indicators y is rescaled using the linear transformation: $(\text{worst} - y) / (\text{worst} - \text{best})$ ' (Ibid).

Thus, 'an economy may establish the best regulatory performance for an indicator even though it may not have the highest score in a subsequent year. Conversely, an economy may score higher than the best regulatory performance if the economy reforms after the best regulatory performance is set' (Ibid). 'For example, *the best regulatory performance for the time to get electricity is set at 18 days*. In the Republic of Korea, it now takes 13 days to get electricity, and in the United Arab Emirates it takes just 7 days. Although the two economies have different times, both economies score 100 on the time to get electricity because they have exceeded the threshold of 18 day'. (Ibid)

Since each **individual component indicator** is assigned a weight, the final score is the total of the initial scores multiplied by the respective weights to arrive at the final value of the composite index. Furthermore, 'The difference between an economy's score in any previous year and its score in Doing Business subsequently illustrates the extent to which the economy has introduced reforms in its business regulatory environment over time'(Ibid).

Sample size of Respondents

Questionnaires prepared by the World Bank team for their '**Doing Business 2020**' report were administered to more than 18,000 local experts that included lawyers, business consultants, accountants, freight forwarders, government officials and other professionals routinely administering or advising on legal and regulatory requirements. 'Doing Business 2020' team of the World Bank thus interacted with lawyers, business consultants, accountants, freight forwarders, government officials and other professionals involving telephone calls, written correspondence and some visits by the team.

The sample size of the respondents for this study was 18,493 for 190 nations on 41 parameters falling under 10 categories as shown below:

Table 1. Category wise number of Respondents

Category of respondents	Number of respondents	Economies with given number of respondents (%)		
		1-2	3-5	5+
1.Dealing with Construction Permits	1468	13	37	50
2. Enforcing Contracts	1738	12	33	50
3.Getting Credit	2021	8	22	65
4. Getting Electricity	1540	18	31	51
5. trading across Borders	1626	17	32	51
6. Paying Taxes	1867	8	27	65
7. Protecting Minority Investors	1380	22	30	48
8. Registering Property	1719	13	31	56
9. Resolving Insolvency	1472	12	39	48
10. Starting a Business	2463	9	19	72
Total	18493	14	31	56

Criticism of the World Bank Methodology

Under the World bank methodology, the average size of sample per nation works out to less than 100. In the case of India, for instance, only Delhi and Mumbai were selected for the survey, and the sample size was less than 250. For a vast nation like India, this sample size is insignificant and according to critics the same cannot be considered truly representative.

Furthermore, the sample included mainly lawyers, consultants, auditors, etc. and contrary to expectations not many industrialists. It was also stated that the index is based mainly on business regulations, which alone do not determine the investment climate. Certain other vital factors such as a nation's proximity to large markets, quality of infrastructure are not considered. It was also observed that while China and India are among the top recipients of Foreign Direct Investment (FDI), they have been ranked consistently below countries like Rwanda in the 'Ease of Doing Business index'.

Significantly, the World Bank's chief economist at the time, Paul Romer told the *Wall Street Journal* in January 2018 that he had lost faith in the integrity of the Doing Business index, suggesting it was being politically manipulated. The World Bank soon after announced that it was temporarily pausing the publication of its well-known 'Doing Business' report as it investigates a number of 'data irregularities' that have been noticed in the 2018 and the 2020 reports.

In the 2018 'Doing Business' report, in which the World Bank stated that 'irregularities had been reported', India moved up for the first time ever into the top 100 rankings on the back of what the World Bank called "sustained business reforms". At the time, it recognised New Delhi as one of the "top 10 improvers" in that year's assessment. In the 2020 report, India jumped 14 places upward and moved up to the 63rd position in the global ease of doing business rankings (Annex 1).

Notwithstanding the criticism about the methodology, the World Bank study is recognized as the most reliable indicator worldwide and quoted and used as the benchmark for assessing the investment climate of a nation. India's progress in ranking has been perceived as a result of some bold reforms undertaken by the Government of India to improve investment climate in the country. One of the important observations of the authors of the 'Doing Business 2020' report has been that the 'economies that score highest on the ease of doing business share several common features, including the widespread use of electronic systems (World Bank, 2020).

Part -II

India and 'Ease of Doing Business'

With a view to enhance the ease of doing business in the country, the Department for Promotion of Industry and Internal Trade (DPIIT), Government of India has been nudging the various states and Union Territories (UTs) to remove regulatory impediments that discourage investment. The DPIIT also launched the 'Business Reforms Action Plan' (BRAP) in 2015 - in partnership with the state and UT governments- to ensure progress in this direction.

Broadly, the aim of the 'BRAP' is to improve 'Ease of Doing Business and Ease of Living' by simplifying, rationalizing, digitizing and decriminalizing *Government to Business (G2B)* and *Government to Citizen (G2C)* interfaces. On the heels of the World Bank initiative, the following measures were taken at the level of the Central government in the direction of 'Ease of Doing Business' in the last several years:

(a) Starting a Business

1. Permanent Account Number (PAN), Tax Deduction & Collection Account Number (TAN), Director Identification Number (DIN) have now been merged into a single form (SPICe) for company incorporation.
2. Elimination of incorporation fee for companies with an authorised capital of up to Rs. 15 Lakh.
3. Five-page form and other attachments for reserving the name of the Company with the Ministry of Corporate Affairs have been simplified into a simple web service with only three fields to be filled.
4. Registration under Employee State Insurance Corporation (ESIC) and Employee Provident Fund Organisation (EPFO) is available at Shram Suvidha portal as a common online service with no physical touchpoint.
5. No requirement of inspection before registration under the Shops & Establishment Act in Mumbai and Delhi.
6. Companies Act was amended to eliminate the requirement of a common company seal.

(b) Dealing with Construction Permits

1. Municipal Corporations of Delhi, as well as Municipal Corporation of Greater Mumbai, have introduced fast track approval system for issuing building permits with features such as Common Application Form (CAF), provision of using digital signature and online scrutiny of building plans.
2. Delhi has uniform building by-laws which allow for risk-based classification regimes for different building types. It has a provision of deemed approval of sanctioning building plans within 30 days.
3. For construction permits, the time reduced from 128.5 to 98 days in Mumbai and from 157.5 to 113.5 days in Delhi between Doing Business 2018 and 2020 reports.
4. The total number of procedures reduced to 19 in Mumbai and 11 in Delhi.
5. Cost of obtaining construction permits reduced from 23.2% to 5.4% of the economy's per capita income.

(c) Trading Across Borders

1. The Central Board of Excise and Customs (CBEC) has implemented the 'Indian Customs Single Window Project' to facilitate trade. Importers and exporters can electronically lodge their Customs clearance documents at a single point. The government has launched 'PCS1x' which intends to integrate 27 maritime stakeholders at one platform.
2. The number of mandatory documents required for customs purposes, for both import and export of goods, has been reduced to three.
3. e-Sanchit, an online application system, allows traders to file all documents electronically.
4. The electronic self-sealing of the container at the factory has reduced time and cost for exporting firms.
5. A computerized risk management system has brought transparency and reduced the frequency of custom inspections significantly.
6. Central Board of Indirect Taxes and Customs has provided a facility for Advance Bill of Entry (Advance Import Declaration).

(d) Enforcing Contracts

1. The Commercial Courts and Appellate Division of High Courts have been established in Mumbai and Delhi.
2. [National Judicial Data Grid](#) (NJDG), provides case data including case registration, cause list, case status and orders/ judgements of courts district-wise across the country. NJDG is open to the public since 2015.
3. New cases in district courts are assigned to Judges randomly through an automated system in Delhi and Mumbai.
4. e-filing of cases has been introduced in district courts of Delhi and Mumbai.
5. A case management tool has been developed with the functionality of sending a notification to lawyers, viewing court orders/ judgements, tracking the status of cases, semi-automatically generate court orders etc.

(e) Getting Credit

1. Central Registry of Securitization Asset Reconstruction and Security Interest (CERSAI) is a geographically unified electronic registry that provides for registration by asset type. Since 2017, CERSAI also provides search through debtor's name.
2. Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) (Central Registry) Rules, 2011 was amended to include additional types of charges, including a security interest in - immovable property by the mortgage, hypothecation of plant and machinery, stocks, debt including book debt or receivables, intangible assets, patent, copyright, trademark, under-construction building.
3. The definition of property, which now includes immovable as well as intangible, allows CERSAI to register these additional charges.

(f) Getting Electricity

1. Electricity connection is provided within 7 days if no Right of Way (RoW) is required and within 15 days where RoW is required.
2. Service line cum Development charges are now capped at USD 339.84 in Delhi.
3. The number of documents required for getting an electricity connection has been reduced to two and no physical documents are accepted.
4. The total number of procedures reduced to 3 in Delhi and 4 in Mumbai.

(g) Registering Property

1. All sub-registrar offices have been digitized and its records have been integrated with the Land Records Department, in both Delhi and Mumbai.
2. In Mumbai, all property tax records have been digitized. Property is mutated automatically after registration. The digitization of property records ensures transparency and allows citizens to ascertain the history of transactions in digital mode.
3. Online service for charges search at Registrar of Companies reduces the time taken for this procedure significantly.
4. Statistics regarding the number of land disputes at Revenue Courts are available online in both Delhi and Mumbai.

(h) Resolving Insolvency

1. The Insolvency and Bankruptcy Code of 2016 has introduced new dimensions in resolving insolvency in India. It is India's first comprehensive legislation on corporate insolvency.
2. Under Fast-track Corporate Insolvency Resolution Process (CIRP) for mid-sized companies, the process for insolvency shall be completed within 90 days with a maximum grace period of another 45 days.

(i) Paying Taxes

1. Reduction of corporate tax from 30% to 25% for mid-sized companies.
2. Domestic companies can opt for concessional tax regime @ 22% (effective tax rate: 25.17% inclusive of surcharge and cess). Such a company cannot claim any income tax incentive or exemption. Such companies are not liable to pay the Minimum Alternate Tax (MAT).
3. The tax rate for new domestic manufacturing companies is now 15% (17.01% inclusive of surcharge and cess). Companies that have been incorporated on or after 1st October 2019,

making fresh investment manufacturing and commencing production on or before 31 March 2023, may opt for such a concessional tax regime. Such companies cannot avail of any other income tax exemption/ incentive under the Income-tax Act.

4. A company that does not opt for the above concessional tax regime and avails any tax exemption/ incentive, shall continue to pay tax at pre-amended rates. However, the option of availing of the lower tax regime of 22% can be opted for after the expiry of tax during the holiday/ exemption period. Once the same has opted for it cannot be subsequently withdrawn by the taxpayer. MAT rate for companies availing exemptions/ incentives reduced from 18.5% to 15%.
5. Robust IT infrastructure of online return filing for Indian taxpayers.
6. The Goods and Service Tax came into effect on 01 July 2017. It subsumes eight taxes at the Central and nine taxes at the State level.
7. The Employee State Insurance Corporation (ESIC) has developed a fully online module for electronic return filing with online payment. This has substantially reduced the time to prepare and file returns.
8. With the introduction of the e-verification system, there remains no physical touchpoint for document submission to income tax authorities.
9. Instead of filing 3 GST returns, the taxpayer has to now file only 2 returns.

(j) Measures Underway

1. Resolving Insolvency: Increased usage of Fast-track Corporate Insolvency Resolution Process (CIRP) as more insolvent companies opt for reorganization plans instead of liquidation.
2. Enforcing Contracts: The faster resolution of commercial disputes through dedicated commercial courts.
3. Registering Property: Digitization of land records and maps will bring transparency on encumbrances and ease the process of registering property.
4. Generating Electricity: Government of India has initiated a campaign to improve regulatory and process framework in the power sector. It is working towards a reduction in entry barriers in the distribution industry and making it license-free.
5. Starting a business: The new companies registered through the Agile platform of MCA are also facilitated to register under ESI Act, through the common transaction.

(ii) Dealing with Construction permits:

Central Public Works Department (CPWD) has introduced 49 new and emerging technologies to enhance the speed of work. Enterprise Resource Planning (ERP) is under implementation and is expected to be completed by 2021. It will ensure transparency and increase efficiency.

The DPIIT has launched the latest (BRAP) for the year 2020. It consists of 301 reform points across 15 areas. The highlights of BRAP 2020, in regard to reforms in the states/UTs, are:

- **‘Investment enablers** for incorporating reforms related to *‘Access to information and Transparency’*,
- **Single Window system for** enabling *the single window system*, including online submission of application, payment of application fee and many more,

- **Sectoral reforms** for sectors like *Tourism, Telecom, Hospitality, Trade License, Healthcare, Legal Metrology, Cinema Halls and Movie shooting,*
- **Public procurement** by the *industries department,*
- **Reforms relating to** ‘*elimination of the requirements of renewals of certificates/ approvals/ licenses*’.

The states/UTs have been, furthermore, categorized as "Top Achievers" (above 90%), "Achievers" (80–90%), "Fast Movers" (70–80%), and "Aspirers" (below 70%) based on their compliance with the BRAP (Table 2).

Table 2. **State/UTs categories, as per Business Reform Action Plan (BRAP) Survey, 2022**

Category Y states, which comprise states and UTs with established ‘business’ and ‘citizen-centric’ systems	
Business to Government (B2G) Centric Reforms	
Category	States/UTs
FAST MOVER	Gujarat
ASPIRERS	Andhra Pradesh, Telangana, Maharashtra, Haryana, Uttar Pradesh, Uttarakhand, Odisha, Himachal Pradesh, Punjab, Madhya Pradesh, Tamil Nadu, Kerala, Karnataka, Chattisgarh, West Bengal, Bihar, Goa, Jharkhand, Rajasthan, Assam, Delhi, J&K
Citizen to Government (C2G) Centric Reforms	
FAST MOVER	None
ASPIRERS	Kerala, Gujarat, Telangana, Maharashtra, Tamil Nadu, Uttarakhand, Haryana, Madhya Pradesh, Odisha, Karnataka, Rajasthan, Himachal Pradesh, Andhra Pradesh, Uttar Pradesh, Goa, Bihar, Delhi, West Bengal, Assam, Chhattisgarh, J&K, Jharkhand, Punjab
Category X states, including northeastern states (excluding Assam) and UTs (excluding Delhi)	
Business to Government (B2G) Centric Reforms	
FAST MOVER	None
ASPIRERS	Dadar & Nagar Haveli and Daman & Diu, Tripura, Chandigarh, Meghalaya, Manipur, Mizoram, Puducherry, Andaman & Nicobar Islands, Arunachal Pradesh
Citizen to Government (C2G) Centric Reforms	
FAST MOVER	None
ASPIRERS	Chandigarh, Daman & Diu, Meghalaya, Andaman, Tripura, Puducherry, Mizoram, Arunachal Pradesh, Manipur
Note: States are categorized as "Top Achievers" (above 90%), "Achievers" (80–90%), "Fast Movers" (70–80%), and "Aspirers" (below 70%) based on their compliance with the Business Reform Action Plan, reflecting the state government's commitment to creating a business-friendly environment. Source: DPIIT, Government of India, _ppp_0HA9UI_ sss_SDp6StW2Zcedpg_eee_eee_ dated 23.5.2025.	

Jan Vishwas (Amendment of Provisions) Act, 2023

The Jan Vishwas (Amendment of Provisions) Act, 2023 was passed in the Lok Sabha on 27th July 2023 and in the Rajya Sabha on 2nd August 2023. The Assent of the President was received on 11th August 2023. The Act decriminalized 183 provisions of 42 Central Acts administered by 19 Ministries/Departments.

The Act has helped in rationalizing criminal provisions and ensuring that citizens, businesses and the government departments operate without fear of imprisonment for minor, technical or procedural defaults. The Act has paved the way for rationalizing laws, eliminating barriers and bolstering growth of businesses.

Part -III

Way Forward – What needs to be done?

Each State needs to submit a proof of having implemented the reform. There is intense competition among the states/UTs to improve their position. Hence, states/UTs issue notifications notifying reforms, *but seldom implemented*. The BRAP Survey (2020) is also subject to criticism for its methodology. Important parameters like law & order, skilled labour availability, availability, quality & reliability of infrastructure, etc., are not covered. Again, states which attract lot of investments including foreign direct investment (FDI) namely Maharashtra, Gujarat, Tamil Nadu, Karnataka, etc are ranked far below states which do not attract much investments.

Every state/UT claims to have an effective single window system for according all sorts of approvals. However, in reality, most single windows have multiple hidden doors and windows. **The real problem lies in mind-set issues of regulators guided by vested interests and rent-seeking behaviour.** While reforms can be introduced by a stroke of a pen, they are seldom implemented with the same spirit. Every notification on reforms has loopholes and lack of accountability has been main factor leading to inefficiency. Lack of transparency encourages the rent-seeking behaviour that negates the spirit of any reform to improve investment climate.

What matters essentially for investors – *whether domestic or foreign* – is ‘good governance’ in the country. In the area of ‘Ease of Doing Business’, more particularly, India needs to usher administrative reforms and be guided by **best regulatory performance** at the global level in terms of the time taken and the cost involved in giving approvals and delivery of basic provisions to businesses as shown at Annex 2.

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