Reforms are paying off, now up the ante

The Narendra Modi government had plenty of reasons to be pleased with the latest edition of the World Bank's Doing Business (DB) report. India jumped 30 notches in the rankings to reach the 100th position. It was one of the top 10 improvers in this year's rankings and has implemented reforms in eight out of 10 doing business indicators tracked by the World Bank. Not only has India improved its position in terms of rankings, which is relative, it has also made improvement in absolute terms, measured by the so-called "distance to frontier" metric.

The improvement in rankings is the result of coordinated efforts made by the government over the past few years. It is aiming to break into the top 50. According to the World Bank, India has adopted 37 reforms since 2003 and about half of them have been implemented in the last four years. In this year's rankings, India has shown improvement in areas such as paying taxes, dealing with construction permits and resolving insolvency.

One indicator that deserves special mention is the protection of minority investors. India is at the fourth position globally in this category. This is a huge achievement and the government and the securities market regulator deserve credit. What is encouraging is that the Securities and Exchange Board of India is constantly working to enhance investor confidence. Implementation of the recommendations made by the Uday Kotak committee on corporate governance will further augment minority shareholder confidence in the market. The implementation of the bankruptcy code is a big boost, as it will help inefficient firms exit the market and improve overall allocation of capital. The implementation of the goods and services tax (GST) has not been accounted for in this year's rankings. Therefore, if the teething problems are addressed quickly, it is likely that the GST will help boost India's ranking further next year.

While the government deserves credit for this impressive improvement in the DB rankings, it should not lose sight of the distance India still needs to cover. For instance, despite all the effort, India's rank in dealing with construction permits is 181 among 190 countries. The time taken for enforcing a contract has, in fact, worsened from what it was 15 years ago. Consequently, India's rank in this category is a poor 164.

To be sure, the scope and coverage of the DB survey has limitations and the government needs to work on a much broader canvas to be able to actually encourage investment. Also, as Matthew Lillehaugen and Milan Vaishnav argued in these pages recently (*goo.gl/MzsFZV*), a wide divergence exists between de jure and de facto realities in most economies. What firms face on the ground is often very different from what is written in the rule book.

While the DB survey takes inputs from professionals, a recent report by NITI Aayog and the IDFC Institute—based on a survey of over 3,000 enterprises—gives an idea of the kind of challenges that policymakers need to address. For instance, it shows that just about 20% of start-ups reported using the single-window facility for setting up a business, and only about 41% of the experts knew about the facility. Further, the survey finds that labour- intensive sectors are constrained by labour market regulations. They also reported that finding skilled workers and dismissing employees are severe impediments. Interestingly, while India ranks 29 in getting electricity in the DB rankings, firms still face power shortages. The NITI Aayog and IDFC Institute report notes that on average, firms face power shortage of around 46 hours in a month. So, what this means is that both the Central and state governments will need to work in a number of areas to improve India's competitiveness.

Even though the DB rankings may not be the sole determinant for attracting investment, the improvement is likely to boost investor confidence as it reflects the government's commitment to reforms. At a broader level, a number of things are now falling in place for India and should help augment growth in the medium term. India now enjoys a significant level of macroeconomic stability; the government has taken a decisive step to sufficiently recapitalize public sector banks, and is implementing reforms to improve the business climate. With its demographics, the size of the economy and a well-functioning capital market, India stands a real chance of projecting itself as a preferred destination for investments. The fact that China is likely to slow down further in coming years will also help India's case.

Therefore, policymakers would do well to build on recent gains with an accelerated pace of reforms in areas such as land, labour and contract enforcement, which will help push investment and growth in the medium to long run.

Will improvement in 'Doing Business' rankings help attract investments? Tell us at views@livemint.com

END