Ease of Doing Business in an uneasy India hides, not reveals

The World Bank Group's Doing Business 2018 report ranks India at 100 out of 190 countries, an improvement of 30 positions over last year's ranking. This is a big improvement, one that I have no problem in acknowledging and welcoming. Had the ranking not improved substantially, I would have been among the first to criticize the government. After improving by a mere 1 spot in last year's report, Prime Minister Modi tasked the Niti Aayog with ensuring a better ranking this year and the Aayog delivered. The Prime Minister and the BJP, facing much scrutiny over economic mismanagement, are celebrating. However, let me sound a cautionary note about the celebrations and also the deeper issues that any cross-country comparison will not adequately capture.

When staff at the International Finance Corporation (IFC), the World Bank Group's private sector arm, first conceptualized the Doing Business report, I was a young officer at the World Bank. After the first few rounds, it became clear that these rankings had a signalling effect for investors and that countries were beginning to take them seriously. Sitting in meetings during the IMF-World Bank Annual Meetings in Washington, D.C., I would often be amused by how government officials from a variety of countries would get worked up and complain to my bosses about how their countries had been treated unfairly. One of the common complaints would be about the report's methodology as well as its failure to recognize what government officials considered "reforms". Internally, many World Bank staff expressed concerns about the methodology as well as the fact that governments were focusing more on improving their ranking as opposed to fixing ground realities. Over time, however, these rankings became a popular tool for nudging countries towards business-friendly reforms.

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There is no question that any report that tries to capture reforms across the diversity of nations is extremely difficult to conceptualize and implement. The World Bank report acknowledges the methodological challenges of such a large exercise. Over the last several years, there have been concerns that some countries are trying to game the rankings. In fact, India's 30-point improvement in one year is not unique. Russia gained 30 spots in the Doing Business 2014 report compared to the 2013 report. This came after President Vladimir Putin ordered his officials to ensure Russia improves its ranking from 118 in 2012 to 50 by 2015 and 20 by 2018. Russia currently sits in the 35th spot just one spot below Japan and ahead of several Western European economies.

But this high ranking should be seen in the context of Russia's dismal 114th rank in the Heritage Foundation's Index of Economic Freedom (India ranks 143rd) and 131st rank in Transparency International's Corruption Perceptions Index (India ranks 79th). This suggests that we need to look at a business environment from multiple perspectives to gain a broader understanding of what is happening on the ground.

The other challenge with interpreting "ease of doing business" rankings is to understand what exactly is being ranked. In India's case, the business environment in only Delhi and Mumbai are used to compile the national ranking. This has always been the case, even though there will be more cities included in future rankings. These rankings also focus a lot more on the laws and rules that are on the books and do not necessarily capture the daily experiences of businesses. We may hear a lot of complaints about demonetisation or GST implementation but that is beyond the scope of the current report. This disconnect between what policies the government enacts versus what we see and feel in our daily experience is a built-in feature of these rankings. To demonstrate this point, I will take two examples of reforms that helped India improve its ranking this year.

The government initiated an online single window clearance system for faster approvals of building plans. This will presumably lead to obtaining building permits faster. This is good. However, while this reform is recognized by the World Bank's report, the reality of Mumbai being in the midst of its worst ever property slump won't be captured. Is it good to have a faster permit system? Absolutely. Is that all there is to it? Absolutely not. In the second example, the report indicates that India "strengthened access to credit by amending the rules on priority of secured creditors outside reorganization proceedings and adopting a new insolvency and bankruptcy code that introduced a reorganization procedure for corporate debtors". Clearly, this is a reform and should be welcomed. But, as with most things, implementation matters greatly. Remember, we are currently going through one of the worst periods for credit growth since independence.

The government is right to celebrate what it considers an affirmation of some of its policies. But I must caution, as I have done elsewhere, that we need to move beyond optics to really focus on improving the lives of ordinary Indians and the felt experience of millions of businesses that may not be reflected in the World Bank's report. Hubris can lead Prime Minister Modi and BJP to a repeat of the ill-fated India Shining campaign.

But, I am not concerned with BJP's electoral losses. In fact, I would welcome that. But I worry more about the millions of young people who face enormous pressures on the jobs front and the millions more who remain desperately poor or are vulnerable to falling into poverty. When all is said and done, Indians care most about their daily experience. Their own relative experience, year after year, is what our government should ultimately focus on, rather than worry about looking good internationally.

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