

# The ease of doing business conundrum

The focus of reforms should now shift to enforcement of policy at the micro-level and transparency on the ground

PRITAM BANERJEE

Prime Minister Narendra Modi and his Cabinet colleagues must be commended for their focus on incremental reforms that resulted in India breaking into the top 100 in the World Bank's Doing Business rankings for the first time.

However, despite this success a common refrain in several committees and private-public stakeholder meetings across ministries in Delhi relates to why India continues to perform relatively poorly in many perception based surveys of trade facilitation and 'open-ness' despite all these major reform initiatives.

Part of the explanation is that other countries are reforming as well, and in a relative context perhaps reforming faster than India, making the country appear a laggard in comparison.

But this is only part of the explanation. Perhaps the key to the puzzle lies in the fact that perceptions about India reflect the actual interface between investors and businesses interacting with regulators and government departments on the ground. It is on this ground level experience that India falters, even compared with countries in the wider Asia-Pacific region that are perhaps formally more trade restrictive, or have less transparent laws and regulations.

## The governance challenge

To my mind, this sub-optimal actual experience of those doing or wanting to do business in India can be ascribed to three broad institutional challenges in the Indian system.

The first relates to mismatch between the intent of reforms and quality of actual enforcement and transparency on the ground, — the governance challenge. All busi-

nesses, Indian and foreign, complain that risk management and transparency related reforms that are boldly announced by senior officers in ministries are not adopted in spirit and content by their junior colleagues responsible for enforcement.

This is true for a wide array and departments and services ranging from fire and safety inspectors and indirect tax officials to road transport regulators and municipal officers.

Part of the problem is that a high level of discretion still exists with the officer enforcing rules on the ground.

This is aggravated by the lack of a time-bound grievance redress mechanism, and the absence of independent 'auditors' who monitor on-ground enforcement quality and ensure there is accountability for poor decisions made in the field.

The stress here is on the word 'independent' since officers of the same government cadre might fail to be objective in judging the performance of their fellow service persons.

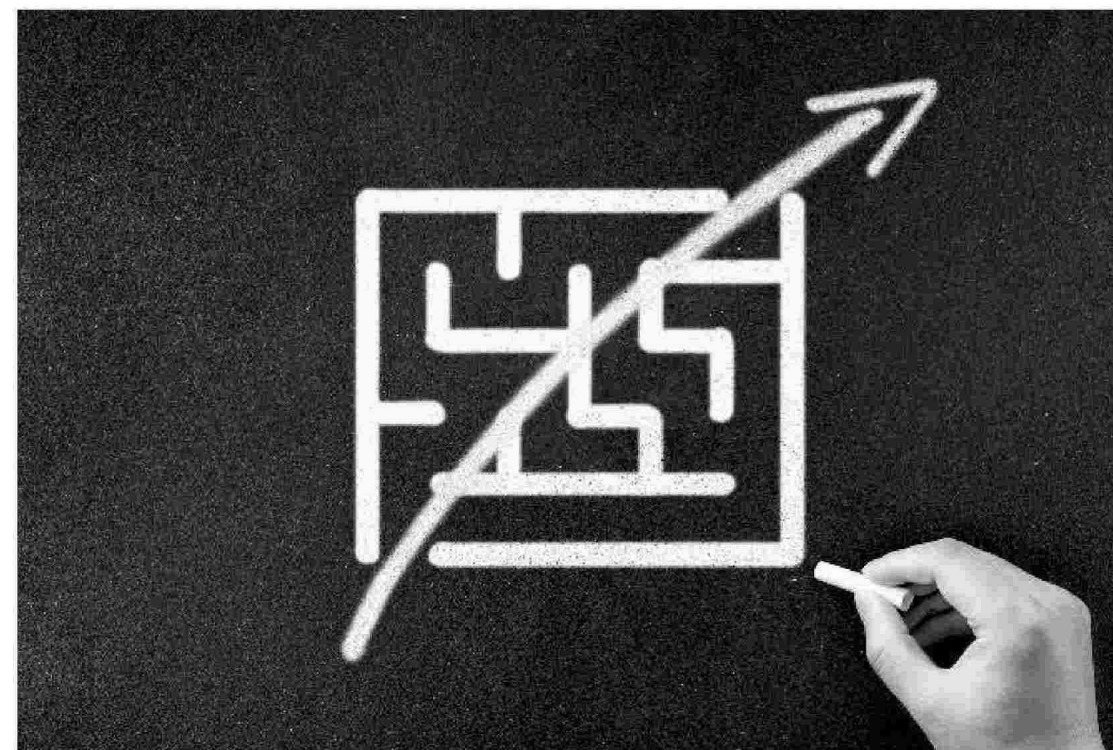
## The design challenge

The second problem can be called the 'design challenge'. Procedures are often designed to cater to the few instances of failure or non-compliance and not for efficiency and facilitation.

Two examples would be adequate to illustrate this mindset. India is perhaps the only country in the world that requires a boarding pass to be stamped after security check at airports (earlier even luggage tags needed the stamp).

This entire activity is to ensure that no one 'slips' through the security system and is eventually apprehended at the boarding gate.

It is therefore a vote of no-confidence in the government's own en-



**Easing business** The micro aspects need attention. ISTOCKPHOTO

forcement mechanism. The other example is that despite GST, if a truck is caught with a shipment about which authorities have some doubt, the entire vehicle is held up at the check-post.

The optimal design would have been to record the details of the shipments requiring further processing and asking the transporter to drop the shipment off at a designated government holding area, thereby allowing the truck to continue on its journey with rest of its cargo. In case this is not done, a stiff penalty can be imposed on the transporter.

But such a 'facilitative' design would require confidence in the government's own enforcement ability, i.e. ensuring follow-through on whether shipment was dropped off at the designated location and ensuring errant transporters and traders are brought to book

without the 'sword' of a detained vehicle hanging over their heads.

## The management challenge

The third problem is the management challenge. There is a tendency to blame poor quality of government services on lack of infrastructure or human resources. This often over-looks the fact that there are many examples of better services with effectively less resources. Take a very commonly discussed problem, the quality of policing in India. Yes, per capita police personnel deployed is one of the lowest in India. But this cannot be an excuse to make the simplest of tasks, the filing of a formal complaint (i.e. FIR), to become an insurmountable challenge for the common person.

Similarly many efficient ports and cargo terminals in other countries have higher square-meter per ton ratio compared to Indian coun-

terparts that are much less efficient. These management challenges add to transaction costs, from using private security resources to paying extra for off the port or airport facilities for processing of goods.

While we can truly be proud of the extent of India's macro-policy reforms, it is time we started to focus on the micro-policies of enforcement. Top down macro reforms can only be effective if they are twinned with bottom-up micro reforms. Unless the day-to-day experience of doing business improves, we will continue to underperform relative to our true potential.

*The writer is Senior Director-South Asia, Corporate Public Policy, Deutsche Post DHL Group. The views expressed are personal.*