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It is Getting More Difficult to do Business in South Asia

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The World Bank released its latest 'doing business' rankings (2009) for 181 countries on 10 September 2008. The results reflect South Asia in a rather poor light. Not a single South Asian country figures among top business reformers for 2008. What is more worrisome is that, except for Sri Lanka, individual rankings of all economies from the region have declined in year 2009, compared to year 2008.

The 'doing business' rankings have been published annually for the last six years. These rankings order countries according to the ease with which investors can do business. The rank of a particular country changes every year, depending upon the reforms that it undertakes (or does not) for facilitating business. The rankings are determined on the basis of scores obtained in several indicators. Each of these indicators reflects important steps in beginning, operating, sustaining and closing businesses. The indicators include time taken to start a venture, ease with which workers can be employed and retrenched, protection available to shareholders, enforceability of contracts, procedures involved in registering property and obtaining credit, ease with which operations can be wound up, etc. Improvements in each of these indicators through policy reforms resulting in simpler procedures and less time influence overall scores and ranks in a positive manner. There are occasions when improvements in one indicator are accompanied by deteriorations elsewhere. The final impact on scores and ranks are determined by the net gains or losses achieved.

No South Asian country figures among the top 50 out of the 181 economies ranked by the World Bank. Maldives (69) has the highest global ranking in South Asia. Apart from Maldives, Pakistan (77) is the only other South Asian country to figure among the top 100. Sri Lanka (102), Bangladesh (110), Nepal (121), India (122), Bhutan (124) and Afghanistan (162) follow thereafter. The average global rank of a South Asian economy is 111.[2] This is better than only Sub-Saharan Africa, which has a global rank of 138, and is worse than all other regions of the world. Clearly, South Asia is lagging far behind other regions in introducing reforms that can make it a better place for doing business.

How do the South Asian economies fare in different business indicators? Table 1 provides a snapshot of the global rankings of South Asian countries in different indicators.

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[2] The average ranking improves to 104 if Afghanistan is excluded.

Table 1: Rankings of South Asian economies in doing Business Indicators for 2009

	India	Pakistan	Bangladesh	Sri Lanka	Nepal	Bhutan	Maldives	Afghanistan
Starting a Business	121	77	90	29	73	63	38	22
Dealing with Licenses	136	93	114	161	129	116	8	140
Employing Workers	89	136	132	110	150	13	4	30
Registering Property	105	97	175	141	28	38	177	174
Getting Credit	28	59	59	68	109	172	145	178
Protecting Investors	38	24	18	70	70	126	70	181
Paying taxes	169	124	90	164	107	82	1	49
Trading across borders	90	71	105	66	157	151	121	179
Enforcing Contracts	180	154	178	135	121	37	90	160
Closing a business	140	53	106	43	103	181	123	181

Source: http://www.doingbusiness.org

Table 1 reveals a complex scenario marked by sharp contrasts. Different economies from the region have contrasting situations in different parameters. Afghanistan, for example, has the highest rank in the region in starting a business. Kicking off a venture involves only four procedures in Afghanistan and can be done in nine days. Doing the same in India involves 13 procedures and 30 days. Interestingly, greater procedures do not necessarily imply more days or vice-versa. In Bangladesh, starting a business involves seven procedures but requires 73 days, while in Sri Lanka it takes 38 days for four procedures. In contrast, in Pakistan, 11 procedures get completed in only 24 days.

The four large economies from the region – India, Pakistan, Sri Lanka and Bangladesh – share some common problems in doing business. These are labour and land market inflexibilities, persistence of licenses, irrational tax structures and poor contract enforcement. Inflexible labor laws make both hiring and firing difficult for employers in all four countries. These are reflected in the ranks for employing workers (Table 1), which are particularly low for Pakistan and Bangladesh. Opaque procedures result in heavy costs of property registrations in all these four economies. In Bangladesh[3] and India, such costs are reported to be as much as 10.35 percent and 7.49 percent of the total value of property, while they are slightly lower at 5.11 percent and 5.29 percent in Sri Lanka and Pakistan respectively. Poor ranks in dealing with licenses (Table 1) underline the proliferation of multiple construction permits in all the four countries. The number of such permits and time taken to obtain them are quite similar between India (20 in 224 days), Pakistan (12 in 223 days), Bangladesh (14 in 231 days) and Sri Lanka (21 in 214 days).

[3] Bangladesh has been able to reduce the time taken for registering property from 425 days to 245 days.

Tax structures continue to create problems for businesses in South Asia. Pakistan has the lowest effective tax rate of 29 percent (as a proportion of total profits) among the four economies, which is as high as 72 percent in India. But it takes a total of 560 hours (more than 23 days) to pay up all taxes in Pakistan, which is more than double of 256 hours (10 and half days) that it takes in Bangladesh. In this regard, Bangladesh has emerged more efficient than India (11.2 days) and Sri Lanka (12.6 days). Finally, contract enforcement remains a serious concern for all the four economies. India and Bangladesh are the worst performers with enforcement requiring almost four years in both. Pakistan has been able to bring this down 2.6 years, while for Sri Lanka it is 3.6 years.[4]

There are two aspects where the major South Asian economies have performed reasonably better. First is access to credit. Information about credit, its availability and legal rights of creditors have improved and are now much better in the South Asian economies compared to several other developing countries. India's banking reforms seem to have paid particular dividends as it scores higher than Pakistan, Bangladesh and Sri Lanka[5] in the credit indicator. The second aspect is investor protection. This essentially pertains to some fundamental corporate governance reforms entrenching rights of shareholders and protection of retail investors. Both Pakistan and Bangladesh have done commendably in this respect, followed by India. Sri Lanka is still some distance behind the rest.

The doing business rankings appear to confirm the impression that South Asia remains a relatively difficult place for doing business. This is not to suggest that South Asian economies are not reforming at all. But their pace of reforms seems to be much slower than those in other parts of the world. There are also some critical segments where reforms appear to have got stuck. These include land and labor markets. While capital market reforms appear to be on track, land and labour market measures are lagging behind. Heavy transaction costs associated with land and labour market inflexibilities are overweighing gains achieved from capital market reforms. These costs are increasing further due to regressive tax structures and poor enforceability. The fact that most South Asian economies have gone down in the latest rankings shows that the region has not endeared itself to investors.

The business outlook of South Asia India depends significantly on India, the largest economy of the region. India is ranked below all in the region except Bhutan and Afghanistan. The doing business report highlights only one major reform by India last year. This was introduction of electronic data interchange for facilitating exports. But lack of reforms elsewhere in the Indian economy for reducing transaction costs is surprising. Compared to Pakistan, Sri Lanka, Bangladesh and Nepal, India did not witness political turmoil or instability last year that could have deterred reforms. While the Left might have held up banking, insurance and pension reforms, much has not happened even after the Left left. The more difficult reforms such as privatisation, subsidies, land and labour markets, and contract enforcement have been untouched for long. Though some of these require states to be active, the lack of coordinated efforts is disappointing. The inability to cut business costs can damage India's reputation of being one of the most attractive emerging markets for foreign direct investments (FDI). Strong reforms for improving business climate will not only 'pull' more FDI, but will set examples for the rest of the region and improve the regional outlook.

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4 Bhutan has taken a significant step of creating a Land Commission to look into property disputes. This is expected to reduce time for contract enforcement by about 50 days.

5 The new Companies Act introduced by Sri Lanka is expected to significantly improve the legal rights of creditors.