

Targeting Ease of Doing Business in India

06 CHAPTER

“The King (i.e., the State) shall promote trade and commerce by setting up trade routes by land and by water, and establishing market towns and ports” – Kautilya’s Arthashastra, 4th century B.C.

Ease of doing business is key to entrepreneurship, innovation and wealth creation. India has risen significantly in the World Bank’s Doing Business rankings in recent years, but there are categories where it lags behind – Starting a Business, Registering Property, Paying Taxes and Enforcing Contracts. This chapter focuses on these parameters and compares India’s performance with both its peers and with the best-in-class. For example, registering property in Delhi and Mumbai takes 49 and 68 days respectively, while it takes 9 days in China and 3.5 days in New Zealand. These performance matrices provide a measure of the scope for improvement. The chapter then explores the density of laws, rules and other statutory compliance requirements faced by a manufacturing or services business (specifically the restaurants segment).

Export competitiveness depends not only on the cost of production but also on the efficiency of logistics. A series of case studies are used to analyse the time taken at each stage for specific merchandise items to travel from factory gate to the warehouse of the foreign customer. For instance, a study found that an apparels consignment going from Delhi to Maine (U.S.) takes roughly 41 days, but 19 of these are spent within India due to delays in transportation, customs clearance, ground handling and loading at sea-ports. A study of carpets exports from Uttar Pradesh to the United States also showed similar results. The process flow for imports, ironically, is more efficient than that for exports! In contrast, however, the imports and exports of electronics through Bengaluru airport was found to be world class. The processes of Indian airports should be adapted and replicated in sea-ports.

INTRODUCTION

6.1 As India leapfrogs towards a five trillion-dollar economy by 2024-25, simplifying and maintaining a business-friendly regulatory environment is essential. To ease the constraints and gaps in the regulatory processes involved in doing business, it is necessary to assess the country’s progress vis-à-vis other leading economies on various parameters.

6.2 India has made substantial gains in the World Bank’s *Doing Business* rankings from 142 in 2014 to 63 in 2019. It has progressed on seven out of the 10 parameters. The Goods and Service Tax (GST) and the Insolvency and Bankruptcy Code (IBC) top the list of reforms that have propelled India’s rise in rankings. The trajectory of India’s performance over the last decade is shown in Table 1.

6.3 However, India continues to trail in parameters such as Ease of Starting Business (rank 136), Registering Property (rank 154), Paying Taxes (rank 115), and Enforcing Contracts (rank 163). It takes roughly 58 days and costs on an average 7.8 per cent of a property's value to register it, and 1,445 days for a company to resolve a commercial dispute through a local first-instance court. These figures are longer in time and often

greater in cost than OECD high-income economies, and therefore, impede wealth creation.

6.4 This chapter analyses India's performance in the parameters used in Doing Business reports, and compares it to its peers as well as to the best-in-class countries like New Zealand, which has been ranked number one over the past several years.

Table 1: Capturing India's decade-long journey in the Doing Business Rankings

Parameters	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Ease of starting a business	169	165	166	173	179	158	155	155	156	137	136
Dealing with construction permits	175	177	181	182	182	184	183	185	181	52	27
Getting electricity	-	-	98	105	111	137	70	26	29	24	22
Registering your property	93	94	97	94	92	121	138	138	154	166	154
Getting credit for your business	30	32	40	23	28	36	42	44	29	22	25
Protecting minority investors	41	44	46	49	34	7	8	13	4	7	13
Paying taxes	169	164	147	152	158	156	157	172	119	121	115
Trading across borders	94	100	109	127	132	126	133	143	146	80	68
Enforcing contracts	182	182	182	184	186	186	178	172	164	163	163
Resolving insolvency	138	134	128	116	121	137	136	136	103	108	52
Overall Rank	133	134	132	132	134	142	130	130	100	77	63

Source: Doing Business database, World Bank.

6.5 In addition, this chapter presents several case studies and surveys that were conducted to capture the on-ground experience of doing business in the country including the logistics of merchandise exports and imports, the number of permissions needed to set up a restaurant and so on. This

allows a close look at the nuts-and-bolts of the business environment. Case studies of merchandise exports found that logistics is inordinately inefficient in Indian sea-ports. The process flow for imports, ironically, is more efficient than that for exports. Although one needs to be careful to directly generalise

from specific case studies, it is clear that customs clearance, ground handling and loading in sea ports take days for what can be done in hours. A case study of electronics exports and imports through Bengaluru airport illustrates how Indian logistical processes can be world class. The main goal of the chapter, therefore, is to help the reader to identify the most crucial issues when evaluating Ease of Doing Business (EoDB) in India beyond the approach taken by the World Bank's surveys.

GLOBAL COMPARISONS

6.6 In this section, India's performance has been compared with its peers (China, Brazil & Indonesia) as well as the best-in-class economy in EoDB, i.e., New Zealand. In the interest of brevity, the comparisons are limited to how India fared over the decade from 2009 to 2019 across only those parameters of EoDB where India lags, namely- Starting a Business, Registering Property, Paying Taxes, and Enforcing Contracts. The comparisons demonstrate the gap that India needs to travel to achieve the best international standards.

6.7 The number of procedures required to set up a business in India, for example, has reduced from 13 to 10 over the past ten years (Table 2). Today, it takes an average of 18 days to set up a business in India, down from 30 days in 2009. On the other hand, New Zealand has a seamless process of business incorporation which takes place through a single window via one agency. It just takes half-a-day with a single form and minimal cost to set up a business in New Zealand. Although, India has significantly reduced the time and cost of starting a business, a lot more is needs to be done. Some further simplification of processes in India has been implemented very recently but it is too early to gauge its impact.

6.8 Property registration is another interesting example. It takes nine procedures, at least 49 days, and 7.4-8.1 per cent of the property value to register one's property in India. Moreover, the number of procedures, time and cost have increased over the last 10 years. Meanwhile, New Zealand has only two procedures and a minimal cost of 0.1 per cent of the property value.

6.9 In the case of paying taxes, even though the number of payments per year has significantly reduced in India from 59 to 12 over the last decade, time spent on this activity has not reduced much. While India takes 250-254 hours per year to pay taxes, New Zealand spends just 140 hours a year. Interestingly, time spent to pay taxes in New Zealand has doubled from 2009 to 2019.

6.10 Enforcing contracts is one parameter in which India's performance has been very poor over the years. While India takes 1,445 days to resolve an average dispute, New Zealand takes approximately one-seventh of it, i.e., 216 days. The previous Economic Survey¹ had argued that the single biggest constraint to ease of doing business in India is its inability to enforce contracts and resolve disputes. Given the potential economic and social multipliers of a well-functioning legal system, this may well be the best investment India can make.

6.11 When compared to the performance of India's peer nations, namely China, Brazil, and Indonesia, on the same parameters, it can be seen that China fares much better than India on virtually all parameters (Table 3).

6.12 The comparisons with other nations is not so one-sided. An entrepreneur has to go through 10 procedures to set up a business in India taking 17-18 days to do so. On the other hand, Indonesia and Brazil require one extra process than India to open a business.

¹ See Economic Survey 2018-19 Chapter 5, Volume I.

Table 2: Mapping New Zealand across EODB parameters where India struggles

	India		New Zealand	
	2009	2019	2009	2019
Starting a Business				
Number of Procedures	13	10	1	1
Time – No. of days	30	17/18*	1	0.5
Cost (% of income per capita)	66.1	5.3/ 9.3*	0.4	0.2
Registering Property				
Number of Procedures	5	9	2	2
Time – No. of days	44	49/ 68*	2	3.5
Cost (% of property value)	7.4	8.1/ 7.4*	0.1	0.1
Paying Taxes				
Number of Payments	59	10/ 12*	8	7
Time (hours per year)	271	250/ 254*	70	140
Total tax payable (% of gross profit)	64.7	49.7#	32.8	34.6
Enforcing Contracts				
Time – No. of days	1,420	1,445	216	216
Cost (% of debt)	39.6	31	22.4	27.2

Source: Doing Business database, World Bank.

*: Denotes values for Delhi/ Mumbai as these are the two centres covered by World Bank for India.

#: Before India reduced its Corporate tax rate from 30 to 25 per cent.

Table 3: India v/s Peers on EODB Parameters (2019)

	India	China	Brazil	Indonesia
Starting a Business				
Number of Procedures	10	4	11	11
Time – No. of days	17/18*	9	17	13
Cost (% of income per capita)	5.3/ 9.3*	1.1	4.2	5.7
Registering your Property				
Number of Procedures	9	4	14	6
Time – No. of days	49/ 68*	9	31	31
Cost (% of property value)	8.1/ 7.4*	4.6	3.6	8.3
Paying Taxes				
Number of Payments	10/ 12*	7	10	26
Time (hours per year)	250/ 254*	138	1,501	191
Total tax payable (% of gross profits)	49.7#	59.2	65.1	30.1
Enforcing Contracts				
Time – No. of days	1,445	496	801	403
Cost (% of debt)	31	16.2	22	70.3
Overall Doing Business Rank	63	31	124	73

Source: World Bank Doing Business Report, 2020.

Note: India numbers are for Delhi/Mumbai respectively, as these are the two centres covered by World Bank for India.

#: Before India reduced its Corporate tax rate from 30 to 25 per cent.

While Indonesia takes four days less than India, Brazil takes almost the same time as India to do so. In fact, countries like Pakistan, Turkey and Sri Lanka (ranked 72, 77, and 85 respectively in Starting a Business parameter) have a less cumbersome process to start a business than India.

6.13 Similarly, while India has five less procedures than Brazil (14) to register one's property, it takes much less time to do so in Brazil (31 days) than in India (49-68 days). Indonesia, on the other hand, has only six procedures and takes same time as Brazil to register property.

6.14 In case of paying taxes, although Indonesia (26) has more than double the number of payments per year than India (10-12), its citizens spend far less time in paying them than India. Brazil seems to fare particularly poor in this segment.

6.15 India's performance in contract enforcement is poor even when compared to India's peer nations. While it takes approximately four years to enforce a

contract in India, Brazil and Indonesia spend 2.2 and 1.1 years, respectively to do so. With a rank of 163 out of 190 nations in Enforcing Contracts, only a few countries like Afghanistan, Mozambique, and Zimbabwe perform worse than India.

6.16 A holistic assessment and a sustained effort to ease business regulations and provide an environment for businesses to flourish would be a key structural reform that would enable India to grow at a sustained rate of 8-10 per cent per annum. This requires a nuts-and-bolts approach of feedback loops, monitoring and continuous adjustment. The next section, surveys some of areas where there is scope for significant efficiency gains.

DENSITY OF LEGISLATION AND STATUTORY COMPLIANCE REQUIREMENTS IN MANUFACTURING

6.17 A major challenge most companies face is the complex architecture of the Indian governance framework

Table 4: Applicable Rules and Statutory Laws for Manufacturing

S. No.	Name of the Act (A)	No. of Sections (B)	No. of Rules, etc. (A+B)	Total
1.	Apprentices Act, 1961	37	14	51
2.	Air (Prevention & Control of Pollution) Act, 1981	54	-	54
4.	Central Excise Act, 1944	40	90	130
5.	Central Excise Tariff Act, 1985	5	-	5
6.	Central Sales Tax Act, 1956	26	9	35
7.	Companies Act, 2013	470	19	489
8.	Contract Labour (Regulation and Abolition) Act, 1970	35	83	118
9.	Customs Act, 1962	161	53	214
10.	Customs Tariff Act, 1975	13	-	13
11.	Depositories Act, 1996	31	-	31
12.	Employee Compensation Act, 1923	36	52	88
13.	Employee State Insurance Act, 1948	100	211	311
14.	Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959	10	8	18

15.	Environment (Protection) Act, 1986	26	88	114
16.	Employee Provident Funds & Miscellaneous Provisions Act, 1952	22	156	178
17.	Equal Remuneration Act, 1976	18	6	24
19.	Factories Act, 1948	120	128	248
20.	Foreign Exchange Management Act, 1999	49	102	151
21.	Foreign Trade (Development & Regulation) Act, 1992	20	18	38
22.	Finance Act, 1994	36	43	79
23.	Guidelines of Department of Scientific and Industrial Research	-	6	6
24.	Income Tax Act, 1961	298	125	423
25.	Indian Stamp Act, 1899	78	22	100
26.	Indian Boiler Act, 1923	34	626	660
27.	Indian Electricity Act, 2003	185	-	185
28.	Indian Wireless Telegraphy Act, 1933	11	13	24
29.	Indian Standard Code of Practice for Selection, Installation and Maintenance of Portable First Aid Fire Extinguishers	-	16	16
30.	Industrial Disputes Act, 1947	40	80	120
31.	Industrial Employment (Standing Orders) Act, 1946	15	22	37
32.	Legal Metrology Act, 2009	57	64	121
33.	Maternity Benefit Act, 1961	30	-	30
34.	Minimum Wages Act, 1948	31	32	63
35.	Motor Vehicles Act, 1988	217	164	381
36.	Narcotic Drugs and Psychotropic Substances Act, 1985	51	68	119
37.	Payment of Gratuity Act, 1972	15	17	32
38.	Patents Act, 1970	161	139	300
39.	Payment of Wages Act, 1936	26	13	39
40.	Payment of Bonus Act, 1965	40	5	45
41.	Petroleum Act, 1934	31	202	233
42.	Poisons Act, 1919	9	-	9
43.	Securities and Exchange Board of India Act, 1992	31	334	365
44.	Securities Contract (Regulation) Act, 1956	31	21	52
45.	Special Economic Zones Act, 2005	58	6	64
46.	Water (Prevention and Control of Pollution) Act, 1974	64	-	64
48.	Water (Prevention and Control of Pollution) Cess Act, 1977	17	9	26
49.	Shops and Establishment Act	State-wise	State-wise	State-wise
51.	Trade Marks Act, 1999	159	185	344
	Total	3,214	3,582	6,796

Source: Federation of Indian Chambers of Commerce and Industry (FICCI).

Note: This is not a comprehensive list and not every rule applies to every manufacturer. It is just an illustration of the wide range of rules that a manufacturer faces.

including the density of legislation and statutory compliance requirements. A list containing the names of Acts applicable as well as number of Sections / Rules of such Acts required to be complied with by manufacturing units is given in Table 4. Manufacturing units have to conform with 6,796 compliance items, which is a tedious and time consuming task. It must be noted that this is not a comprehensive list and not every rule applies to every manufacturer. It is just an illustration of the bewilderingly wide range of rules that the sector faces.

STARTING A BUSINESS: REGULATORY HURDLES IN OPENING A RESTAURANT

6.18 The services sector too faces many regulatory hurdles even for routine businesses. The bars and restaurants sector is an important source of employment and growth everywhere in the world. It is also a business that, by its nature, faces a high frequency of starting new businesses and shutting old ones.

6.19 A survey showed that the number of licenses required to open a restaurant in India are significantly more than elsewhere. While China and Singapore require only

four licenses, India requires several more mandatory licenses and approvals (the comparison is in Table 5 and some of Indian requirements are listed in Table 6).

6.20 According to the National Restaurants Association of India (NRAI), a total of 36 approvals are required to open a restaurant in Bengaluru, Delhi requires 26, and Mumbai 22. Moreover, Delhi and Kolkata also require a ‘Police Eating House License’. The number of documents needed to obtain this license from Delhi Police is 45 – far more than the number of documents required for a license to procure new arms and major fireworks, 19 and 12 respectively (Table 7).

6.21 Moreover, in India, only the list of licenses and permissions can be obtained from a government portal or information center. On the other hand, in New Zealand, the website of Auckland Council (operated by a private third-party agency) has all detailed guides and stepwise procedures about permissions, fees and timeline to open a restaurant. The website is also equipped with ready-to-use business plan templates and comprehensive information on different businesses irrespective of the scale of business. The contrast reflects a difference in approach – government control versus curation/ partnership.

Table 5: Licenses Required to Open a Restaurant

Country	Market Size (US \$ billion)	No. of licenses	Nature of licenses
India	61	12-16*	As detailed in Table 6
Singapore	8.3	4	Food shop License Liquor License Importing Food License Halal Certificate
China	815	4	Sanitation License Environment License Fire License Sales License

Source: National Restaurants Association of India (NRAI).

Note: * These are just key licenses. In practice, each city requires several more approvals as mentioned in the text.

Table 6: Key Mandatory Licenses required to open a Restaurant in India

S. No.	License	Authority	Delhi	Mumbai	Bangalore	Kolkata
1.	Food Safety	FSSAI	Yes	Yes	Yes	Yes
2.	Heath/Trade	Municipal Corporation	Yes	Yes	Yes	Yes
3.	Police Eating House License	Police Commissioner Licensing	Yes			Yes
4.	Fire NOC	Fire Department	Yes	Yes	Yes	Yes
5.	Shops & Establishment	Labor Department	Yes	Yes	Yes	Yes
6.	Liquor License (If serving Liquor)	Excise Department	Yes	Yes	Yes	Yes
7.	Tourism License (for liquor service)	Tourism Department	Yes			
8.	Environment Clearance for Grease Trap/ETP (Water Pollution Act)	State Pollution Control Board	Yes			Yes
9.	Environment Clearance for Gen Sets (Air Pollution Act)	State Pollution Control Board	Yes			Yes
10.	Weights and Measures	Legal Metrology Department	Yes	Yes	Yes	Yes
11.	Music License	Copyright Societies registered by Govt. of India	Yes	Yes	Yes	Yes
12.	Signage License	Municipal Corporation	Yes	Yes	Yes	Yes
13.	GST/VAT Registration	GST/Tax Authorities	Yes	Yes	Yes	Yes
14.	Employees State Insurance/ PF	Labor/ PF Commissioner	Yes	Yes	Yes	Yes
15.	Lift License (if lift installed)	Electrical Inspector	Yes	Yes	Yes	Yes
16.	Delivery Bikes (if employed)	FSSAI	Yes	Yes	Yes	Yes

Source: National Restaurants Association of India (NRAI).

Table 7: Documents required for obtaining a license from Delhi Police

Type of license	Number of documents required
Eating and Lodging Establishments License	45
New Arms license	19
Fireworks license	12

Source: Delhi Police Licensing.

CONSTRUCTION PERMITS

6.22 Table 8 shows the procedures, time, and costs that businesses in Delhi have to undergo for building a factory/warehouse, including obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections.

6.23 When compared to the best in class-Hong Kong, which tops the World Bank rankings for ease of obtaining construction permits, it can be seen that Hong Kong takes

just over two months to obtain a construction permit, while Delhi takes almost four months. Moreover, it takes 35 days to get water and sewer connection in Delhi.

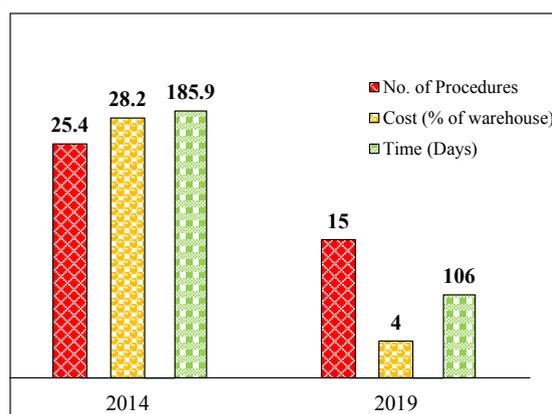
6.24 Nonetheless, it must be noted that India has considerably improved the process to obtain construction permits over the last five years. Compared to 2014, when it took approximately 186 days and 28.2 per cent of the warehouse cost; in 2019 it takes 98-113.5 days and 2.8-5.4 per cent of the warehouse cost (Figure 1).

Table 8: Construction Permits - Delhi vs Hong Kong

DELHI, INIDA (RANK 27)		Days	Days	HONG KONG (RANK 1)	
Submit online Common Application Form along with requisite building permit fees and drawings	0.5	45	45	Obtain approval by submitting applications to the One Stop Center	
Request & obtain release of building sanction plans	30	1	1	Receive inspection by Building Dept. on foundation strata	
Submit online notice of completion up to the plinth level and get inspection done	15.5	1	1	Request and receive inspection on the superstructure construction	
Submit notice of completion, receive final inspection & obtain Fire NOC	2.5	1	1	Receive an audit inspection by the Building Department	
Obtain completion/occupancy permit	30	1	1	Submit notification of project completion and relevant applications	
Request water and sewer connection approval and inspection	35	18	18	Obtain relevant certificates through the One Stop Center	
		1	1	Receive joint & final inspection of licensing authorities; Obtain Water & Sewerage connection	
113.5 Days		Time Taken	69 Days		
2.8		Cost (% of Warehouse)	0.3		

Source: World Bank Doing Business Report, 2020.

Figure 1: Cost of Construction Permits in India



Source: World Bank Doing Business database.

ACHIEVING SCALE ACROSS BUSINESS

6.25 One issue that gets in the way of business efficiency in India is that of scale. Most of the manufacturing units in India have small capacities and consequently low manufacturing efficiencies which are a disadvantage in the global supply chain. Countries like Bangladesh, China, Vietnam are able to progress in the value chain by increasing their competitiveness in the international market by improving their delivery time and domestic production capacity.

6.26 Compared to Bangladesh, China, and Vietnam, which have more than 80 per cent of market value of exports by large enterprises, India has 80 per cent by small enterprises. Moreover, in India it can take 7-10 days to reach a port whereas in countries like China, Bangladesh and Vietnam it takes less than a day. Thus, the Indian supply chain ends up with a large number of small consignments clogging already inefficient logistics pathways. A comparison of turn-around time (i.e., order to deliver) is given in Table 9.

Table 9: Emerging Economies Comparison - Scale and Logistics

	Bangladesh	China	India	Vietnam
Scale of Operations	80% large enterprises	80% or more large enterprises	80% small enterprises	80% or more large enterprises
Turn Around Time (in Days) (from order to delivery)	50	31	63	46
Time Taken to reach port (in Days)	1	0.2	7-10	0.3

Source: High Level Advisory Group (HLAG) Report, 2019.

TRADING ACROSS BORDERS

6.27 The Trading Across Borders indicator records the time and cost associated with the logistical process of exporting and importing goods. Globally, transportation by ports is the most favored followed by railways and then roads, whereas in India it is the opposite.

6.28 Italy tops the EoDB rankings in Trading Across Borders. Table 10 tabulates its comparison with India. While India takes 60-68 and 88-82 hours in border and documentary compliance for exports and imports respectively, Italy takes only one hour for each. Moreover, the cost of compliance is zero in Italy. In India, it costs US\$ 260-281 and US\$ 360-373 for exports and imports respectively.

6.29 It must be noted that almost 70 per cent of the delays (both in exports and

imports) occur on account of port or border handling processes which essentially pertain to procedural complexities (number and multiplicity of procedures required for trade), multiple documentations and involvement of multiple agencies for approvals and clearances. It is also observed that time delays and procedural inefficiencies end up pushing cost to trade.

6.30 While the government has already reduced procedural and documentation requirements considerably, increasing digitalization and seamlessly integrating multiple agencies onto a single digital platform can further reduce these procedural inefficiencies significantly and improve user experience substantially. The accompanying box discusses the Authorized Economic Operators scheme that is being used to smoothen the process for registered exporters/importers.

Table 10: Trading across Borders- India vs Italy

INDIA (RANK 68)	Hours		Hours	ITALY (RANK 1)
	Delhi	Mumbai		
EXPORT 1: Border Compliance	54	50	0	EXPORT 1: Border Compliance
2: Documentary Compliance	6	18	1	2: Documentary Compliance
IMPORT 1: Border Compliance	70	60	0	IMPORT 1: Border Compliance
2: Documentary Compliance	18	22	1	2: Documentary Compliance
INDIA (RANK 68)	Cost (US\$)		Cost (US\$)	ITALY (RANK 1)
	Delhi	Mumbai		
EXPORT 1: Border Compliance	195	231	0	EXPORT 1: Border Compliance
2: Documentary Compliance	65	50	0	2: Documentary Compliance
IMPORT 1: Border Compliance	260	273	0	IMPORT 1: Border Compliance
2: Documentary Compliance	100	100	0	2: Documentary Compliance

Source: World Bank Doing Business Report, 2020.

Note: India numbers are for Delhi/Mumbai respectively, as these are the two centres covered by World Bank for India.

BOX 1: Authorised Economic Operators (AEO)

Authorised Economic Operator (AEO) is a programme under the aegis of the World Customs Organization (WCO) SAFE Framework of Standards to secure and facilitate Global Trade. The programme aims to enhance international supply chain security and facilitate movement of goods. AEO encompasses various players in the international supply chain. Under this programme, an entity engaged in international trade is approved by Customs as compliant with supply chain security standards and granted AEO status. An entity with an AEO status is considered a 'secure' trader and a reliable trading partner. AEO is a voluntary programme. It enables Indian Customs to enhance and streamline cargo security through close cooperation with the principle stakeholders of the international supply chain viz. importers, exporters, logistics providers, custodians or terminal operators, custom brokers and warehouse operators, who benefit from preferential treatment from customs authorities. Benefits include expedited clearance times, fewer examinations, improved security and communication between supply chain partners, and more. The Circular 33/2016 – Customs dated July 22, 2016 provides the statutory framework for the AEO programme.

There are three tiers of certification in the new AEO Programme for importers and exporters:

1. AEO T1 – Verified on the basis of document submission only.
2. AEO T2 – In addition to document verification, onsite verification is also done.
3. AEO T3 – For AEO T2 holders who have enjoyed the status for two years only on the basis of document verification and for AEO T2 holders who have not enjoyed the status continuously or have introduced major changes in business, the applicant is subjected to physical verification.

For logistics providers, custodians or terminal operators, custom brokers and warehouse operators there is only one tier:

AEO LO – Here onsite verification is done in addition to document verification.

Who is entitled for AEO Certification

Anyone involved in the international supply chain that undertakes Customs related activity in India can apply for AEO status irrespective of size of the business. These may include exporters, importers, logistic providers (e.g. carriers, airlines, freight forwarders, etc.), custodians or terminal operators, customs house agents and warehouse owners. Others who may qualify include port operators, authorized couriers, stevedores. The list is not exhaustive.

Eligibility

Any legal entity that undertakes Customs related work can apply for the AEO Programme if they fulfil the following conditions:

1. They have handled 25 Import or Export documents in last Financial Year.
2. They have had their business activity for last three Financial Year (can be waived in deserving cases).
3. The applicant must have been Financially Solvent for the last three financial years.
4. The applicant must not be issued a show cause notice involving ‘fraud, forgery, outright smuggling, clandestine removal of excisable goods or cases where Service Tax has been collected from customers but not deposited to the Government during last three financial years.

An entity can apply for AEO-T1 certification online, by visiting: <https://www.aeoindia.gov.in/>. Table A lists the number of AEO compliant entities in India.

Table A: AEO Certified Entities in India as on January 17, 2019

AEO Tier	Number of AEO status holders
AEO T1	2,842
AEO T2	491
AEO T3	8
AEO LO	745
Total	4,086

Source: Central Board of Indirect Taxes and Customs (CBIC).

CASE STUDIES OF INDIA'S PERFORMANCE IN LOGISTICS IN SPECIFIC SEGMENTS

6.31 This section presents the results of case studies and industry surveys conducted in October-December 2019 by the ‘*Quality Council of India*’ in order to understand the specific points in the supply-chain that experience inordinate delays and blockages.

I. Case Study of Exporting Apparels

6.32 This case study tracks consignments

from an apparel factory in Delhi, which is a non-AEO (Box 1), that exports its products to Maine, U.S. via India's largest sea port Nhava Sheva in Maharashtra, India's largest sea port. Table 11 traces the logistics of the export consignment.

6.33 The study found that after the shipment leaves the factory gate in Delhi, it takes five days to reach Jawaharlal Nehru Port Trust (JNPT). However, six processes in Nhava Sheva can take up to 14 days, of which a day or two is spent just on ‘Unloading’ depending

on space availability at the port. Three days are then used up in ‘Custom Clearance’, another three days in ‘Stuffing Containers’ and up to five days are taken up by ‘queue

for entry into the ship’. This is partly due to insufficient port infrastructure to handle the inflow of containers, narrow roads and poor strength bearing capacity of the roads at the port.

Table 11: Tracing an Apparel Export Consignment from Delhi to Maine, United States

	Place	Action	Day	No. of Days
INDIA				
19 Days in India	Delhi	Shipment ready at factory	Day 1	
	Delhi Haryana Rajasthan Gujarat Maharashtra	Transport of shipment via truck/ train to JNPT	Day 1 – 5	5 days
	Nhava Sheva, Maharashtra	Shipment reaches JNPT	Day 5	Up to 14 days
		a) Unloading	Day 5/6	
		b) Custom clearance	Day 6/7 - 8	
		c) Stuffing in container	Day 8/9 - 12	
		d) Queue for entry into ship	Day 12/13 - 17	
		e) Handover to shipping line	Day 17/18	
	a) Departure of Ship	Day 18/19		
19 Days at High Seas	High seas	Ship traveling at seas	Day 18/19 – Day 38	19 days
UNITED STATES				
3 Days in U.S.	Houston, U.S.	Reaches port	Day 38	3 days
		Clears customs (considering all documentation is in place and inspections render safe results)	Day 38/39	
		Loading & Departure	Day 39	
	Maine, U.S.	Reaches buyer in US	Day 40/41	

Source: QCI Calculations.

However, much of the delay is due to the misalignment of processes that do not allow for “just in time” protocols. The uncertainty of time needed to clear each step means that exporters have to pad up the time spent waiting. This adds to the clogging of port space.

6.34 Once the ship leaves the port, the consignment travels for 19 days by sea, reaching Houston, U.S. on day 38. Here, Customs take at most a day’s time to clear

the consignment, provided all paper work and regulatory requirements are met. The consignment then reaches the buyer’s warehouse in Maine within two days.

6.35 In short, of the total 41 days taken by the consignment from factory in Delhi to warehouse in Maine, 19 days were spent in India, 19 days at sea and roughly three days in the United States. There is obvious scope for improvement.

Table 12: Tracing a Carpet Export Consignment from Mirzapur to New Jersey

	Place	Action	Day	No. of Days
INDIA (AEO)				
13 Days in India	Mirzapur, U.P.	Shipment ready at factory	Day 1	1 day
	Mirzapur to Piyala, Haryana	Transport of shipment via truck to ICD Piyala	Day 1 – 3	2 days
	Piyala	Shipment reaches Piyala	Day 3	4 days
		Custom clearance	Day 3/4	
		Stuffing in container	Day 4-7	
		Departure to Mundra Sea Port by Train	Day 7	
	Rail Travel	Transport of shipment via train to Mundra	Day 7 – 10/11	3-4 days
Mundra Sea Port (Gujarat)	Queue with the truck to enter the port	Day 11 (6-7 hours)	2 days	
	Loading of vessel	Day 11-13		
	Departure of Ship	Day 13		
22 Days at High Seas	High seas	Ship traveling at seas	Day 13 – Day 35/36	22/23 days
UNITED STATES				
5 Days in U.S.	New York Sea Port	Reaches port	Day 36	4-5 days
		Clears customs (considering all documentation is in place and inspections render safe results)	Day 36-39	
	Road Travel	Transportation to New Jersey Warehouse	Day 39/40	
	New Jersey	Reaches warehouse	Day 40	

Source: QCI Calculations.

II. Case Study of Exporting Carpets

6.36 A similar exercise was done for a carpet manufacturer, who is an AEO, exporting products from Mirzapur in Uttar Pradesh to New Jersey in the U.S. (Table 12).

6.37 After the shipment leaves the factory in Mirzapur, it takes two days to reach the Inland Container Depot (ICD) in Piyala, Haryana. At the ICD, the consignment is cleared by Customs in a day's time. In the next three days the consignment is stuffed in containers and sent to Mundra.

6.38 It takes three to four days to transport the shipment via train to Mundra sea port. Another 6-7 hours are used up in queue to enter the port. The vessel is loaded in the next two days and the ship departs on day 13. The ship takes around 23 days to reach New York sea port on day 36. Here, Customs takes two-three days to clear the consignment, provided all paper work and regulatory requirements are met. In the next two days the consignment is transported to the warehouse in New Jersey.

6.39 To sum up, of the 40 days, 13 days are spent in India, another 22 days at sea and 4-5 days in the U.S. before the consignment reaches the final buyer in New Jersey. Although, being an AEO significantly reduces the number of days a shipment takes to depart from India (compared to the previous case), it still takes an inordinate amount of time within the country.

III. Case Study of Importing Carpets

6.40 Another way to understand the process flow of logistics is to look at it in reverse. This case study tracks the timelines involved while importing carpets from Milan, Italy to a warehouse in Beawar, Rajasthan (Table 13).

6.41 Once the shipment is ready at the factory gate in Milan, it takes only 10 Hours to transport the shipment to Naples,

773 kms away. Just two hours are spent in custom clearances and then it takes only an hour's time to load the ship. This means that the consignment spends less than a day from factory to ship. It is possible to do this because of well-oiled "just-in-time" processes. The ship then spends 23 days on high seas, reaching Mundra sea port in Gujarat on Day 24. The next six days are spent at Mundra port, of which, about two days are used up waiting outside the port for entry, followed by another two days in custom clearance and a queue of 6-7 hours to exit the port. Lastly, the shipment reaches its final destination- Beawar, Rajasthan on Day 31, including the two days of travel time by road. Thus, it takes 8 days in India to undergo border compliances and travel time before the consignment reaches the buyer.

6.42 To summarize, while it takes only one day in Italy to transport, and complete border compliance and documentation, India takes eight days to complete the import process (note that the importer for this study was an Authorised Economic Operator). Nonetheless, it is interesting to note that the imports process takes less time than the exports process.

6.43 The results of the case study approach, by definition, are limited by sample size, but the above results were cross verified by QCI by interacting with a wide cross section of importers and exporters in order to confirm that the collected data broadly fits their experience. The following were the outcomes (a) the inordinate delays in loading and customs processes in Indian sea-ports (b) the processes for imports, ironically, are better than those for exports (c) the large variance in process time means that exports are forced to account for the uncertainty by padding extra waiting time. This means that it is not good enough to simply improve the "average" without improving reliability.

6.44 It must be noted that the turnaround time of ships in India has been on a continuous decline, almost halving from 4.67 days in 2010-11 to 2.48 days in 2018-19². This shows that achieving significant efficiency gains in

the case of sea ports is possible. Although, a full case study of Chennai port was not done, partial data suggests that its processes are smoother than those of the ports discussed above.

Table 13: Tracing a Carpet Import consignment from Milan to Beawar

	Place	Action	Time	No. of Days/ Hours	
ITALY					
13 Hours in Italy	Milan	Shipment ready at factory in Milan			
	Milan Bologna San Marino Rome Naples (773 km)	Transport of shipment to Naples	Day 1	10 Hours	
	Naples	Customs clearance Documentary compliances	Day 1	2 Hours	
		Loading Departure of ship	Day 1	1 Hour	
23 Days at High Seas	High seas	Ship traveling at seas	Day 2-24	23 days	
INDIA (AEO)					
8 days in India	Mundra Sea Port (Gujarat)	Shipment reaches Mundra Port at Sea Shore	Day 24	6 days	
		Vessel waiting time outside the port before entry	Day 24-26		
		Unloading shipment at port	Day 26		
		Custom Clearance	Handling shipment at port		Day 27
			Clearing security inspections conducted by port authorities		Day 28
		Queue with the truck to exit port	Day 29 (6-7 Hours)		
	Road Travel	Transport of shipment via truck to Beawar Rajasthan	Day 29	2 days	
	Beawar (Rajasthan)	Shipment reaches factory at Beawar	Day 31		

Source: QCI Calculations.

² See Economic Survey 2019-20 Chapter 9, Volume II.

IV. Case Study of Electronics

6.45 Although, the processes at sea-ports remain very inefficient, those at airports have dramatically improved. Indeed, a case study of an electronics company based in Bangaluru, which is currently AEO-T2 certified, found that Indian systems can be world class. It also provides some insight into how the business environment has changed for some segments after the implementation of AEO policy in 2016.

6.46 Tables 14 (a) and (b) compare the time taken for exporting electronics from Bangaluru to Hong Kong, with and without AEO registration. Once the shipment is

ready at the factory in Bangaluru, it takes three hours to transport it to Kempegowda Airport. At the airport, it takes one hour to enter exports terminal. So far, there is no difference between AEO and non-AEO. However, total time spent at the airport for Customs and examination process is just two hours for AEO-T2 operators. Non-AEO operators take 6 hours.

6.47 In fact, after AEO implementation, the total time spent in India (six hours) is less than that spent in Hong Kong (seven hours). This shows, with the help of right policies, India can achieve international standards, or even better them.

Table 14 (a): Tracing Electronics Export consignment from Bangaluru to Hong Kong (Non AEO)

	Place	Action	Time
INDIA- (NON AEO)			
10 Hours in India	Bangaluru, Karnataka	Shipment ready at factory	
	Warehouse to Kempegowda Airport, Bangaluru Distance – 70Km	Transport of shipment via truck to Airport	3 Hours
	Shipment reaches Airport	Export Terminal Entry	1 Hour
		Customs Registration	2 Hours
		Examination & Let Export of Shipping Bill	4 Hours
5 Hour Flight	Air travel		5 Hours
HONG KONG			
7 Hours in Hong Kong	Hong Kong	Reaches Hong Kong Airport	
	Customs Clearance	Inspection & Pass out Order	4 Hours
	Road Travel	Transportation from airport to warehouse	3 Hours

Source: Survey Calculations.

Table 14 (b): Tracing Electronics Export consignment from Bangaluru to Hong Kong (AEO)

	Place	Action	Time
INDIA (AEO T2)			
6 Hours in India	Bangaluru, Karnataka	Shipment ready at factory	
	Warehouse to Kempegowda Airport, Bangaluru Distance – 70Km	Transport of shipment via truck to Airport	3 Hours
	Shipment reaches Airport	Export Terminal Entry	1 Hour
		Customs Registration	1 Hour
		Examination & Let Export of Shipping Bill	1 Hour
5 Hour Flight	Air travel		5 Hours
HONG KONG			
7 Hours in Hong Kong	Hong Kong	Reaches Hong Kong Airport	
	Customs Clearance	Inspection & Pass out Order	4 Hours
	Road Travel	Transportation from airport to warehouse	3 Hours

Source: Survey Calculations.

6.48 Again, the process flow was studied in reverse. Tables 15 (a) and (b) compare the time taken in importing electronics from China to Bangaluru, with and without AEO. After the shipment is ready in factory at Shenzhen, it takes two days to transport it to Hong Kong airport.

6.49 At the airport, an hour is spent on export declaration, two hours on customs clearance and another four hours in loading the aircraft at the terminal. After a five hour air travel, the consignment reaches Kempegowda

Airport, Bangaluru. It then takes 14 and 11 hours respectively for a Non-AEO and AEO consignment to reach the warehouse in Bangaluru.

6.50 The case study suggests the following conclusions: (a) the processes in Indian airports is vastly superior to those at sea ports for both imports and exports; (b) AEO did significantly improve the process but it is reasonably smooth even for non-AEO operators importing/exporting electronics (c) Indian processes can beat international standards.

Table 15 (a): Tracing Electronics Import consignment from China to Bangaluru (Non AEO)

	Place	Action	Time
CHINA			
2 days & 7 Hours in China	Shenzhen, China	Shipment ready at factory	
	From warehouse in Shenzhen to Hong Kong Airport	Transport of shipment via truck to Airport	2 days
	Shipment reaches Airport	Export Declaration	1 Hour
		Customs Clearance	2 Hours
		Acceptance to flight at Terminal	4 Hours
5 Hour Flight	Air travel		5 Hours
INDIA- (NON AEO)			
14 Hours in India	Shipment reaches Airport in Bangaluru	Bonding/ Manifest of Cargo	3 Hours
		Customs Clearance	6 Hours
		Cargo Delivery process	1 Hours
	Road Travel	Transportation from airport to warehouse	4 Hours

Source: Survey Calculations.

Table 15 (b): Tracing Electronics Import consignment from China to Bangaluru (AEO)

	Place	Action	Time
CHINA			
2 days & 7 Hours in China	Shenzhen, China	Shipment ready at factory	
	From warehouse in Shenzhen to Hong Kong Airport	Transport of shipment via truck to Airport	2 days
	Shipment reaches Airport	Export Declaration	1 Hour
		Customs Clearance	2 Hours
		Acceptance to flight at Terminal	4 Hours
5 Hour Flight	Air travel		5 Hours
INDIA- (AEO T2)			
11 Hours in India	Shipment reaches Airport in Bangaluru	Bonding/ Manifest of Cargo	3 Hours
		Customs Clearance	3 Hours
		Cargo Delivery process	1 Hours
	Road Travel	Transportation from airport to warehouse	4 Hours

Source: Survey Calculations.

CONCLUSION

6.51 This chapter looked at the Ease of Doing Business in India from various aspects. First, it compared India's performance on World Bank's EoDB rankings with its peers as well as the best-in-class. The analysis focused on the four parameters where India lags behind *viz-* Starting Business Registering Property, Paying Taxes, and Enforcing Contracts. The findings clearly show the large scope for improvement in all categories. While it takes approximately four years to enforce a contract in India; New Zealand, Indonesia, China and Brazil require 0.6, 1.2, 1.4 and 2.2 years respectively. With a rank of 163 out of 190 nations in Enforcing Contracts, only a few countries like Afghanistan, Mozambique, and Zimbabwe perform worse than India. Similar comparisons have been shown for other categories.

6.52 Secondly, the chapter throws light on the maze of laws, rules and regulations in manufacturing and services (particularly restaurants) sector. While China and Singapore require only four licenses to open

a restaurant, India requires several more mandatory licenses and approvals: Delhi requires 26, Bengaluru 36, and Mumbai requires 22. In addition, Delhi requires a 'Police Eating House License' from Delhi Police that asks for 45 documents compared to just 19 needed to buy a gun. The scope for streamlining is clear.

6.53 Lastly, a series of case studies and industry surveys are used to analyse the time taken at each stage of the supply chain for specific merchandise items to travel from factory gate to the warehouse of the foreign customer. These confirmed the following (a) the inordinate delays in loading and customs processes in Indian sea-ports (b) the processes for imports, ironically, are better than those for exports (c) the large variance in process time means that exports are forced to account for the uncertainty by padding extra waiting time. In contrast, however, the imports and exports of electronics through Bengaluru airport was found to be world class. The processes of Indian airports should be adapted and replicated in sea-ports.

CHAPTER AT A GLANCE

- India has jumped up 79 positions in World Bank's Doing Business rankings, improving from 142 in 2014 to 63 in 2019. However, it continues to trail in parameters such as Ease of Starting Business (rank 136), Registering Property (rank 154), Paying Taxes (rank 115), and Enforcing Contracts (rank 163).
- Enforcing a contract in India takes on average 1,445 days in India compared to just 216 days in New Zealand, and 496 days in China. Paying taxes takes up more than 250 hours in India compared to 140 hours in New Zealand, 138 in China and 191 in Indonesia. These parameters provide a measure of the scope for improvement.
- Setting up and operating a services or manufacturing business in India faces a maze of laws, rules and regulations. Many of these are local requirements, such as burdensome documentation for police clearance to open a restaurant. This must be cleaned up and rationalized one segment at a time.

- Case studies of merchandise exports found that logistics is inordinately inefficient in Indian sea-ports. The process flow for imports, ironically, is more efficient than that for exports. Although one needs to be careful to directly generalize from specific case studies, it is clear that customs clearance, ground handling and loading in sea ports take days for what can be done in hours. A case study of electronics exports and imports through Bengaluru airport illustrates how Indian logistical processes can be world class.
- It must be noted that the turnaround time of ships in India has been on a continuous decline, almost halving from 4.67 days in 2010-11 to 2.48 days in 2018-19. This shows that achieving significant efficiency gains in the case of sea ports is possible. Although, a full case study of Chennai port was not done, partial data suggests that its processes are smoother than those of the ports discussed above.
- The streamlining of the logistics process at sea-ports requires close coordination between the Logistics division of the Ministry of Commerce and Industry, the Central Board of Indirect Taxes and Customs, Ministry of Shipping and the different port authorities. The simplification of the Ease of Doing Business landscape of individual sectors such as tourism or manufacturing, however, requires a more targeted approach that maps out the regulatory and process bottlenecks for each segment. Once the process map has been done, the correction can be done at the appropriate level of government - central, state or municipal.

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