



Confederation of Indian Industry

# CII MSME Policy Note

## EASE OF DOING BUSINESS THROUGH REGULATORY REFORMS

**WHITE PAPER**

June 2016



---

## The Indian MSME Sector

Micro, Small & Medium Enterprises (MSMEs) are the plinth of the Indian economy propelling growth, creating employment, diversifying industrial activity and promoting equitable regional development. These enterprises are a source of healthy competition in the economy, economic dynamism, and innovation; they stimulate entrepreneurial spirit and the diffusion of skills.

According to the latest MSME Annual Report (2015-16) released by the Ministry of MSME, these enterprises contribute around 37.54% of the national GDP with manufacturing enterprises accounting for around 7.04% while service enterprises making up the remaining 30.50%. Total working MSME enterprises in 2014-15 were estimated to be around 51.1 million while total contribution of MSMEs to employment during 2014-15 was around 117.1 million. The annual growth rate of the MSME sector was 18.74% during 2015-16 which bears testimony to their impressive performance.

MSMEs are predominant across the sectors of retail, apparel manufacturing, food products & beverages as well as hotels and restaurants. They are also well spread out across the geography including rural areas. About 55.3% of the MSMEs are based out of rural areas, which indicates the deployment of significant rural workforce in the MSME sector and is an exhibit of the importance of these enterprises in promoting sustainable and inclusive development as well as generating large scale employment, especially in the rural areas.

### Ease of Doing Business

Countless transactions are required to set up and operate a business. When starting a new business, entrepreneurs need to establish a legal entity separate from which requires commercial registration. To operate their business, entrepreneurs may need a simple way to export and import; they need to obtain a building permit or acquire property to expand their business; they may need to resolve a commercial dispute through the courts; and they are very likely to need an inflow of funds through credit or new equity. Regulation is at the heart of all these transactions. A well designed, regulation can facilitate these transactions and allow businesses to operate effectively; a badly designed, can make completing these transactions difficult.

The following table provides an illustrative overview of the various dimensions of business regulations in an economy:

### The Indian MSME Sector

Micro, Small & Medium Enterprises (MSMEs) are the plinth of the Indian economy propelling growth, creating employment, diversifying industrial activity and promoting equitable regional development. These enterprises are a source of healthy competition in the economy, economic dynamism, and innovation; they stimulate entrepreneurial spirit and the diffusion of skills.

According to the latest MSME Annual Report (2015-16) released by the Ministry of MSME, these enterprises contribute around 37.54% of the national GDP with manufacturing enterprises accounting for around 7.04% while service enterprises making up the remaining 30.50%. Total working MSME enterprises in 2014-15 were estimated to be around 51.1 million while total contribution of MSMEs to employment during 2014-15 was around 117.1 million. The annual growth rate of the MSME sector was 18.74% during 2015-16 which bears testimony to their impressive performance.

MSMEs are predominant across the sectors of retail, apparel manufacturing, food products & beverages as well as hotels and restaurants. They are also well spread out across the geography including rural areas. About 55.3% of the MSMEs are based out of rural areas, which indicates the deployment of significant rural workforce in the MSME sector and is an exhibit of the importance of these enterprises in promoting sustainable and inclusive development as well as generating large scale employment, especially in the rural areas.

### Ease of Doing Business

Countless transactions are required to set up and operate a business. When starting a new business, entrepreneurs need to establish a legal entity separate from which requires commercial registration. To operate their business, entrepreneurs may need a simple way to export and import; they need to obtain a building permit or acquire property to expand their business; they may need to resolve a commercial dispute through the courts; and they are very likely to need an inflow of funds through credit or new equity. Regulation is at the heart of all these transactions. A well designed, regulation can facilitate these transactions and allow businesses to operate effectively; a badly designed, can make completing these transactions difficult.

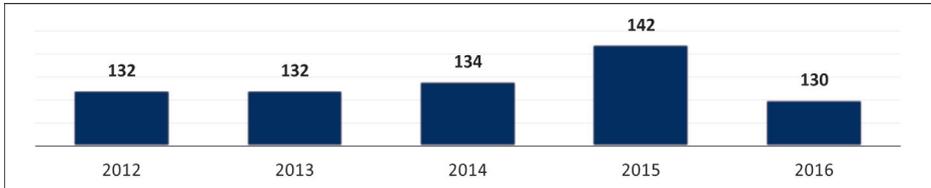
The following table provides an illustrative overview of the various dimensions of business regulations in an economy:

Dimensions	Illustrative Elements
Time	<ul style="list-style-type: none"> <li>• Time Required to Complete Application/ Forms</li> <li>• Time Required for Application processing</li> <li>• Time Required for filing of Taxes/ Duties/ Fees/ Levies</li> </ul>
Volume	<ul style="list-style-type: none"> <li>• Number of Applications/ Forms</li> <li>• Number and Types of Clearances</li> <li>• Length of Applications/ Forms</li> <li>• Number of documents to be submitted with Application</li> <li>• Types and Number of Registers to be maintained</li> <li>• Types and Number of Disclosures to be made</li> <li>• Types of Certifications/ Approvals to be obtained</li> </ul>

Dimensions	Illustrative Elements
<b>Cost</b>	<ul style="list-style-type: none"> <li>• Cost with obtaining, filling and submitting Application Forms</li> <li>• Cost/ Fees/ associated with Application Processing</li> <li>• Rates of Taxation, Duties, other Levies and Cost of filing Returns</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Frequency of Inspections</li> <li>• Frequency of Reporting</li> <li>• Frequency of Submitting Returns (Tax, Duties, Levies)</li> <li>• Periodicity of Audits</li> <li>• Frequency of Renewals</li> </ul>
<b>Jurisdiction</b>	<ul style="list-style-type: none"> <li>• Number, Levels and Locations of Government Entities</li> <li>• Manner of inter-agency coordination</li> <li>• Clarity over roles, responsibilities, and authorities</li> <li>• Single Window Clearance or Multiple Authorities</li> </ul>
<b>Consistency</b>	<ul style="list-style-type: none"> <li>• Uniformity at various levels of governments</li> <li>• Uniformity over number of documents for submission for the same work in different locations/ authorities</li> <li>• Submission electronically as well as physically</li> <li>• Adherence to given procedures and instructions</li> </ul>
<b>Predictability</b>	<ul style="list-style-type: none"> <li>• Defined Timelines and Respect for such Timelines</li> <li>• Tracking the Status of Application/ Request</li> <li>• Clarity on Steps involved with Application Processing</li> <li>• Communication on Inspections/ Audits</li> </ul>

A sound and stable political, economic, legal and regulatory environment, supported by good governance, transparency, predictability, and economic openness is crucial for a positive business and investment climate in any country. The state of a country's business and investment climate is a key factor in that country's ability to attract foreign investment and develop SMEs. Global enterprises prefer to invest in enterprises in countries with a healthy business climate where costs, procedural delays, and risks are minimized. In addition, SMEs are more likely to flourish in a climate where they are not overburdened by taxes and regulations. According to the World Bank, a good investment climate is an essential pillar of a country's strategy to stimulate economic growth, which in turn generates opportunities for poor people to have more productive jobs and higher income. The key is to improve the business climate by removing unnecessary regulatory hurdles and introducing better and laws and transparent procedures. In the recent years, India has made significant strides forward in improving its business climate and advancing its economic development. But the performance of India in comparison with many other countries in the world on the ease of doing business bears scope for further improvement. Problems and restrictions plague the businesses in India throughout their lifecycles, making it difficult, expensive and cumbersome to start, grow or exit from a business. Improving the business environment is likely to spur growth and generate employment for millions across the country.

## India's Performance on World Bank's Doing Business Index



The following table compares India's performance on Ease of Doing Business indicators with the previous year as well as with some other economies in the world:

Indicator	India DB 2016	India DB 2015	Bangladesh DB 2016	China DB 2016	Mexico DB 2016	Russia DB 2016	Best Performer Globally 2016
Starting a Business (rank)	155	164	117	136	65	41	New Zealand (1)
Procedures (number)	12.9	13.9	9.0	11.0	6.0	4.4	New Zealand (1.0)
Time (days)	29	34	19.5	31.4	6.3	10.5	New Zealand (0.5)
Cost (% of income per capita)	13.5	15.3	13.9	0.7	17.9	1.1	Slovenia (0.0)
Indicator	India DB 2016	India DB 2015	Bangladesh DB 2016	China DB 2016	Mexico DB 2016	Russia DB 2016	Best Performer Globally 2016
Dealing with construction permits (rank)	183	184	118	176	67	119	Singapore (1)
Procedures	33.6	33.6	13.4	22.0	10.5	19.0	5 economies (7.0)
Time (days)	191.5	191.5	269.0	244.3	86.4	263.5	Singapore (26.0)
Getting electricity (rank)	70	99	189	92	72	29	South Korea (1)
Time (days)	90.1	105.7	428.9	143.2	78.9	160.5	South Korea (18.0)
Registering property (rank)	138	138	185	43	106	8	New Zealand (1)

Procedures (number)	7.0	7.0	8.0	4.0	6.8	3.0	4 economies (1.0)
Cost (% of property value)	7.5	7.5	7.0	3.4	5.1	0.2	Saudi Arabia (0.0)
Paying Taxes (rank)	157	156	86	132	92	47	UAE (1)
Payments (number per year)	33	33	21	9	6	7	Hong Kong (3)
Time (hours per year)	243	243	302	261	286	168	Luxembourg (55)
Total tax rate (% of profit)	60.6	60.6	31.6	67.8	51.7	47.0	Ireland (25.9)
Trading across borders (rank)	133	133	172	96	59	170	Denmark (1)
Time to export (Border compliance)	109	109	100	26	20	96	15 economies (0.0)
Time to export (documentary compliance)	41	41	147	21	8	43	Jordan (0.0)
Time to import (Border compliance)	287	287	183	92	44	96	19 Economies (0.00)
Indicator	India DB 2016	India DB 2015	Bangladesh DB 2016	China DB 2016	Mexico DB 2016	Russia DB 2016	Best Performer Globally 2016
Time to import (documentary compliance)	63	63	144	66	18	43	21 economies (1.0)
Enforcing contracts (rank)	178	178	188	7	41	5	Singapore (1)
Time (days)	1420.0	1420.0	1442.0	452.8	389.0	307.0	Singapore (150.0)
Cost (% of claim)	39.6	39.6	66.8	16.2	30.9	16.5	Iceland (9.0)
Resolving Insolvency (rank)	136	136	155	55	28	51	Finland (1)

A majority of the regulatory burden imposed on business is due to the plethora of laws, rules, regulations and procedures enforced by the States. While efforts at improving India's ranking in the Doing Business Report do cover some of the regulatory issues pertaining to state governments, much more is required to be done at state governments' level to

achieve the Prime Minister’s vision of making India an easy place to do business. In order to analyse the performance of Indian states on various ease of doing business indicators, the DIPP, in partnership with the World Bank, devised a 98 point Action Plan on Ease of Doing Business under the Assessment of State Implementation of Business Reforms report. The Report reveals wide variation in the performance of various states:

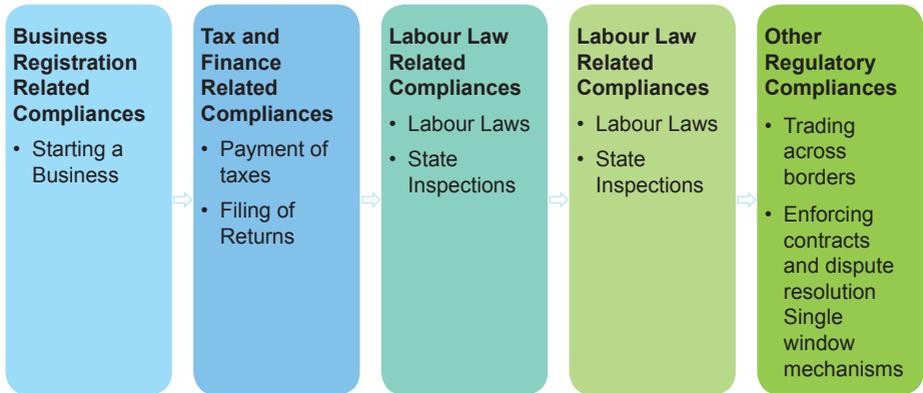
Rank	State	Score	Rank	State	Score
1	Gujarat	71.14%	17	Himachal Pradesh	23.95%
2	Andhra Pradesh	70.12%	18	Kerala	22.87%
3	Jharkhand	63.09%	19	Goa	21.74%
4	Chhattisgarh	62.45%	20	Puducherry	17.72%
5	Madhya Pradesh	62.00%	21	Bihar	16.41%
6	Rajasthan	61.04%	22	Assam	14.84%
7	Odisha	52.12%	23	Uttarakhand	13.36%
8	Maharashtra	49.43%	24	Chandigarh	10.04%
9	Karnataka	48.50%	25	Andaman and Nicobar Islands	9.73%
10	Uttar Pradesh	47.37%	26	Tripura	9.29%
11	West Bengal	46.90%	27	Sikkim	7.23%
12	Tamil Nadu	44.58%	28	Mizoram	6.37%
13	Telangana	42.45%	29	Jammu and Kashmir	5.93%
14	Haryana	40.66%	30	Meghalaya	4.38%
15	Delhi	37.35%	31	Nagaland	3.41%
16	Punjab	36.73%	32	Arunachal Pradesh	1.23%

**Aspiring Leaders** (Ranks 1-7)

**Acceleration Required** (Ranks 8-16)

**Jump Start Needed** (Ranks 17-32)

### Key Components of the Business Regulatory Environment:



#### 1. Business Registration Related Compliances

The ease of registration of a business is crucial for a speedy entry into the market. The registration processing time is recognized as a prime indicator of the business environment in any country. This indicator measures all procedures officially required, or commonly done

in practice, for an entrepreneur to start up and formally operate an industrial or commercial business, as well as the time and cost to complete these procedures.

There are a large number of procedures to be followed and clearances to be obtained to start and operate a business. Moreover, each of these procedures can take an inordinately large amount of time. The burden is magnified for SMEs which are inherently facing a severe resource crunch.

The Indian government has introduced reforms such as establishing an online VAT registration system, e-stamping, online form for MSME registration, etc. But the process of starting a business is complex and costly, especially for MSMEs and must be simplified for improving the ease of doing business in India.

### **One Stop Shop for Business Registrations in Ukraine**

Ukraine enacted the Law on State Registration of Legal Entities and Individual Entrepreneurs in 2004 for the simplification of business registration. A successful exhibit of the one-stop-shop model, the law reduces the entrepreneur's interaction with State officials to a single contact, the State Registrar, who accepts applications and carries out all the registration and mandatory reporting functions. This model has reduced the registration processing time in Ukraine to a mere 4 days.

## **2. Tax and Finance Related Compliances**

For long, procedures of registration of businesses, amendments and cancellations to registration, filing of returns and payment of taxes have been managed manually. Manual processes have cost taxpayers time and money besides making compliance tougher. Multiple levels of taxation and large number of taxes, lack of standardization in rates and processes across States, etc. are some of the routinely faced challenges faced by entrepreneurs that complicate the tax related compliances and adversely impact the ease of doing business for businesses.

Complex tax administration systems are a burden on SMEs. Complex tax returns requiring expensive expertise reduce SME profitability. Reducing the amount and complexity of tax-reporting will enable SMEs to focus on enterprise development. Greater use of technology by implementing online registration and payment gateways and rationalization of the number of applicable taxes, standardization in processes, etc. are some of the imperatives that can reduce the burden for SMEs with respect to tax related compliances.

The government has recently announced to bring down the applicable tax rate by 1% for SMEs. This is a step in the right direction and should be supported with sustained efforts to reduce the tax related compliance burden for SMEs.

### Tax Reforms for SMEs in Lithuania, Romania and Russia

Small enterprises with a gross income of not more than 100 thousand lits (USD 26,000) annually are allowed to opt for simplified taxation.

In Romania, for micro enterprises employing up to 10 people and having a gross annual income of up to 100,000 euros, the applicable tax rate has been brought down to 3%.

Under the simplified tax system in Russia, the tax rate for SMEs is 6% of revenue or 15% of revenue less expenses. The entrepreneurs are also granted a choice of tax systems.

### e-Vardan: An Integrated and Comprehensive System for Managing Indirect Taxes in Karnataka

The Commercial Tax Department in Karnataka has undertaken many e-initiatives leveraging information technology for improving tax administration aimed at increasing transparency, bringing down cost, removing unnecessary interfaces etc. Some of its initiatives include: e-Vardan which involves online filing, processing and registration. The application fee is also paid online. Inspector fixes date of inspection which is updated online. After approval, Tax Identification Number (TIN) and registration certificate can be downloaded online by the dealer. Tax payment is online for amounts above Rs. 10,000.

## 3. Labour Law Related Compliances

The labour laws in India require compliances under various labour related policies/regulations like Employees State Insurance Act, Contract Labour (Regulation and Abolition) Act, Payment of Wages Act, Minimum Wages Act, Industrial Disputes Act, applicable provisions of the Factories Act etc. Complex administration methodology including multiple returns, filings and inspections; inadequate skilling of labour, etc. pose considerable challenges for SMEs.

### Applicability of important labour laws to the MSME sector based on employment threshold

1-9 Workers	10-19 Workers	20-49 Workers
Shops and Establishments Acts of state governments	Labour Laws (Exemption from Furnishing Returns and Monitoring Registers) Act	The Contract Labour (Regulation and Abolition) Act, 1970
Workmen's Compensation Act, 1923	The Payment of Gratuity Act, 1972	The Payment of Bonus Act, 1965
Bonded Labour System (Abolition) Act, 1976	The Factories Act, 1948	The Employees' Provident Fund and Miscellaneous Provisions. Act, 1952

1-9 Workers	10-19 Workers	20-49 Workers
Child Labour (Prohibition & Regulation) Act, 1986	The Employees' State Insurance Act, 1948	
The Industrial Disputes Act 1947 [with the exception of Chapters VA and B applicable to enterprises with 50 and above and 100 and above workers respectively]	The Payment of Wages Act, 1936	
Equal Remuneration Act, 1976	Maternity Benefits Act, 1961	
Minimum Wages Act, 1948	Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988.	
Trade Union Act, 1926		
Labour Laws (Exemption from Furnishing Returns and Monitoring Registers) Act (in some states)		

There are around 44 Central Acts governing labour. Under the law, SMEs have to implement at least 15 of them. Compliance should be rationalized and simplified and there must be changes in how returns are filed and inspections are done. Additionally, inadequacy of the labour administration system, the widespread system of illegal payments collected by officials, the lack of awareness of labour laws and other laws among significant segments of the MSEs, and the cost of non-compliance being far less than compliance to the employers are major bottlenecks related to labour compliances for MSMEs.

#### **Labor Management Solution (LMS) by Maharashtra called Mahashramm**

The System has greatly simplified compliances to various labour laws in the state by creating a one stop shop for implementation and integration of 46 labour laws. It allows for online application and renewal of labour licenses, permits, etc. and provides other online services such as a comprehensive database on labour, electronic records, work flow automation, monitoring of applications, and an online complaint window for employees as well as employers. The initiative has resulted in ease of compliance on multiple and cumbersome labour laws, drastic reduction in time for getting approvals, reduction in physical interaction with government departments, enhanced industrial safety and efficient inspection.

SMEs are particularly burdened by a host state inspections which are disproportionately time consuming and costly for these enterprises which are already facing severe resource crunch. SMEs don't have access to the funds required to engage the services of financial and legal experts for meeting various state audits and inspections.

#### **Moratorium on State Inspections for SMEs in Russia**

Russia has committed itself to minimize the number of financial and other checks on businesses. The Government has suggested a moratorium on checks for SMEs during the first 3 years of their existence. The Government is aiming to reduce the excessive administration on SMEs by 90% over the course of 5 years.

#### **4. Infrastructure related compliances**

This parameter covers a wide range of compliance requirements related to acquiring land, registering a property, getting power connection, construction permits, environment clearances, etc. which are critical for an organization to conduct business operations.

Absence of a uniform policy and lack of consistent enforcement of clear compensation and rehabilitation policies renders the property acquisition process rather complicated. The registration of a property is time consuming and lack of online mechanisms for registration and approvals makes the process complex, especially for SMEs. Limited penetration of e-stamping procedures, lack of clarity on amount of stamp duty to be paid for different properties, ambiguity in property valuations, multiple and often dated environment regulations and compliances, etc. further compound the woes of SMEs and add to their regulatory burden.

#### **Initiatives to Simplify the Process of Getting Electricity**

The utility in Delhi has eliminated an internal wiring inspection by the Electrical Inspectorate to reduce the number of inspections for the same purpose from two to one. The utility has also combined the external connection works and the final switching on of electricity in one procedure.

The utility in Mumbai has reduced the procedures and time for connecting to electricity by improving internal work processes and coordination. It combined several steps, such as the inspection and installation of the meter, the external connection works and the final connection, into one. This has brought down the time taken by companies to get connected to the grid and commence business operations to 14 days sooner than before.

### State Initiatives to Simplify Property Registration

Gujarat, Karnataka, Rajasthan and Maharashtra have moved to an online system of Property registration.

Karnataka and Rajasthan have launched 'Anywhere registration' which enables a property owner to register their property anywhere within a district.

Rajasthan standardized property registration documents by uploading 34 documents on the website of the Registration and Stamps department, to enable a property owner to register property themselves and not necessarily through a lawyer.

Karnataka, Gujarat, Maharashtra and Rajasthan have implemented estamping.

Rajasthan has addressed the problem of mismatch between registration prices and actual market prices by continuously updating the circle rates which function as a minimum bar on land prices in an area.

### Simplified Land Registration in Rwanda

Rwanda has introduced a web-based Land Information Administration System to computerize its land registry. Digitization of land registration has reduced the process of transferring property from over a year almost a decade ago to less than a month.

### Land Related Interventions in Gujarat

GIDC and the Investor Facilitation Portal have simplified land acquisition in the state with minimum direct government participation. The process ensures land possession within 45 days of application. GIDC operates and maintains 182 functional estates, ranging from mini to mega sizes, across various districts in Gujarat. It has an inventory of 36,000 hectares of land in the state.

## 5. Other regulatory Compliances

This parameter covers other aspects of the regulatory mechanism such as Single Window Clearances, trading across borders, exit mechanism, etc. Single Window Clearances have existed in principle in many states. However, in practice, there is wide variation in the manner of setting up and operationalisation of Single Window Systems across the country. The implementation of the Single Window mechanism leaves significant room for improvement.

### **Single Window Clearance (SWC) for Industries - MAITRI by Maharashtra**

MAITRI is an initiative taken up by the Department of Industries, Maharashtra to establish a one stop portal for G2B services offered across the business cycle for setting up an industry. MAITRI serves as a single point of contact to reduce the average time and efforts required for establishment of industrial units and issue 31 clearances and approvals required for setting up of industries in the State. The key features of the service include an electronic system for online tracking of application, common application forms, linking of 15 government departments, online information regarding investment policies, citizen charter, circulars, etc.

Apart from this, there is also a need for a speedy Dispute Resolution Mechanism, especially for MSMEs. Additionally, stringent policy requirements for businesses wanting to exit make the exit of resource crunched MSMEs costly and long adversely affecting their ability to start anew.

### **Global Best Practise: ICT Initiatives Across the World for Enhancing the Quality of Regulatory Governance**

US – Regulatory Review Dashboard (<http://www.reginfo.gov/public>)

UK – Business Link (<http://www.businesslink.gov.uk>); Red Tape Challenge - (<http://www.redtapechallenge.cabinetoffice.gov.uk/home/index>)

Belgium – Kafka Initiative for Simplifying Government Procedures (<http://www.kafka.be>)

France – Lets Simplify Together (<http://www.ensemble-simplifions.fr>)

Australia – Business Cost Calculator (<https://bcc.obpr.gov.au>)

European Commission – Smart Regulation: Administrative Burdens Reduction – Online

Consultation ([http://ec.europa.eu/enterprise/policies/smart-regulation/administrativeburdens/online-consultation/index\\_en.htm](http://ec.europa.eu/enterprise/policies/smart-regulation/administrativeburdens/online-consultation/index_en.htm))

<b>Land Acquisition</b>	<ul style="list-style-type: none"> <li>•South Korea and Japan have introduced an unambiguous pricing and acquisition mechanism</li> </ul>
<b>Property Registration</b>	<ul style="list-style-type: none"> <li>•Singapore and Portugal have reduced the title transfer time to 1-7 days</li> <li>•Egypt has reduced stamp duties significantly</li> </ul>
<b>Obtaining Construction Permits</b>	<ul style="list-style-type: none"> <li>•China has implemented an online approval process for plans</li> <li>•Denmark has simplified the procedure for providing construction permits</li> <li>•Egypt has implamanted a single window fpor construction permits</li> </ul>
<b>Single Window Clearance Mechanism</b>	<ul style="list-style-type: none"> <li>•Singapore, Mexico and Hong Kong have established an online Single Window for trade clearances</li> </ul>
<b>Environment Related Compliances</b>	<ul style="list-style-type: none"> <li>•UK and USA have initiated reforms to simplify processes for obtaining environment related approvals. Regular training programmes are also conducted for industry and officials</li> </ul>
<b>Payment of Taxes</b>	<ul style="list-style-type: none"> <li>•Azerbaijan has overhauled the legacy tax code and instituted a new, simplified tax structure</li> <li>•China has simplified the total number of payments made by industry</li> </ul>
<b>Availability of Information</b>	<ul style="list-style-type: none"> <li>•Singapore has established clear, up-to-date forums for timely and transparent information dissemination</li> </ul>

## Policy Reforms for Improving the Ease of Doing Business in India

It is promising to note the reformative drive and resolution of the Government of India to improve the business climate in India. The Government has taken up a series of measures to improve Ease of Doing Business which will go a long way in achieving Hon'ble Prime Minister's vision of taking India among the top 50 countries in terms of ease of doing business in the next two years. The emphasis has been on simplification and rationalization of the existing rules and introduction of information technology to make governance more efficient and effective.

- With respect to starting a business, the government has implemented a series of measures to simplify the compliances and regulatory requirements from businesses. Form INC 29 has been launched by Ministry of Corporate Affairs to combine the pre-registration requirements of Name Availability, obtaining the Identification Number and incorporation of a company with one form and one payment.

- The requirement of minimum paid up capital and common seal under the Companies Act 2013 has been done away with.
- The government has launched an eBiz portal to combine 20 key government services. Registration for Permanent Account Number (PAN), Tax Deduction Account Number (TAN), EPFO (Employees' Provident Fund Organization) and ESIC (Employee's State Insurance Corporation) and incorporation of company can now be done through a single form on the eBiz portal.
- Additionally, with regard to ESIC and EPFO, online and real time registration has been introduced. Provision for online payment of EPFO and ESIC contributions has also been introduced and the requirement of bank account for registration with EPFO and ESIC has been eliminated.
- An Investor Facilitation Cell has been created in 'Invest India' to guide, assist and handhold investors during the entire life-cycle of the business.
- Process of applying for Environment and Forests clearances has been made online through Ministry of Environment and Forests and Climate Change's portals.
- For the simplification of cross border trading, the Central Board of Excise and Customs(CBEC) has implemented a Single Window Interface for Facilitating Trade (SWIFT) (online single window for clearance of goods) on the ICEGATE portal by integrating FSSAI, Animal Quarantine, Plant Quarantine, Drug Controller and Wildlife Control Bureau for imports. Additionally, the number of forms for exports and imports have been reduced to three from seven and nine, respectively. The physical submission of documents has been eliminated and they can be submitted online using digital signature.
- Central Registry Rules have been amended to record security interests of all types of property.
- Shram Suvidha Portal has been launched to facilitate risk based Inspections, submission of common electronic returns under 8 Labour Acts and issue of Labour Identification Number.
- The Insolvency and Bankruptcy Code, 2016 with provision of easy and faster exit, has been passed by the Parliament.
- The government has unveiled the Start-Up India action plan with features such as self-certification, exemption from income tax and inspections for initial three years, exemption from capital gains tax, an 80% reduction in patent fees, etc. to encourage the growth of start-ups.

- The government had devised a 98 point action plan to evaluate and assess states on their performance on a variety of ease of doing business indicators last year and a 340 point Action Plan has been prepared for this year. As a result, the Indian states are taking a lead in introducing ground breaking initiatives to improve the ease of doing business at the state level. Some of the key reforms undertaken have made it easier for businesses to electronically register and pay taxes, obtain electricity connections more easily and have a simpler regime for inspections by labour and pollution inspectors. But states still have to rationalize the licenses and clearances required at the state level to start, operate and exit a business.
- With regard to MSME specific initiatives, the Udyog Aadhaar Memorandum, an online one page form has been launched for the simplification and universalization of MSME registrations. The initiative has met with a resounding success with over 8 lakh registrations since its launch in September 2015.
- The MSMED (Amendment) Bill, 2014 has been introduced in the Parliament to amend the definition of MSMEs by enhancing the existing limit for investment in plant and machinery.
- The government has extended the tax exemptions under the presumptive tax scheme to businesses with turnover up to Rs 2 crore, twice the previous limit, to encourage MSMEs to expand their business.
- The Ministry of MSME has recently launched the MSME Data Bank to capture MSME data online.
- The Government has notified a Framework for Revival and Rehabilitation of MSMEs for the identification on incipient stress in the MSME sector. Additionally, the RBI has directed all banks to constitute a Committee for preparing a Corrective Action Plan for the rehabilitation of distressed MSMEs.
- The Ministry regularly addresses various grievances through the Centralized Public Grievance Redress and Monitoring Mechanism and has launched an online MSME grievance monitoring system to track and address other grievances and suggestions.

### **CII SME Policy Dialogue Roundtable Session on Ease of Doing Business through Regulatory Enforcements**

In order to discuss the issues and suggestions pertaining to the Ease of Doing Business for Indian MSMEs, CII organized a Policy Dialogue Roundtable Session on Ease of Doing Business through Regulatory Reforms on 14 June 2016 in New Delhi. The Session had the participation of over 50 SMEs from across the country. Some of the concerns raised by

CII's SME members during the discussions include a large number of redundant and costly compliances, multiple approvals and inspections, lack of effective single window systems for processes, multiple taxes, lack of standardization in processes and compliances across the states, etc. The members also discussed some other concerns such as exclusion of MSMEs from participation in tenders under the Public Procurement Policy by explicit mentioning of global vendors as eligible for participation, costs imposed by double taxation owing to the bevy of indirect taxes, ambiguity in the jurisdiction and several clauses of the Insolvency and Bankruptcy Code, requirement of submission of physical copies of forms for Central Excise, Forms C, H, 38, BS 2, etc. The discussions during the Session led to the emergence of important recommendations which are summed up in the following section.

### **CII Recommendations for Improving the Ease of Doing Business for MSMEs**

There is no doubt that these initiatives will go a long way in pushing the MSME sector to forge ahead on the path of success and expansion. But there is a considerable scope for furthering the reformative drive and implementing measures to improve the ease of doing business in India, especially for the Indian MSME sector. Some suggestions that can assist in enhancing the quality of business environment further are included below:

- Information Technology must be leveraged to digitize processes related to business regulation and compliances. Online submission and acceptance of all applications and supporting documents must be made mandatory and physical copies must be done away with in a time bound manner.
- The government must rationalize compliance procedures across departments and do away with redundant compliances to simplify the business climate.
- An online one-stop-shop must be developed for all information related to business regulation and procedures in India using suitable ICT platforms. In the event of changes in procedures and regulations, a timeline must be set for mandatory update on the portal.
- Forms and documentation maintenance requirements under various laws should be relatively simpler for MSMEs given the size of operations. Also there should be greater provisions for self-declaration and deemed approvals.
- Integrating online payment gateway will definitely help investors in making the overall experience more investor friendly and hassle free.
- Single Window Clearance must be established for a wide range of processes. A common minimum standard must be adopted for the Single Window Mechanism

across states and government departments. Once the common minimum standards are established country-wide, the State governments are free to innovate beyond those.

- There are wide variations in government-business transactions taking place in different locations of the country. There is a lack of predictability and standardisation in terms of timelines as well as process adopted by different state governments when it comes to facilitating business. This results in subjectivity on the part of the corresponding government personnel. Standardization of compliance procedures across locations will be a big step in the direction of ease of doing business.
- Regulatory Impact Analysis (RIA) has been globally acknowledged as a promising tool to analyse the need and relevance of existing as well as new regulations on the basis of set criteria, developed through a consultative process, and matching with the context of the particular country. It is recommended that Regulatory Impact Analysis (RIA) has to be adopted for improving the quality of business regulatory governance in India. RIA will help with the identification of unreasonable burdens on business and in devising ways through which such burdens are kept to a minimum, if not eliminated altogether.
- Inspection requirements under various laws should be integrated to improve efficiency. Units should be subjected to a single audit procedure with inspection which should apply for all tax laws, labour / factory laws and utility / pollution laws.
- Stamp duty rates must be rationalized and benchmarked annually across States as well as internationally. Additionally, e-stamping must be launched across the country to reduce paper and handling charges
- Standardized formats must be established for minimizing the number of returns required to be submitted for compliance & to avoid duplicity of documentations
- With the objective of reducing procedural delays on account of limited capacity of the concerned departments/ agencies, states may consider empanelment of certified third party service providers to conduct the inspection process on behalf of the department.
- Public Private Partnership approach must be adopted for enhancing the availability of land for MSMEs. The state governments must formulate a model under the PPP mode to utilize the existing land banks for remedying the issue of scarcity of land.
- The use of shared land under the plug and play mode must be encouraged in industrial clusters with training centres, skill development centres, convention centres, etc. available on sharing basis for use by MSMEs.

- Vacant industrial premises must be leased out or disbursed to SMEs by state governments to improve their access to land.
- The existing system of indirect taxes levied by both the Central government as well as state governments imposes considerable burden on SMEs. Enterprises are mandated to pay VAT, Service Tax, Excise Duties, etc. Speedy implementation of the Goods and Services Tax will assist in the abolition of this system of double taxation.
- The RBI routinely releases prudential debt restructuring and rescheduling guidelines for large scale units. Similar exercise must be undertaken for SMEs to improve the credit flow and to ensure restructuring of viable and potentially viable debts of SMEs.
- The process for Excise refunds is exceedingly complicated requiring multiple compliances and visits to the department. This process must be made entirely online.
- Interstate shipments and movement of goods, services and other resources between Indian states must be simplified through the reduction in redundant compliances and favourable terms of trade.
- There must be greater flexibility in the deadlines of submissions of forms, filing of returns, etc. especially for SMEs.
- There is a need for an effective time bound dispute resolution mechanism with clearly stated course of action in case of defaults. This will assist in speeding up the process of settling disputes and disagreements without putting unwarranted strain on the companies' resources.
- Global and state level best practises must be analysed and the relevant ones must be adopted for serving as a guideline to devise strategies for improving the ease of doing business in India.

## **The Road Ahead**

Progress on reforms is important for a sustained 8-10% GDP growth. With regards to reforms visibility, the industry expects Government to remain focused on ease of doing business and other important economic reforms especially of Goods and Services Tax (GST) and the MSME Policy. Further key economic reforms like land acquisition, labour laws, Public Procurement Policy will add to improving the business environment of the country and also play a big role in investment decisions. For boosting the growth of MSMEs, reforms such as the implementation of a dedicated MSME Policy and an Exit Policy for MSMEs will be crucial. Further, business regulations governing MSMEs must be rationalized and simplified for reducing their regulatory burden. Revocation of redundant and obsolete

---

laws, reduction and eventual abolition of paper based transactions for compliances, single window online systems, enhanced sharing of data and information between different regulatory authorities appointed by the government, shifting the focus of inspections from collection of fines and penalties to greater compliances, etc. are some additional measures which will assist in improving the ease of doing business for MSMEs and promote a healthy and vibrant economy. The stakeholders should recognize the importance of renewing the emphasis on structural reforms needed to boost productivity and to make growth stronger and more inclusive. They should commit to continue supporting the implementation of regulatory reforms to improve the business environment. There is need for a coordinated, comprehensive and holistic strategy, which involves the fullest mobilization of all our economic endeavours resulting in increased yields at optimal use of all input resources. Our development efforts must be complemented by technological innovations that extend the reach of knowledge and learning to the remotest corners of the country.







## Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has over 8000 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 200,000 enterprises from around 240 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

The CII theme for 2016-17, **Building National Competitiveness**, emphasizes Industry's role in partnering Government to accelerate competitiveness across sectors, with sustained global competitiveness as the goal. The focus is on six key enablers: Human Development; Corporate Integrity and Good Citizenship; Ease of Doing Business; Innovation and Technical Capability; Sustainability; and Integration with the World.

With 66 offices, including 9 Centres of Excellence, in India, and 9 overseas offices in Australia, Bahrain, China, Egypt, France, Germany, Singapore, UK, and USA, as well as institutional partnerships with 320 counterpart organizations in 106 countries, CII serves as a reference point for Indian industry and the international business community.

### Confederation of Indian Industry

The Mantosh Sondhi Centre  
23, Institutional Area, Lodi Road, New Delhi – 110 003 (India)  
T: 91 11 45771000 / 24629994-7 | F: 91 11 24626149  
E: [info@cii.in](mailto:info@cii.in) | W: [www.cii.in](http://www.cii.in)

Follow us on :



[facebook.com/followcii](https://facebook.com/followcii)



[twitter.com/followcii](https://twitter.com/followcii)



[www.mycii.in](http://www.mycii.in)

Reach us via our Membership Helpline: 00-91-124-4592966 / 00-91-99104 46244  
CII Helpline Toll free No: 1800-103-1244