

Lucknow Management Association Convention 2020

Imperatives of Creation 1.00 Trillion Dollar Economy for Uttar Pradesh

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Session 3: Taking Ease to Doing Business to the Next level

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1. Facilitating running of businesses is crucial to realise the dream of making Uttar Pradesh a 1.00 trillion-dollar economy.
2. The Government of India has realised the importance of enabling ease of doing business (EoDB) and has been relentlessly pursuing improvement in the World Bank EoDB rankings. As a result, the country has moved up to the 63rd position from 142nd position on the rankings during the last six years.
3. It has also launched a Business Reform Action Plan to rank states on similar indicators. In the recently released rankings, Uttar Pradesh has jumped to the second position, from 12th position, an impressive achievement. Taking EoDB to the next level will need to much more than moving up the doing business charts.
4. Transformational steps will be required and it is heartening to note that the state government has its intent at the right place with the Chief Minister himself overlooking the progress of industrial transformation of the state.
5. First, there is a need to be cognisant of limitations of doing business rankings. It appears that a top-down approach has hitherto been adopted to design the indicators and review progress. The indicators have traditionally measured ease of starting of business, while most challenges faced by businesses are in their day-to-day functioning.
6. Consultation with industry during design of indicators is rare and insufficient. As a result, the focus is on whether the so-called reforms are 'felt', and not on challenges faced by businesses and measures required to address them.
7. We have also realised that informal entrepreneurs, and micro, small and medium enterprises (MSMEs) bear disproportionate burden of regulatory compliance. They are required to run from pillar to post to obtain necessary clearances and approvals.
8. Even after digitisation, owing to their limited capacity, MSMEs often fall prey to intermediaries, and are required to pay incur significant cost in form of commission and bribes, to ensure compliance. Thus, dedicated efforts are

required to make life easier for them and implementing the accountability mechanisms to punish miscreant officials.

9. In addition, enterprises often are expected to do business in face of unpredictable, inconsistent, overlapping regulatory requirements. **Recent estimates suggest that businesses in Uttar Pradesh are subject to 2,271 compliances and 214 filings on annual basis, making it amongst the states with largest regulatory cholesterol.**

10. These estimates validate the findings of our study wherein we examined competitiveness of select north Indian states, including Uttar Pradesh, a few years ago, through comprehensive consultation with diverse stakeholders.

11. During our study, concerns were raised by the industry regarding ineffective functioning of the Single Window System of clearances introduced by UP Government. It was pointed out that timelines specified in the Act and Government Orders, with respect to issue of approvals and clearances, were not being adhered to.

12. Moreover, it was pointed out that there are several windows behind the single window which resulted in the processes being cumbersome. Stakeholders pointed out that the high-powered committee of Udyog Bandhu has remained dysfunctional.

13. We were also told that information regarding EoDB reforms is not effectively disseminated to the industries. The problem persists more in case of the MSMEs who lack information regarding relevant policies and regulations that are in place and thus, resort to middlemen to fulfil simple procedures.

14. There is thus a need to recognise that the precious state capacity and resources needs to be spent judiciously, to actually facilitate running of business, and not merely on papers.

15. Therefore, taking ease of doing business in Uttar Pradesh to the next level will require a comprehensive overhaul of regulatory framework in the state. A systematic, transparent, consultative, and time-bound approach is required to review, simplify and streamline approvals and clearances for businesses in the state. This can only come through a strong political will and a whole of government approach under the Chief Minister's direct supervision.

16. The regulatory guillotine framework provides such an opportunity. It reverses the burden of proof and requires every approval and clearance to go through the three step tests of legality, necessity, and proportionality/ market friendliness.

17. The framework requires answering three questions in a sequential manner with respect to every approval/ clearance: Does it originate from a primary law? Does it achieve the intended objective? And lastly, Does the costs it imposes on stakeholders outweigh the benefits realised?

18. This process, in particular the cost-benefit analysis, would require adoption of a systematic, transparent and inclusive consultation process with stakeholders. Only those approvals that pass all three tests need to be retained and rest will need to be abolished or amended.

19. Several countries have benefitted from adopting regulatory guillotine framework. For instance, in Kenya, 315 licenses have been eliminated and 379 licenses have been simplified, using this framework. Countries like Moldova, Ukraine, Serbia, Mexico, and Russia have also benefitted from Regulatory guillotine framework. Annual savings of 188.7 million euros were estimated to the Serbian economy.

20. However, the regulatory guillotine framework will address the issue of existing regulatory stock, by reducing the sub-optimal regulations, approvals and clearances. There is also a need to address the issue of regulatory flow, i.e.; ensuring that sub-optimal regulations, approvals, and clearances are not introduced in future.

21. To this end, the state of Uttar Pradesh should adopt a ‘one in two out’ policy. This would mean that for every rupee of cost imposed by a new regulation, an existing regulation imposing cost of at least two rupees needs to be removed.

22. This would require institutionalising regulatory impact assessment (RIA) in the regulation making process, which is a systematic framework to examine costs and benefits of different regulatory options on relevant stakeholders. For this, an independent body should be established to be headed by a reforms champion and not as a parking lot for a compliant babu.

23. Several countries have benefitted from adoption of RIA. The one-in, two-out policy of UK, which mandates removal of £2 of costs for imposition of £1 of costs via state-led intervention, has resulted in net reduction of £836mn in costs to business between 2010 and 2014. A similar initiative was adopted in the United States, which reportedly resulted in regulatory cost savings of US\$8.1bn in 2017.

24. It is my firm belief that adoption of regulatory guillotine and regulatory impact assessment frameworks can go a long way in taking the ease of doing business initiatives in the state of Uttar Pradesh to the next level.