

November 12, 2019



Ease of Doing Business

- India in 2020

Dissecting India's EODB Journey & Progress Since 2016

India has made remarkable progress since 2016 in improving its ease of doing business as measured by the World Bank

○ However, there is significant room for improvement and improvements in business environment haven't yielded measurable outcomes



- India had persistently been in the bottom 1/3rd of nations in EODB as measured by the World Bank and averaged 131st among approx. 184 countries between 2007 and 2017
- In 2015, India's Prime Minister Narendra Modi made improvements in EODB ranking a key platform to communicate to the world that India was open for business with a goal to be in the top 50 by 2020
- India has improved its ranking from 130th in the 2017 report to 63rd in the 2020 report released in Oct 2019
- This magnitude of improvement is previously unseen, especially given the size of India's economy and has been driven by a series of reforms over the past several years



- While the EODB metric has several issues, it is probably a good directional indicator of how the different economies compare with each other
- Key issues include potential blind spot for regulations targeting foreign firms, limited incorporation of the informal economy and prevalence of corruption and a narrow geographical focus (top-2 metro areas)



- While India has made remarkable progress in the past 3 years, some of the other larger emerging economies like China and Russia continue to drive reforms as well in a bid to attract FDI
- The gap between India and the G7 economies is still huge



- While India has targeted EODB to become a more attractive destination for foreign investors, FDI flow is driven by numerous macro factors and in fact, India's share of FDI inflows has declined recently
- There has been limited impact on the level of entrepreneurship and startup of new businesses
- Continuing to drive more reforms deeper across sectors and geographies is essential to realize gains in economic development over the long-term

Sources: The World Bank EODB Reports, 3HA Research & Analysis

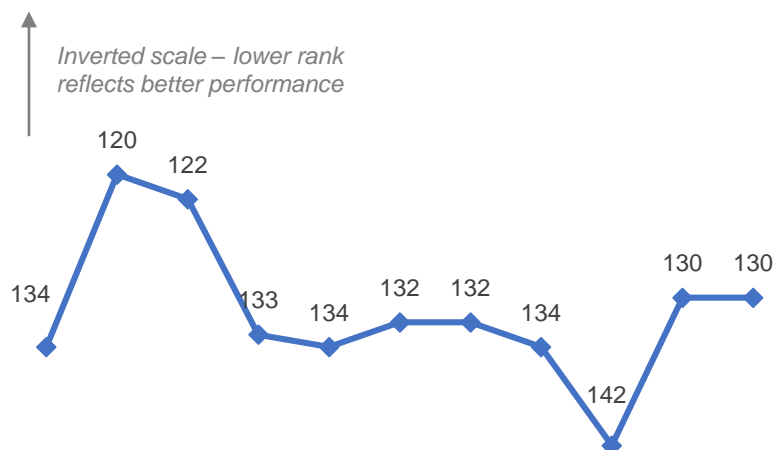
India's Historical EODB Performance

In 2015, India's Prime Minister Narendra Modi made improvements in EODB ranking a key platform to communicate to the world that India was open for business

- A goal was set to be among the 50 top economies in the ease of doing business ranking by 2020

India's Historical EODB Rankings

2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017



- Average ranking of 131 among 184 countries
- Arcane rules and complex procedures made India one of the planet's toughest places to do business

EODB Improvement Becomes Focal Point

Additional Secretary (Investment) informed that Government of India accords highest priority to the improvement in the ease of doing business in the country.
- Ministry of Finance, Government of India

The Government has undertaken various reforms to bring improvements in legislative and administrative structures and to improve India's environment for doing business.
- Ministry of Finance, Government of India

Government has partnered with all States to improve regulatory environment pan-India and beyond indicators of Doing Business Report.
- Ministry of Finance, Government of India

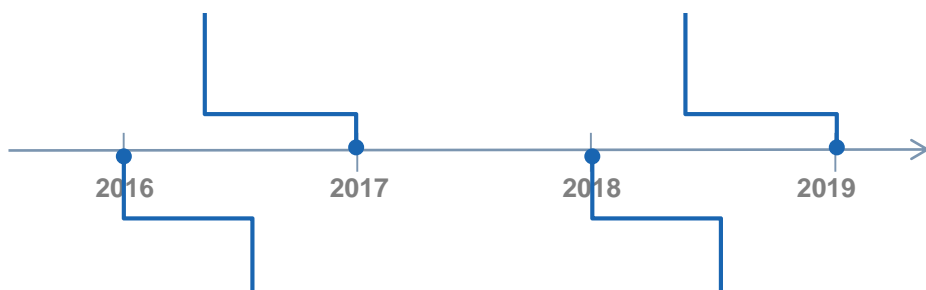
"Disappointed at our rank this year. Many of our reformatory steps were after WB deadline. Hopefully, with other steps, will help next yr."
- @nsitharaman, Minister of Fin. & Corp. Affairs

India's Recent Reforms and Impact on EODB

With this single-minded focus, several policies and reforms have been enacted that has driven remarkable improvements in EODB

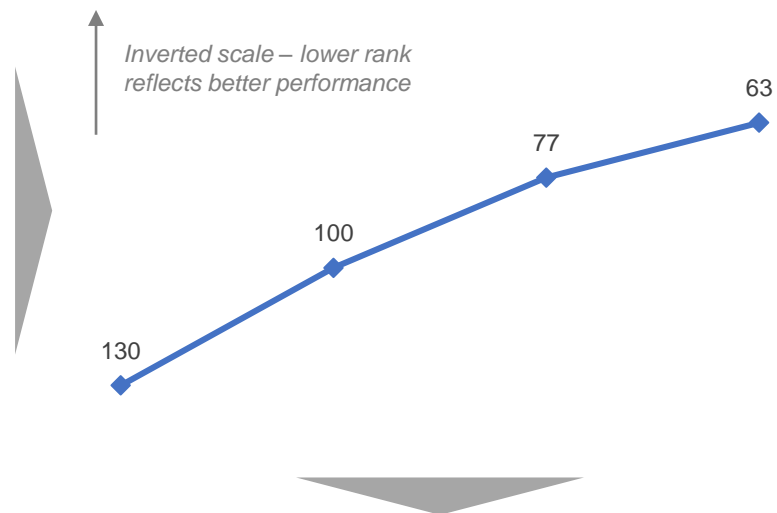
Recent Business Reforms

- Made starting a business faster by improving the online application system & merging multiple applications
- Implemented an online system for commercial permits
- Adopted a new law on insolvency and strengthened access to credit
- Made starting a business easier by abolishing fees for multiple procedures
- Made resolving insolvency easier by promoting reorganization proceedings in practice
- Reduced time and cost of obtaining construction permits and improved building quality control



- Streamlined process for new commercial electric connection in Delhi
- Launched electronic system for paying employee state insurance contributions
- Launched Customs Electronic Commerce Interchange Gateway portal
- Created dedicated divisions to resolve commercial cases
- Made starting a business easier by fully integrating multiple application forms into a general incorporation form
- Made paying taxes easier by replacing many indirect taxes with a single indirect tax, the GST
- Reduced the time and cost to export and import through various initiatives

2017 2018 2019 2020



- **India among top-10 improvers for 3 years in a row, a feat accomplished by very few countries**
 - **Improvement of 67 positions in 3 years is unprecedented, only China with improvement of 47 positions comes close among sizeable economies**

The EODB metric

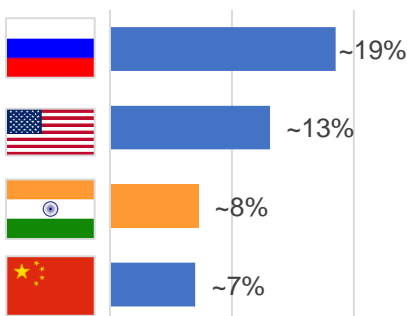
While the EODB metric has its warts, it is directionally indicative of how different countries rank relative to each other in terms of business friendliness

Sample Size

The EODB metric only accounts for top-2 cities in most major economies

- 2 cities represent ~10% of the country's economy
- Industries in these metro areas not fully representative of the country's economy
- Does not capture differences in regulatory burden across regions

Top-2 City Share of Country's GDP



Domestic Vs. International

EODB is based on domestic firms and does not account for any additional barriers for international firms

- Emerging markets have significant protections for domestic firms / sectors and EODB understates burden for international firms in countries like China and India
- Ranking of economies within a region or income group are more comparable



Informal Economy / Corruption

EODB does not fully account for the size of the informal economy or corruption that might be pervasive in an economy

- 81% of India's employed population is in the informal economy
- Despite recent governmental efforts, India has made limited if any progress in tamping down corruption

Corruption Perceptions Index Ranking

Country	2015	2018	Trend
USA	18	22	↓
India	76	78	↓
China	83	87	↓
Russia	119	138	↓↓

New Age Economy

While the EODB metric attempts to account for different sectors within an economy, it skews towards old-world economy (e.g. getting construction permits, registering property etc.)

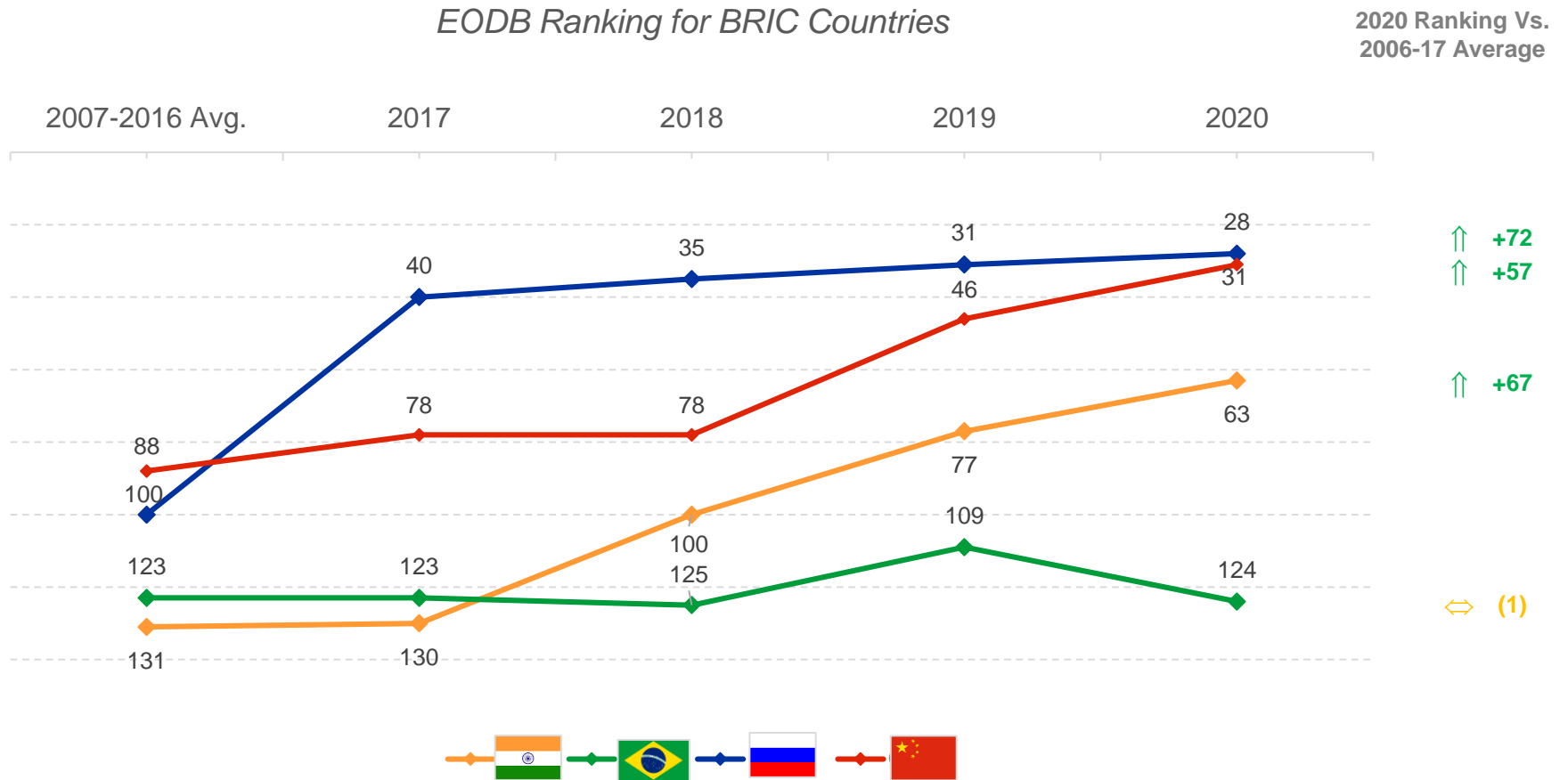
- The knowledge economy requires new tools, infra and regulations (e.g. communications infra, data protection and privacy etc.)



BRIC Nations EODB Ranking

China and Russia had a head start and have been on a mission to address the EODB ranking for longer

- Among BRIC countries, only Brazil trails India

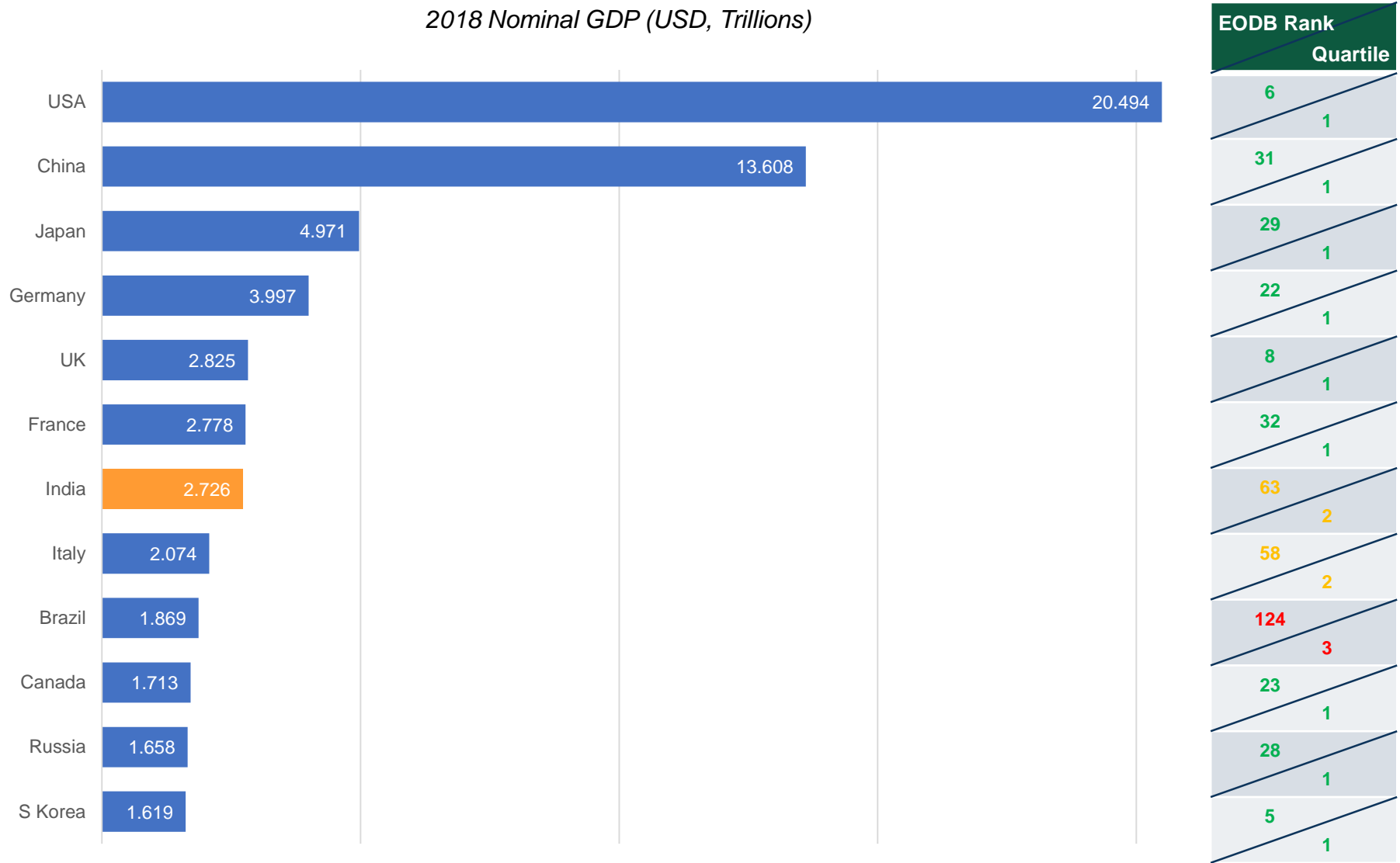


Sources: The World Bank Group, 3HA Research & Analysis

Largest Economies EODB Ranking

Among large economies, India trails most by a wide margin

- Ex-Brazil, the largest economies India competes with have an average EODB ranking of 24














Sources: The World Bank Group, 3HA Research & Analysis

EODB Vs. Corruption Perceptions Index

Since the EODB metric does not explicitly account for corruption, accounting for this ought to give a more accurate picture of the business environment

- Accounting for corruption, international investors likely perceive India as 2nd best among BRIC countries

	Country	EODB Ranking (2020)	Corruption Perceptions Index (2018)	Composite Ranking
Declining GDP ↓	 USA	6	22	14
	 China	31	87	59
	 Japan	29	18	24
	 Germany	22	11	17
	 UK	8	11	10
	 France	32	21	27
	 India	63	78	71
	 Italy	58	53	56
	 Brazil	124	105	115
	 Canada	23	9	16
 Russia	28	138	83	
	S Korea	5	45	25

- Despite top-quartile EODB rankings, corrupt practices make China and Russia middling countries for businesses
- G7 countries not only have low levels of regulation, but also transparent business practices
 - Avg. EODB rank 25
 - Avg. CPI rank 21
- Brazil seems to be failing its businesses badly
- India has significant room to cover to compete with G7 countries

Sources: The World Bank Group, Transparency International, 3HA Research & Analysis

Impact of EODB Improvement

EODB improvements probably take a long time to trickle down to drive sustained increases in FDI and entrepreneurship

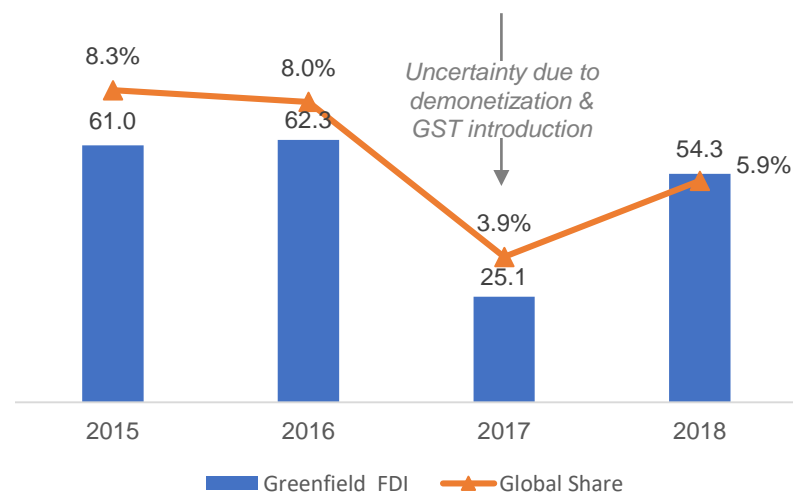
- In the past few years, there has been no appreciable impact of India's noteworthy EODB improvement on these metrics

Greenfield FDI Trends

Post election of a "business-friendly" administration in 2014, India became the top destination for greenfield FDI in 2015 and 2016

- Due in part to poorly implemented policies to a) demonetize large denomination bills to curtail tax evasion and official corruption and b) to implement a nationwide GST to replace a patchwork of local tax regimes resulting in an uncertain business environment, greenfield FDI plummeted in 2017
- FDI rebounded in 2018 along with a global rebound, yet share of global greenfield investments only 5.9%

Greenfield FDI in India and Share of Global FDI

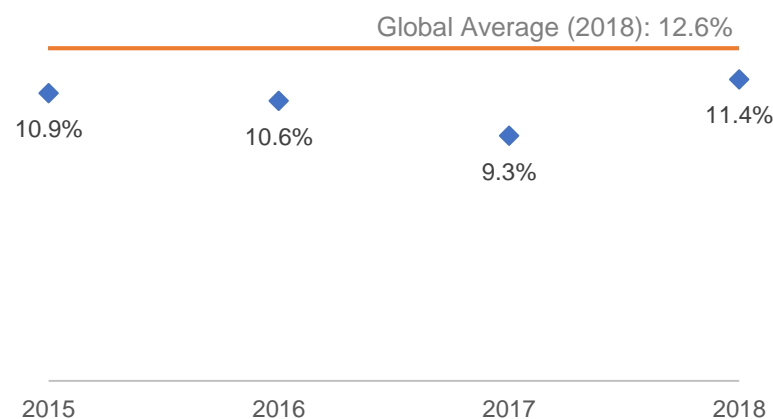


Entrepreneurship Trends

India's entrepreneurship rate has shown relatively minor improvements over the past 4 years.

- India's Total early-stage Entrepreneurial Activity (TEA) has historically been below median for emerging Asia / factor driven economies
- Stark differences exist across economies driven by societal attitudes towards entrepreneurship and stage of economic development

Total early-stage Entrepreneurial Activity



Note: Total early-stage Entrepreneurial Activity (TEA) measures percentage of 18-64-year old adults who are a nascent entrepreneur or owner-manager of a new business
Sources: FDI Intelligence (Financial Times' specialist unit dedicated to FDI), GEM report by Global Entrepreneurship Research Association, 3HA Research & Analysis

India's EODB Journey – What Next?

While India has made remarkable improvements on EODB, it is not so clear that life on the ground for entrepreneurs has improved commensurately

- While many factors impact FDI, EODB improvements have not led to foreign investors rushing to invest in the market

“For most foreign investors, it has been like a bad dream... The Indian telecom market has developed in a very negative way for investors.”

- Martin Peters, Ex-CEO, Vodafone India (Nov 2019)

“Would love to be in India. Some challenging government regulations, unfortunately.”

- @elonmusk (May 2018)

“Foreign investors will also note that they can't even appeal to international arbitration anymore, since the Indian government unilaterally canceled the investment treaties that made that possible.”

- The Economic Times (Jul 2019)

“Volkswagen Group-owned MAN Truck & Bus has pulled the plug on the growing Indian market... The company has put its Pithampur plant up for sale.”

- The Economic Times (Aug 2018)

- While headline EODB rankings have improved remarkably, India remains a bureaucratic morass and more work is needed to improve its competitiveness
 - Regional and local regulations and policies also need a similar overhaul
 - The judicial branch remains hostile to business and needs addressed
 - Rooting out corruption is a colossal undertaking, but needs to be addressed nevertheless (as evidenced by China's backward slide on the Corruption Perceptions Index despite the unprecedented anti-corruption campaign under Xi Jinping since 2012)
- Given key competitors' positioning for FDI and human capital, in the long-run, India should target:
 - Top-25 on EODB by 2025, in-line with G7 economies (“25 by 25”)
 - Top-50 on Transparency International's CP index
 - Decrease pendency of cases at all levels of the Indian judicial system by 80%

Cheenu Seshadri, Managing Director



Cheenu is Managing Partner at Three Horizon Advisors and advises PE and corporate clients in the tech, media and telecom sectors. He draws on 20+ years of consulting and industry experience, helping organizations achieve sustained revenue and market share gains and top-quartile profitability. Cheenu focuses on commercial diligence, new product development, market entry, operations strategy, corporate turnarounds and strategic planning.

Cheenu's prior experience includes Director & Partner at Altman Vilandrie & Co, a TMT focused strategy consulting firm; Chief Strategy Officer and later COO at MTS, a greenfield wireless company in India; VP of Strategy & Planning for Motorola's global Mobility business; Case Team Leader with Bain & Co., helping Fortune-500 clients with growth strategy and restructuring and Acterna (now Viavi Solutions) in multiple roles including Manufacturing Manager.

Cheenu graduated with Honors from the University of Chicago, Booth School of Business and is a member of the Beta Gamma Sigma Honor Society. He received an MS in Industrial Engineering from Binghamton University and a Bachelor's degree in Mechanical Engineering from the Indian Institute of Technology, Madras.



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