



# Ease of Doing Business for MSMEs

B.Mahesh | Dr. T. Senthilmurgan

<sup>1</sup>Research Scholar, Annamalai University  
<sup>2</sup>Assistant Professor, Annamalai University

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## ABSTRACT

*The ease of establishment and operation of businesses play a pivotal role in the growth and development of an economy. Prosperity of businesses facilitates creation of jobs and generation of income which can be spent both domestically and internationally. Clear and certain legislative and executive regime, augmented by an efficient judiciary that ensures timely enforcement of contracts, protects property rights, resolves insolvency and protects the rights of creditors and investors are pre-requisites for healthy business environment in an economy. Some the key factors that encourage businesses especially MSMEs to flourish and realise economic gains include sound policy framework, effective rules, simple procedures, increased transparency, curb on corruption and red tapism, strong infrastructure backed by efficient information technology system and timely implementation of policies with strong tracking and monitoring mechanism to measure progress*

*Keywords: protects property rights, insolvency, MSMEs, transparency, infrastructure*

## INTRODUCTION

Across the globe, MSMEs face many difficulties in starting and operating businesses. However, their difficulty level varies with the regulatory and institutional environment in which they operate. Effective business regulation and continuous and focused reform measures to ease the business environment provide MSMEs opportunities to grow, innovate and move from informal to the formal sector of an economy. For instance, in Denmark, the average number of newly registered companies is 8 per 1,000 workers per year, whereas in Uganda this figure is less than 1 new company per 1,000 workers per year. This difference can be explained by many factors including the level of business regulations<sup>2</sup>. Various studies have also found that an economy that undertake reforms to ease the regulatory burden on businesses tend

to attract greater foreign investments as Multinational Corporations (MNCs) prefer countries that have predictable and stable business environment with fewer, cheaper and simpler regulations. At international level, the World Bank every year assesses the policies to ease the regulatory burden, undertaken by countries across the world through its Ease of Doing Business Index (EDBI). The index uses 10 different indicators that measure various aspects of business regulations which are important to domestic firms and for national competitiveness. Doing Business also measures features of labor market regulations which are reported as a separate section and not included in the ranking. EDBI is considered as a reliable source of information on the business environment of an economy. EDBI rankings aim to compare the business environment of different countries.

It rewards any policy that reduces the time and cost of doing business and reveals how well an economy's government is doing than others<sup>4</sup>. Ease of doing business rankings impacts the reputation of the countries and hence influences them to initiate important policy reforms to improve the regulatory environment in their economy. At the national level, reforms undertaken by the government to improve business environment in the country, such as removing regulatory burdens, cutting delays, introduction of Goods and Services Tax (GST), promoting paperless transaction, among others have been widely acknowledged in the light of India's improved ranking in the World Bank's Ease of Doing Business (EODB) Index from 130th in 2016 to 77th in 2019 out of 190 economies. Further, at the state level, under the Make in India initiative, state governments are executing their respective annual Business Reform Action Plan (BRAP) to improve their rankings on the ease of doing business which reflect their willingness to reform and attract investments.

Although, governments at both central and state level have been initiating significant reforms to improve ease of doing business in India, but there is a need to check the ground realities i.e. to analyse whether such reforms have been implemented properly and their benefits have reached to small and medium scale businesses, which are the backbone of the Indian economy.

Analysis of the Ease of doing business at the MSMEs level becomes essential because in a dynamic economy like India, which is rapidly growing and continuously reforming its business environment, the results in major cities and on large businesses may not be representative of other small areas and businesses of the country<sup>5</sup>. In the light of the above arguments, this study aims to evaluate the ease of doing business at international, national and state level, analyse the impact of ease of doing business reforms undertaken by the Indian government on MSMEs.

## REVIEW OF LITERATURE

Large number of studies has been conducted in India on various aspects related to MSMEs. Researchers have made a sincere and intense attempt to study relevant literature on the topic. Some important studies are as follows:

**Sen, Salim (2016)** conducted a study to deal with high regional disparity in the growth of MSME sector.

Realizing the importance of this sector, Government of West Bengal along with Government of India introduced certain schemes to solve the issues of high cost of credit, staffing, planning, and inadequate infrastructure facilities.

**Vasa (2016)** conducted a research on some selected industries of chemical, pharmaceutical and textile sector of India and China and their impact on the performance of SMEs of these sectors. However, till now there are some problems associated with MSMEs, like lack of capital sufficiency, lack of entry to global market, high cost of credit, problems of staffing, planning and product display, and inadequate infrastructure facilities etc.

**N. Aruna (2015)** conducted a study to identify the problems faced by enterprises due to which the growth of enterprises is affected, in turn affecting growth of the country. Further, the data collected revealed that overall globalised business environment of India has been favourable for the growth of micro and small-scale industries. Simple and clear policies and acts are to be made so that these enterprises can understand them and utilize as well as implement them in business for compliance and secure benefits. There are many government schemes but from the study it was observed that most of these enterprises are not aware and do not understand how they can benefit out of them.

**Goel, Prakash (2014)** conducted a study to understand, analyse and interpret role of Micro enterprises in rapid growth of Haryana. Four economic parameters namely no. of units, investment, employment and production have been used as yardsticks to gauge or evaluate the contribution of the micro-enterprises in improving the financial health and economic scenario of the state. To ensure implementation of the policies and programmes for micro enterprises, we need good governance which means SMART (SIMPLE, Moral, Action Oriented, Responsive and Transparent) administration.

**Kavitha, Sangeetha (2014)** explored the conditions of small enterprises in Tirupur. Growth of industries in Tirupur has also faced many problems in its journey in terms of industrial organization, city infrastructure, electricity deficit, export procedures, workforce organization, Government policies, and pollution and so on. This study attempts to analyse various problem for exporters in Tirupur. The major problems of competition, raw materials supplies, power shortage etc.

are being encountered and need to be addressed by government by devising suitable policies and strategies.

**Chandraiah, Vani (2014)** concluded that MSME sector faces key challenges like non-availability of adequate and timely credit, high cost of credit, collateral requirement, limited access to equity capital, procurement of raw material at a competitive cost etc. It includes measures addressing concerns of credit, fiscal support, cluster-based development, infrastructure, technology and marketing etc.

**Ali and Husain (2014)** conducted a study to present the status of MSMEs in India. There are situations where there is need of credit from banks, rural sector facing competition from the multinational companies, lack of knowledge in technology due to non-availability of effective training and skill development programs etc. Foreign banks are not taking so much interest in sanctioning loan to the MSME sector.

**Jessica, Marimuthu (2013)** identified the difficulties of textile companies facing challenges from the general manager's point of view on financial sustainability of selected textile companies in Tamil Nadu.

**Srinivas, K T (2013)** showcased that for the development of India, there is a great need for development of MSMEs. He conducted research for understanding the concept of MSMEs and their requirements, proper utilization of financial aids provided to MSMEs etc. in the state of Karnataka.

**Gupta and Agarwal (2013)** conducted a study on various schemes for MSMEs with special reference to SIDBI. It focused on various financial and non-financial assistance provided by SIDBI to MSMEs.

**Rao and Apparao (2013)** studied MSMEs contribution to GDP, employment and the role of MSMEs in the supply chain for large businesses. They found that most of the MSMEs in rural areas face the problem of shortage of finance to advance business growth. MSMEs require lot of setup capital, liquid capital, and investment capital to survive and grow in this competitive business world.

**Yadav (2013)** explored that MSMEs after their maximum use of trade credit approached commercial banks for short term borrowings. The owner's funds in these industries due to limited access to the market, are short in supply

**Shihabudheen N. (2013)** conducted a study on the benefits and objectives of MSMEs Act 2006. The act is to provide facilities to MSMEs for the development of the

enterprises to enhance competitiveness. The study was important to know the impact of MSME act on SSI Units, and to suggest the measures for the enhanced performance. Special funds were created for promotion, development and enhancing competition, progressive credit policies for micro and small enterprises. Both primary and secondary data have been used in the study.

**Kumar, Gugloth (2012)** conducted a study on the importance and performance of Micro, Small and Medium Enterprises in India. The target of this paper is to analyse financial support for MSMEs. The study further analyses the importance of working capital management in the success of small businesses.

**Suresh and Mohideen (2012)** tried to bring the focus on the biggest challenge of MSMEs i.e. access to non-debt based and non-traditional financial products such as external commercial borrowings, private equity, factoring etc. The most critical problem faced by this sector is absence of equity capital. The present scenario in India for MSMEs is archaic; it does not focus on revival of SMEs.

**Shastri, Tripathi and Ali (2011)** in their article "Liberalization and its impact on small scale industries", showcased the impact of liberalisation on SSIs. MSMEs are facing both the challenges and opportunities. They need to compete on cost, quality and products both internationally and domestically. This can be met if and only if ideal investment in technology, production process, and effective marketing is made.

**Mapdar (2011)** showcased the major challenges faced by the handloom owners and designers. The research has brought out various aspects that have strategic and policy/managerial implications. The study is related to production related issues, financial aspects, and management practices. Getting irregular credit facilities, lack of knowledge of raw material, price fluctuations of cotton, infrastructure problems etc. are some major challenges faced by the rural MSMEs in the textile clusters in West Bengal.

#### **OBJECTIVES OF THE STUDY**

Following are the objectives of the study:

1. To evaluate the ease of doing business scenario at international level and thereby analyse India's position.
2. To evaluate the ease of doing business at national and state level in India.

3. To analyse the level of ease of doing business for MSMEs.

## RESEARCH METHODOLOGY

Both primary and secondary research has been conducted to determine various factors contributing to the ease of doing business in the India at the MSMEs level. Both quantitative and qualitative tools have been used for the study.

Extensive secondary research has been conducted to evaluate the ease of doing business scenario at international, national and state level. Different news articles, national and international journals, books and websites which focused on various aspects of ease of doing business were referred. World Bank database on ease of doing business has been used in-depth. Other authenticated sources referred for the secondary analysis on the study.

Include Annual Reports of the Ministry of Micro, Small and Medium Enterprises, Government of India; Business Reform Action Plan (BRAP) Reports of the Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry, Government of India, among others.

For secondary analysis, trends in ease of doing business across the world and in India were analysed using the World Bank's ease of doing database and the trends in ease of doing business at the State and Union Territory level in India were analysed using the Business Reform Action Plan (BRAP) reports of the Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry, Government of India.

For primary analysis, Simple Random Sampling Technique<sup>6</sup> was used. The selection of MSMEs did not involve any criteria and the questionnaires were sent across the country. The statistical tools used for the study were simple aggregates and averages. Descriptive statistics were used to describe the study variables and items of each variable of the study. The data has been presented in graphs and charts for lucid illustration.

The target population of this study was MSMEs operating in India. To obtain the responses, online invitations and hard copies of the questionnaire were sent to potential participants. 260 numbers of responses were received from across the country, comprising of maximum number of responses from small enterprises

(101), followed by 88 responses from medium enterprises and 71 from micro enterprises. Further the respondents comprised of 87 services MSMEs, 222 manufacturing MSMEs and 71 trade MSMEs.

**Table 1: Profile of Data Collected**

	Manufacturing MSMEs	Trade MSMEs	Services MSMEs	Total
Micro	22	18	31	71
Small	42	18	41	101
Medium	38	35	15	88
Total	102	71	87	260

Source: Survey on Ease of Doing Business for MSMEs

Various qualitative methods like focus group interview, depth interview have been adopted and after considering the opinions of various industry experts and academicians, an extensive questionnaire pertaining to the selected aspects of doing business in India was administered on MSMEs from a variety of sectors across India. The survey/ questionnaire were self-administered to assess and operationalise each of the variables at a specific point in time (cross-sectional). The questionnaire incorporated 19 parameters/measures of ease of doing business with 56 items/questions in total. The measures/parameters used were:

### **Ease of Doing Business at International Level: India's Position**

At the international level, the World Bank, every year since 2003, assesses the policies to ease the regulatory burden, undertaken by countries across the world. It is done through the Doing Business Report, Distance to Frontier Score also known as Ease of Doing Business score and the Ease of Doing Business rankings. The ranking of economies is determined by sorting the aggregate ease of doing business scores of 190 economies across the world.

Governments across the world are making significant efforts in improving their business regulatory environments to make doing business easier for entrepreneurs. Since its launch in 2003, Doing Business has inspired more than 3,500 reforms in the 10 areas of business regulation measured by the report. The majority of these reforms have been made in low and lower-middle-income economies. The three regions which have improved the most since 2004 are Europe and Central Asia, Sub-Saharan Africa and the Middle East and North Africa.

Around the world, registering a business now takes an average of 20 days and costs 23% of income per capita, compared to 47 days and 76% of income per capita in 2006. The average paid-in minimum capital that entrepreneurs may deposit is 6% of income per capita, compared with 145% of income per capita in 2006. The global average time to prepare, file and pay taxes has fallen from 324 hours in 2005 to 237 hours in 2017. On an average, entrepreneurs across the world find it easier to start a business and deal in construction permits but find enforcing contracts and resolving insolvency the most difficult.

The economies that rank highest in the ease of doing business are those that have consistently well-designed business regulation or whose regulatory environments have thrived thanks to comprehensive reform over the years. While, New Zealand has topped the Ease of Doing Business rankings in the years 2017, 2018 and 2019, Singapore topped the Ease of Doing Business rankings from 2007 to 2016.

**Table 2: World Bank Ease of Doing Business Rankings**

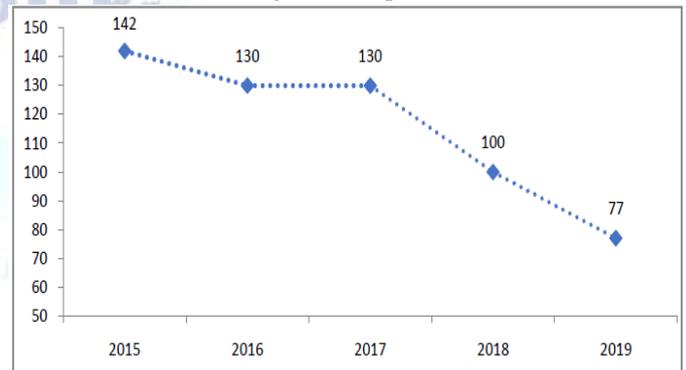
Rank	2019	2018	2017	2016	2015
1	New Zealand	New Zealand	New Zealand	Singapore	Singapore
2	Singapore	Singapore	Singapore	New Zealand	New Zealand
3	Denmark	Denmark	Denmark	Denmark	Hong Kong SAR
4	Hong Kong SAR	Korea, Rep.	Hong Kong SAR	Korea, Rep.	Denmark
5	Korea, Rep.	Hong Kong SAR	Korea, Rep.	Hong Kong SAR	Korea, Rep.
6	Georgia	United States	Norway	United Kingdom	Norway
7	Norway	United Kingdom	United Kingdom	United States	United States
8	United States	Norway	United States	Sweden	United Kingdom
9	United Kingdom	Georgia	Sweden	Norway	Finland
10	Macedonia, FYR	Sweden	Macedonia, FYR	Finland	Australia
11	<b>2019 Rank</b>	<b>2018 Rank</b>	<b>2017 Rank</b>	<b>2016 Rank</b>	<b>2015 Rank</b>
India	77	100	130	130	142

Source: compiled from World Bank Doing Business Reports

### Ease of Doing Business: World Bank Rankings

Over the past five years, India's performance on the World Bank's Ease of Doing Business Index has improved at a remarkable pace from 142nd rank in the

year 2015 to 77th rank in the year 2019 on the back of implementation of robust reform measures such as removing regulatory burdens, cutting delays, introduction of Goods and Services Tax (GST), promoting paperless transactions, among others. India has improved notably in the areas of getting electricity, dealing with construction permits, protecting minority investors, getting credit, paying taxes and trading across borders in 2019 rankings as compared to 2015.



India's performance has improved at a remarkable pace on distance to frontier score/ease of doing business score from 40.7 in 2005 to 67.2 in 2019 on the back of strategic reform measures undertaken by the government.

### Ease of Doing Business for MSMEs

The previous sections talked about the reforms undertaken by the central and state governments to improve the business regulatory environment in the country and in their respective states. This section talks about the ground realities i.e. whether the reforms undertaken by government at both the levels have been implemented properly and their benefits have reached the small and medium scale businesses which are the backbone of the Indian economy.

India's continuous rank improvements at World Bank's Ease of Doing Business Ranking from 130th rank in 2017 to 100th rank in 2018 and 77th rank in 2019 as well as continuously increasing State governments' score (%) of BRAP implementation over the last three years speaks volume on the government's credibility and its efforts to make India a better place to do business.

### CONCLUSIONS:

Ease of doing business holds prime importance for the overall growth and development of trade and industry as it attracts foreign investors and provides boost to the domestic businesses. Over the last few years, India improved its Ease of Doing Business Ranking

significantly, which can be attributed to the plethora of reforms undertaken, such as implementation of GST and Insolvency and Bankruptcy Code along with improvements in registering for new electricity connection, upgradation of port infrastructure, among others. The payment of all pending GST refunds to MSMEs within 30 days, withdrawal of Angel Tax provisions for Startups and their investors, and provisions for banks' lending to NBFCs for further on-lending to MSMEs up to Rs.20 lakh per borrower under the Priority Sector Classification have yielded positive results.

Over the years, states/UTs have introduced several reforms as a part of BRAP to improve their business regulatory environment and attract investments. Although many states have implemented reforms for improving business environment, further reforms are required owing to the high number of state level clearances required from various authorities like Industrial Development Authority, District Collector/Revenue Department, Town Planning Department, approval of building plan, among various others.

#### **Conflict of interest statement**

Authors declare that they do not have any conflict of interest.

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