



SHRI RAM COLLEGE OF COMMERCE



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The Initiative to Boycott Chinese Goods

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India and Its New States: An Analysis of Performance of Divided States - Pre and Post Bifurcation

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STRIDES

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Principal's Message

The mission statement of the College, signifying the existence and its road map to the achievement of its vision, reads as:

"To achieve and sustain excellence in teaching and research, enrich local, national and international communities through our research, improve skills of alumni, and to publish academic and educational resources"

To achieve and promote excellence in publications and applied research, the College has taken the initiative to launch a new journal exclusively to publish students' research papers and articles. It will be an add-on to the enriched catalogue of College publications and academic literature.

The journal has provided an opportunity to the students of our college to focus on research. Since the students were not opened to the research methodologies at the undergraduate level, they were mentored by experienced senior faculties of our College. Simultaneously, their articles were also reviewed by the referees and tested for plagiarism before publication. After reporting all the suggestions recommended by the referees, the articles were revised and then finally published. The College had successfully released the foundation issue of the journal **"Strides – A Students' Journal of Shri Ram College of Commerce, Volume 1, Issue 1, 2016-17"** on the occasion of 91st Annual Day



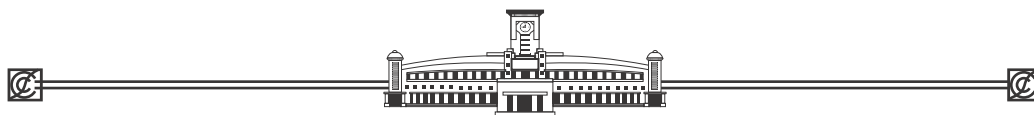
of College held on 13th April 2017. The Journal was released by Shri Prakash Javadekar, Honb'le Minister of Human Resource Development, Government of India.

The college has already applied for seeking International Standard Serial Number (ISSN) for the Journal. The application for ISSN is still under process.

I would like to congratulate the students whose papers are published in this issue of the journal and simultaneously encourage all the students to contribute their research papers and articles for the successive issues of the Journal.

Best wishes for their future endeavors.

Prof. Simrit Kaur
Principal



Editor's Message

Shri Ram College of Commerce is well known for its academic excellence and dedicated approach towards dissemination of knowledge in the academic world. The College appreciates the role of research in education and is committed to developing an inclination towards research in both faculty and students. In this pursuit, the College has taken the initiative to launch a new Journal named 'Strides – A Students' Journal of Shri Ram College of Commerce' to encourage students to pursue research under the guidance of the faculty of Shri Ram College of Commerce.

It is a bi-annual journal launched exclusively to publish academic research papers and articles by the students on contemporary topics and issues in the area of commerce, economics, management, governance, policies etc.

In order to maintain high standards of publication, the Committee on Publication Ethics (COPE) has been constituted. The COPE shall be the apex authority to take all decisions related to publication of research papers and articles in Strides. The decision of the COPE shall be final and binding.

To maintain high academic standards, academic ethics and academic integrity, a rigorous process of double blind review of research papers is followed along with screening for plagiarism of each



manuscript received by the college for publication. The research work published in Strides is original and not published or presented at any other public forum.

The foundation issue of the Journal i.e. **"Strides – A Students' Journal of Shri Ram College of Commerce, Volume 1, Issue 1, 2016-17"** was successfully released on 91st Annual Day of the College held on 13th April 2017 by Shri Prakash Javadekar, Hon'ble Minister of Human Resource Development, Government of India.

The successive Issues of 'Strides – A Students' Journal of Shri Ram College of Commerce' shall be bi-annually released.

Dr. Santosh Kumari
Editor



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CONTENTS

RESEARCH PAPERS AND ARTICLES

Startups Restoring The Indian Economy?- A Study on Impact of Startups on The Indian Economy Arihant Jain	1
The Initiative to Boycott Chinese Goods Kuhikaa Vaishnavee Arora	17
India and Its New States: An Analysis of Performance of Divided States - Pre and Post Bifurcation Vartika Agarwal.	31
Goods and Services Tax: Its adoption and challenges faced Sitanshu Pugalia	47
Accentuating Corporate Compliances: A Trade-off Between Pellucidity and Ease of Doing Business Arpit Chawla & Niti Banka	67
Are Central Banks creating the next Financial Crisis? Simranjeet Singh	77
How Secure is our Data?- An Analysis of Data Privacy and Data Security in this Digital Era Divya Tibrewal	85
Healthcare and The Indian Economy Rishabh Bafna & Nipun Bansal	93
Inflation Targeting Prashasti Rohatgi & Shreya Gupta	103
Agricultural Loan Relinquishment: An Economic Distress? Chirayu Vijaywargiya & Yash Kumar Singhal	121



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Accentuating Corporate Compliances: A Trade-off Between Pellucidity and Ease of Doing Business

Despite the Indian economy unveiling a package of measures to foster the economic growth, India still lags behind 129 countries in the "ease of doing business rankings", including all other BRICS nations.

The number of compliances to start a business in this country are so hefty that it costs the economy in its ease of doing business index. The irony in the current scenario is that the government woes other nations for FDIs but doesn't provide enough incentives to lure them. These are usually bundled up with lots of formalities like dealing with construction permits, taxation, registering property, international trade, enforcing contracts, resolving insolvencies etc.

This paper considers countries excelling in various parameters as benchmark and deals with the key area of improvement which can help India stand in a better position in terms of doing business.

INTRODUCTION

"Ease of doing business index" is an index defined by the World Bank Group. It is an annual report which

comprises the rankings given to various economies based on how flexible their compliances are in line with the needs of the business. The higher the rankings (lower numerical value), the simpler are the regulations and the stronger is the economy in terms of doing business. The report is, above all, a benchmark study of regulations. According to the report issued in 2017, India stands at the 130th position which is very inconsistent with the fact that it is one of the fastest growing economies with rising investments in various sectors. For instance, the first and foremost maneuver in the process, i.e. acquiring land, involves a series of time taking and composite procedures which de-incentivizes the small and medium entrepreneurs to start their own initiatives.

Throughout this research, we observe the compliance structure of various countries which pre-dominate the rankings based on indices defined by the World Bank and a parallel with the Indian economy is drawn so as to address the existing issues and provide recommendations thereon.

Why are these rankings so crucial?

Ease of doing business index of a country is the primary information that a foreign investor seeks while developing his stake in the economy. Especially in a country like India, it has been a topic in the limelight, be it a political or an economic discussion. It has further gained paramount significance in the election manifestos of various political parties in the recent years.

These rankings are universally accepted because of multiple reasons. Firstly, due to the integrity and independence of the World Bank and its ideal research methodology. Secondly, the parameters considered for the ranking are well defined such that they do not leave any of the notable aspect of the Business Environment untouched. The rankings are based on an aggregate of 10 indices such as starting a business, dealing with construction permits, paying taxes, enforcing contracts, getting credit and so on. Each of these factors is assigned a separate ranking after conducting surveys based on multiple questionnaires and then the aggregate ranking is evaluated.

Literature review

The concept of "doing business" refers primarily to states, since all businesses except sole proprietorships are organized under the laws of a state. An enterprise "does business" in a state or locality. Doing business has to do with carrying on the normal activities of a business entity, whether it is a corporation, LLC, partnership, or sole proprietorship. The ease of doing business index is an index created by the World Bank Group. It is an aggregate of a number of factors which are defined by the World Bank as:

Starting a business takes into account the paid-in minimum capital requirement,

number of procedures, time and cost for a small- to medium-sized limited liability company to start and officially operate in economy's largest business city.

Dealing with construction permits tracks the procedures, time and cost to build a warehouse—including obtaining the necessary licenses and permits, submitting all required notifications, requesting and receiving all necessary inspections and obtaining utility connections.

Getting Electricity throws light upon the procedures, time and cost required for a business in order to obtain a permanent electricity connection for a newly constructed warehouse. It majorly focuses on assessing the efficiency of the connection process, the reliability of supply and transparency of tariff and price of electricity.

Registering property examines the steps, time and cost involved in registering property, assuming it to be a land and building that is already registered and free of title dispute. Besides, the topic also computes the quality of the land administration system in every economy. The quality of land administration index has five dimensions: reliability of infrastructure, transparency of information, geographic coverage, land dispute resolution, and equal access to property rights.

Paying taxes documents the taxes and mandatory contributions that a medium-size company must pay or withhold in a given year, as well as gauges the administrative burden in paying taxes and contributions.

Getting Credit explores the strength of credit reporting systems and the efficacy of collateral and bankruptcy laws in facilitating lending.

Enforcing contracts appraises the time and cost for resolving a commercial dispute through a local first-instance court, evaluating whether each economy has adopted a series of bonfire practices that promote quality and efficiency in the legal system.

Resolving insolvency deals with evaluating the shortcomings in existing insolvency law and the main procedural and administrative hurdles in the insolvency process.

Trading across borders deals with the logistical process of import and export. It measures the time and cost (excluding tariffs) associated with documentary compliance, border compliance and domestic transport.

Protecting minority interest computes the strength of minority shareholder protections against misuse of corporate assets by directors for their personal gain as well as shareholder rights, governance safeguards and corporate transparency requirements that reduce the risk of abuse.

Discussion

Indian Scenario

As already stated, the position of India worldwide is substandard and deplorable. Each index with India's ranking and the defined benchmark is discussed below highlighting the prevalent issues in India and the possible recommendations for their improvement. To start with let us first consider the current ranking of our country in individual parameters.

Table No.1- India's position in various parameters of ease of doing business index

Parameter	Ranking As In 2017	Changes Compared To 2016
Overall	130	↑ 1
Starting a business	155	↓ 4
Dealing with construction permits	185	↓ 1
Getting Electricity	26	↑ 25
Registering Property	138	↑ 2
Getting Credit	44	↓ 2
Protecting minority interest	13	↓ 3
Paying taxes	172	-
Trading across borders	143	↑ 1
Enforcing Contracts	172	↑ 6
Resolving Insolvency	136	↓ 1

(Source: www.doingbusiness.org)

Study of Indices

Starting a business and Dealing with construction permits

To start with the business, one needs to acquire land. The land acquisition process in India comprises a concatenation of complicated steps. A number of windows are to be visited to get various approvals wherein every officer demands a separate fee. The administration is so inherently unorganized that the officers often tend to adjourn the appointments without proper cause and consequently, the time and cost required exceeds. This de-motivates the investor at the initial stage of starting business. The leading example in this category is New Zealand, where the procedure followed to start a business is mostly online, requiring less than a day. The numbers of procedures to be followed are less than 10 in New Zealand, as compared to 35 in India. Also, the cost

required (as a percentage of the cost of the warehouse) is 3.1% whereas the cost in India is as high as 25%.

A possible solution can be a centralized administration with an online portal. For instance, in India, a separate clearance is required from multiple environment departments such as the river, drinking water, forest, pollution etc. which can be conveniently integrated under the same roof. This will lead to a considerable decrease in the required time and cost. Also, in the later stage, an efficient online system for the same can be developed which will minimize the hassle in the whole process. Considerable labour reforms and skill development are also required to ensure better coordination with the human capital. Enhancement of financial markets in order to grant easy access to funds to the small and medium enterprise may also contribute to improvise the situation.

Getting electricity

In the current era, where most of the businesses are becoming capital intensive, the importance of power cannot be questioned. In the recent years, the Government of India has been striving hard to ensure easy access to electricity even in the isolated regions of India. This is clearly evident from the consistent improvement in India's position in this index. Despite the ascent from 51st rank (in 2016) to 26th rank in the current year, it still lags behind the dominant countries in this sector. The benchmark here is Korea, Republic, where just 3 procedures are required for getting an electricity connection, as compared to 26 procedures to be followed in India. The cost (as a percentage of per capita income) of the same in the former is 38.30% whereas; it is 45% in the latter. The inspection and clearances procedures are hefty, owing to the limitations of the administration.

It is suggested to improve the efficiency in the administration to curtail the unreasonable delays. It is required to decrease the number of procedures for acquiring an electricity connection to ensure that businessmen can focus on core areas. A proper structure of hierarchy is needed to increase the accountability of staff for accelerating the entire process.

Registering Property

Registration of property plays a crucial role to avoid illegal acquisitions but the length and cost of the procedure in India act as a hurdle in starting up of the business operations. From the bygone time, there have been land issues in India and the mechanism for dealing with them is lethargic and cumbersome. Also, drawbacks of the judicial system lead to an unnecessary elevation in the legal expenses. The country leading in this is New Zealand, where one can get their property registered in just 1 day

by following 2 simple procedures as compared to India where it takes 46 days in fulfilling the required 7 procedures. The cost (as a percentage of property value) of registration is 0.1% in New Zealand. On the contrary, the same in India is 7.7% making a huge impact on its ranking.

A number of steps that can be taken in this direction include, lowering the stamp value, creating a separate judicial wing for handling property disputes regarding business and decreasing the lead time of the registration process.

Paying Taxes

They say, "Nothing in an economy is more certain than a tax." Taxes have always been one of the most significant areas of interest for every enterprise. The indirect tax is the chief source of tax revenue for the government and hence requires strict compliances. It is very unfortunate for India that despite innumerable tax compliances, which are required for greater transparency, the problem of tax avoidance and evasion still persists. These were originally meant to avoid malafide trade practices but it ended up disadvantaging the ease of doing business index. The data below shows the situation of the economy in this field before the advent of Goods and Services tax implemented in 2017. Though there have been important changes with the introduction of these taxes, but the number of drawbacks is still large enough.

Table No.2- Comparison of tax structure of India and Hong Kong

Country	No. of Mandatory Contributions	Time Required for compliance (Hours)	Payments Per year	Tax Rate as a percentage on profit	Paying Taxes Rank	Mode of Payment
Hong Kong	3	74	3	22%	3	Online
India	25	241	25	60%	172	Joint

Source: www.doingbusiness.org

One of the basic problems of Indian Taxation law is the large number of returns per year, and the mandatory payments that are time and cost consuming. Even after the introduction of GST, the problem still prevails as the number of GST returns is as high as 37 per year. It demands a dedicated department, full of experts in the enterprise, to adhere to these statutory requirements which cost a lot of money to the company. A developing economy does need a lot of funds in its treasury, due to which the rate of tax, (as a percentage of income) is kept very high which is also a problematic issue.

The continuous improvements by the Finance Ministry of India **in this direction are indeed a commendable effort**, but there need to be changes made to a greater extent to reach to a better position worldwide.

Getting Credit

Being the cheapest source of fund for any kind of business, almost every business relies on debt at some point in time during its lifetime. This has its role especially during the introduction stage of any business. The only problem which arises in this process is the strict norms for checking the credit worthiness of the borrower. The irony is that in spite of the government's intention to allow more credit in the economy to facilitate growth, it is bound to frame a rigid law, because of increasing Non-Performing Assets in the economy.

Due to heavy compliances and banking regulations, the SMEs tend to rely on informal credit sector which charges a higher rate of interest as compared to banks. Thus, they end up in a debt-trap, hurting the business sentiment of the SMEs.

A free flow of credit information in the market, less stringent laws for small sectors and a widespread network of the banking system to ensure that credit reaches even to the most deserted part of the country is the need of the hour. An efficient system of providing credit is required to avoid inconvenience to the blooming start-ups.

Enforcing Contracts and Resolving Insolvency

The existing law in the country is complicated and there exist a lot of loopholes to be taken advantage of. Thus, a lot of time is taken by the Judiciary to reach a verdict in any order. In addition to this, the liberty of appealing against the decision of a lower court in a higher one makes the justice-seeking process, even more, time-consuming.

The benchmark country in this parameter is *Korea (Republic)*, the facts of which are compiled as follows:

Table No.3- Comparison of sub-indices under enforcing contract and resolving insolvency between India and Korea (Republic)

Economy	Enforcing Contracts Ranking	Resolving Insolvency Ranking	Enforcing Contracts		Resolving Insolvency		
			Average Time taken to enforce a contracts (days)	Cost (% of claim)	Recovery rate of Insolvency	Average Time taken to resolve (years)	Cost (% of estate)
Korea, Rep.	1	4	290	12.70%	26.00%	1.5	3.5%
India	172	136	1420	39.60%	84.50%	4.3	9%

Source: www.doingbusiness.org

It is evident from the data that India stands at a poor position when compared to the leading economies. The major issues contributing to this situation is the higher average time taken by the judicial system and the cost involved thereon. The number of judges is very less as compared to the population of India. The absence of digitalization in this field makes it even worse. India needs an efficient and effective judiciary to improvise the whole justice-seeking process at a reasonable. The recently passed insolvency and bankruptcy code by the Indian legislature may improvise the rankings in this sector. It will be critical in resolving India's bad debt problem, which has crippled bank lending. The new law attempts to resolve cases within a year, unlike the present procedure which lasts for almost 4 years. It is one of the major initiatives of the government in the direction of easing the doing business index in India.

Protecting Minority Interest and Trading across borders

These are the two indices India has been excelling on. Time and again, there have been updating incentives and ease in the field of export. In addition to this, protecting minority interest is one of the fields it ranks great.

Limitations

The paper has been limited by the following factors:

- a) The report does not directly consider general parameters such as a nation's proximity to large markets, quality of infrastructure, crime or inflation.
- b) The list of parameters chosen by the World Bank group is not exhaustive and hence a number of other factors can be considered. The report fails to measure all the aspects that may concern the economy or the investor.
- c) To determine their rankings, the World Bank relies on four sources of information: the laws and regulations on the books, experts well-versed in local business practices, national governments, and World Bank staff. The World Bank uses these various inputs to estimate how many hoops a "prototypical firm" must jump through to carry out a set of standardized tasks. As economists Mary Hallward-Driemeier and Lant Pritchett have noted, where the informal economy thrives and regulations are poorly enforced, the de jure regulations measured by the World Bank are often only tangentially related to the de facto processes that businesses encounter.
- d) Particularly in case of India, the federal structure has been completely ignored. The assessment of the entire country has been done by considering just two cities i.e. Mumbai and Delhi which makes it lack coverage.
- e) Lastly, the entire study is based on secondary data.

Conclusion

The aforementioned discussion helps us to ponder upon the fact that as of now India excels in just 2 out of 10 parameters and there are a humungous hue and cry that follows when it comes to the other parameters. India needs to come up with a feasible model of structural reform that if doesn't act as a panacea to all obstacles is at least able to lure greater Foreign Direct Investments, improve India's international standing when it comes to ease of doing business. Through our research, we have un-layered the deplorable condition and also recommended some tangible changes to go about.

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