

Cost of Doing Biz Mustn't be Costly

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The last decade has seen significant progress in the ease of doing business. Digitisation has enabled fewer touchpoints and faster approvals. With trade deals in place with key markets and labour reforms implemented, India's manufacturing and exports are poised for growth. However, the cost of producing in India, across credit, land, inputs, logistics, and compliance, adds up and erodes national competitiveness. We must benchmark these costs against competing manufacturing nations such as Vietnam and China. This benchmarking exercise must inform the strategy to tackle the structural cost disadvantage.

First, India's cost of capital is inherently higher than that of peer economies. Credit serves as the lubricant for the economic engine. Domestic private sector credit in India is between 50% and 55% of GDP, which is only a third of the global average of 148%. This reveals a significant opportunity for credit growth. Expanding credit and lowering its cost are crucial.

First, fiscal consolidation is key. Large government borrowing absorbs a major share of domestic savings, making capital more expensive for other sectors. A phased reduction of the statutory liquidity ratio (SLR) from 18% to 10% could free up capital and lower borrowing costs. Second, the RBI and the Department of Financial Services should collaborate to simplify banking. Currently, opening a business account can take over a week and involves extensive physical documentation, often redundant. Transitioning to digital processes with a risk-based approach will enhance safety, security, and compliance. Additionally, credit instruments should evolve to reflect the changing work landscape, utilising data from GST, UPI, and OCEN.

Second, come input costs. Regarding power costs, the Economic Survey recently recommended ending cross-subsidisation, where higher charges on industrial and commercial users subsidise agricultural and consumer tariffs. Cross-subsidisation must be phased out and beneficiaries better targeted. Power prices must reflect actual delivery costs. We also need to recognise that to export, we must import, and to address

issues such as inverted duty structures on inputs such as capital and intermediate goods. For technology inputs, we must encourage foreign investment that brings expertise and technology. This involves revisiting the scope of Press Note 3 and shifting toward a risk-based screening process instead of blanket bans.

Third is the cost of logistics. The cost of logistics has fallen from the accepted 13-14% figure to about 8%, according to recent data. Capex/GDP has been maintained at 3.1% in the latest budget, with effective capital expenditure at 4.4% of GDP. The report of the National Monetisation Pipeline (NMP) 2.0 envisions a monetisation value of 16 lakh crores. Execution holds the key to the success of both the NMP and infrastructure buildout. However, public capital will not be enough. We need to crowd in private capital. Yet, legacy issues of delays, contract renegotiations, and regulatory uncertainty have deterred private investment. A collaborative model involving multilateral development banks (MDBs), governments, and the private sector can be explored to de-risk PPP instruments through credit enhancement, risk-sharing mechanisms, and developing project management capacity at the state and city levels. This is how we can revive private participation in roads, ports and logistics parks at scale.

However, the cost of logistics is not just determined by infrastructure. Port and customs processing times matter, and delays often eat into business margins. Uncertainty in tariffs and processing times adds to the cost of trading. Our customs must move from a discretion-heavy process to a trust-based, tech-enabled system. Faster clearances and risk-based inspections are central to competitiveness.

The next factor is the cost of acquiring land. Land markets are often fragmented and unpredictable, characterised by unclear pricing, insecure tenure, and disputes, which can extend project timelines, increase risks, and raise financing costs. India should adopt long-term, standardised land tenure models to provide greater predictability for investors and lenders. Additionally, land governance reforms should be implemented within a cooperative federal framework, since land reform primarily falls under state jurisdiction.

Finally, tying all the threads together is the cost of doing business. Compliance costs discourage MSMEs from scaling and formalising. Often, blanket one-size-fits-all regulation places a heavier compliance burden on MSMEs than on large corporates.

Today, the compliance requirements for factories employing tens or thousands of workers can be similar. We must move towards proportionate, risk-based regulation to allow MSMEs to function in a less burdensome environment. While regulations, rules, circulars, etc., are periodically consolidated, the stock of regulations does not necessarily fall. Government departments and regulators must introduce periodic reviews and sunset clauses to prevent the accumulation of regulation.

India has done the hard work of improving the ease of doing business; the next leap is to lower the cost of doing business. The reforms outlined here share a common thread: replacing discretion with rules and replacing blanket burdens with proportionate, risk-based systems. This is not about weakening safeguards. It is about smarter regulation and faster execution. If we want India to be the world's most reliable manufacturing partner, we must make producing in India not only easier but also predictably cheaper.

India's growth aspirations rest in our collective ability to take risks, invest, innovate, and scale. Free enterprise is what drives growth, jobs, and prosperity. When firms can produce at globally competitive costs, they expand capacity, win export orders, and pull more workers into formal, higher-productivity jobs. A competitive cost structure is, therefore, not a narrow industry ask; it is the foundation for sustained 8%+ growth.

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