

# CPER POLICY BRIEF

## South Asia's Business Climate 2024: Challenges, Opportunities, and Reform Pathways

### Highlights

- India remains the top performer in South Asia, excelling in areas like Getting Electricity (Rank 22) and Protecting Minority Investors (Rank 13).
- Bhutan shows strong performance in Trading Across Borders (Rank 30) and Resolving Insolvency (Rank 168), indicating room for improvement in legal frameworks.
- Bangladesh and Afghanistan face severe bottlenecks in Registering Property and Enforcing Contracts, ranking near the bottom globally.
- Nepal and Pakistan struggle with starting a Business and Paying Taxes, which hampers entrepreneurship and compliance.

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# South Asia's Business Climate 2024:

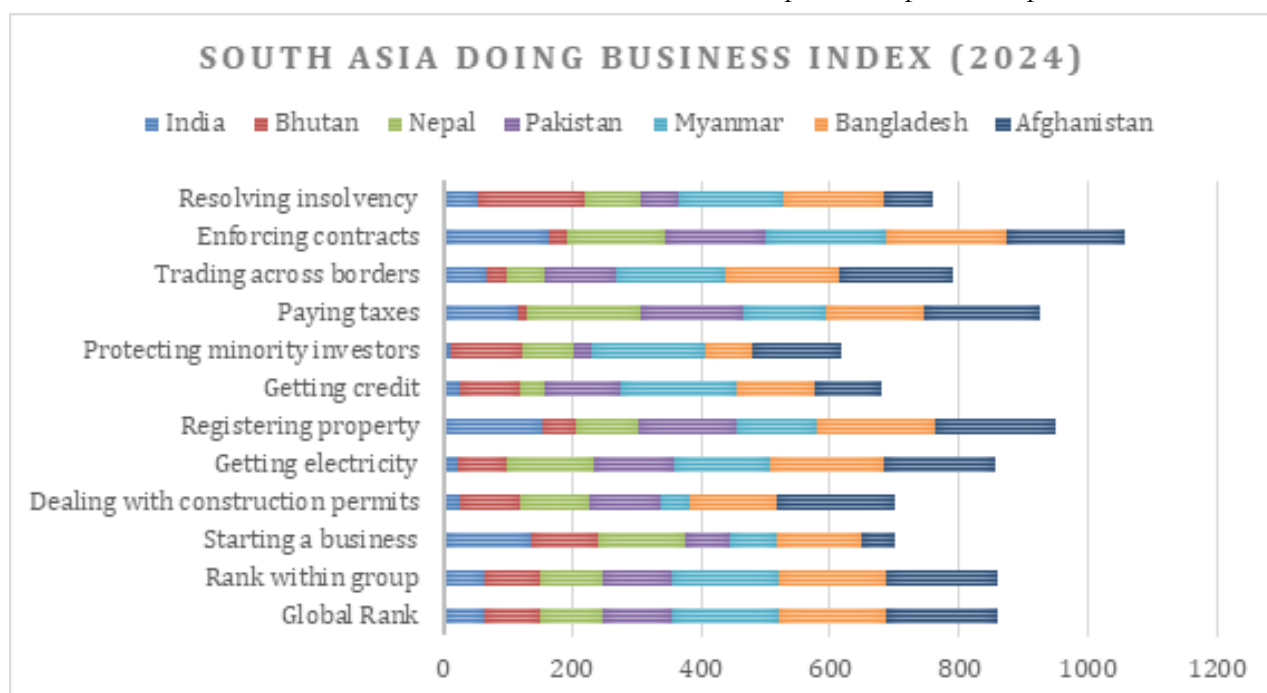
## *Challenges, Opportunities, and Reform Pathways*

### 1. Overview

The World Bank's 2024 Doing Business Index data for the South Asian region reveals a widening gap between top performers and those struggling with systemic inefficiencies. India leads the group with a global rank of 63, having made significant strides in operational categories. Conversely, Bangladesh (168) and Afghanistan (173) remain in the bottom quintile globally, primarily due to hurdles in utility access and legal enforcement. These rankings reflect challenges in regulatory efficiency, infrastructure, and institutional capacity that directly affect private-sector growth and foreign investment.

### The key findings:

- India remains the top performer in South Asia, excelling in areas like Getting Electricity (Rank 22) and Protecting Minority Investors (Rank 13).
- Bhutan shows strong performance in Trading Across Borders (Rank 30) and Resolving Insolvency (Rank 168), indicating room for improvement in legal frameworks.
- Bangladesh and Afghanistan face severe bottlenecks in Registering Property and Enforcing Contracts, ranking near the bottom globally.
- Nepal and Pakistan struggle with starting a business and paying taxes, which hampers entrepreneurship and compliance.



### 2. Competitive Landscape

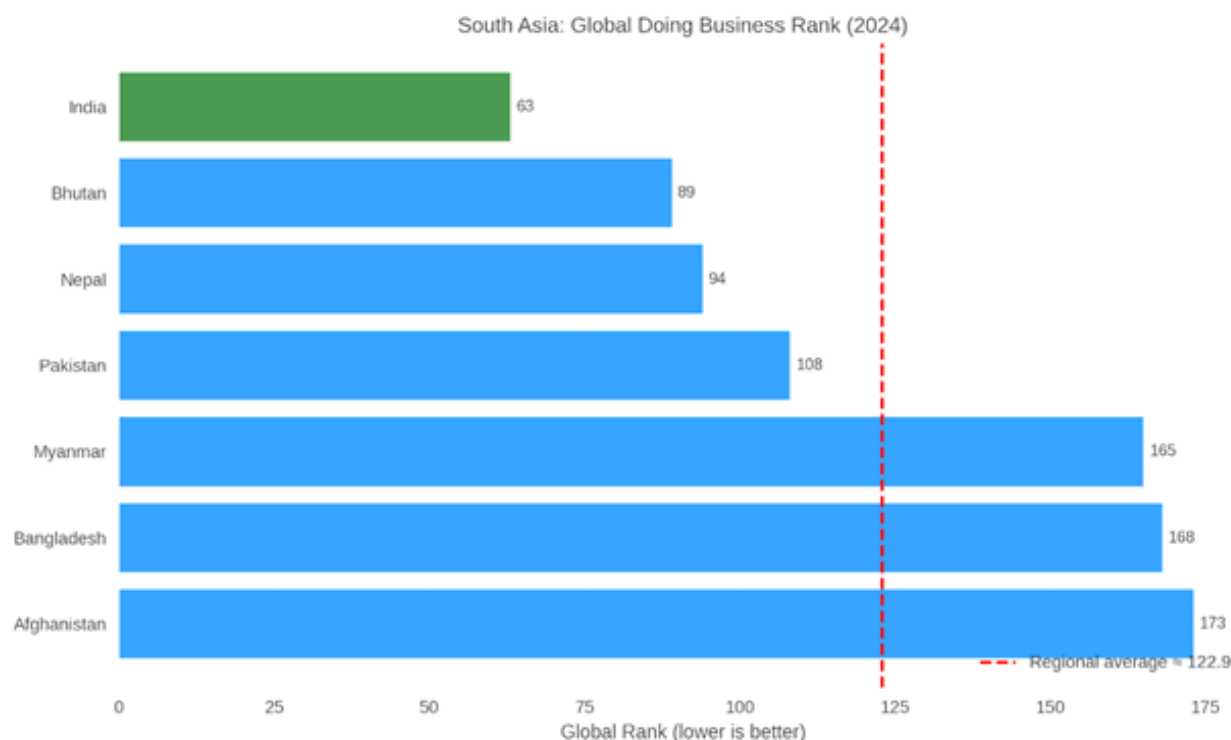
#### 2.1 The Frontrunners: India and Bhutan

- **India (Rank 63):** India's performance is bolstered by its world-class protection for minority investors (Rank 13) and efficient access to electricity (Rank 22). However, it remains bogged down by the complexity of starting a business (Rank 136) and contract enforcement (Rank 163).
- **Bhutan (Rank 89):** Bhutan presents a unique model, ranking remarkably well in tax compliance (Rank 15) and trading across borders

(Rank 30), making it a niche hub for low-complexity regional trade.

#### 2.2 The Laggards: Bangladesh, Myanmar, and Afghanistan

- **Systemic Utility Failures:** Bangladesh and Afghanistan exhibit critical failures in "Getting Electricity" (Rank 176 and 173, respectively). This is a primary deterrent for foreign direct investment (FDI) in manufacturing.
- **Institutional Barriers:** Registering property is a significant obstacle in Bangladesh (Rank 184), reflecting bureaucratic opacity and a paper-based



Source: CEPR's Illustration based on the WB 2024 Doing Business Index data

legacy system.

### 3. Key Strengths and Weaknesses of the Countries

#### I. India

##### *Strengths:*

- **Investor Confidence:** Ranks #13 globally in Protecting Minority Investors, the best single metric in the region.
- **Infrastructure Access:** Ranks #22 in Getting Electricity, indicating highly efficient utility connections for industry.
- **Credit Availability:** Strong financial sector integration with a rank of #25.

##### *Weaknesses:*

- **Legal Bottlenecks:** Enforcing Contracts remains a massive hurdle at #163, indicating high litigation time and cost.
- **Bureaucratic Entry:** Despite reforms, Starting a Business (#136) and Registering Property (#154) lag behind the overall economic progress.

#### II. Bhutan

##### *Strengths:*

- **Fiscal Efficiency:** Exceptional performance in Paying Taxes (#15), suggesting a simplified and low-burden tax regime.
- **Legal Streamlining:** Ranks #29 in Enforcing Contracts, significantly outperforming much larger

neighbors in judicial efficiency.

- **Trade:** Highly efficient Trading Across Borders (#30).

##### *Weaknesses:*

- **Business Exit:** Resolving Insolvency is the weakest point at #168, indicating a lack of clear bankruptcy frameworks.
- **Financial Access:** Relatively weak Getting Credit (#94) compared to its other high-performing indicators.

#### III. Nepal

##### *Strengths:*

- **Access to Finance:** Its strongest suit is Getting Credit (#37), showing a robust framework for collateral and credit information.
- **Logistics:** Performs reasonably well in Trading Across Borders (#60).

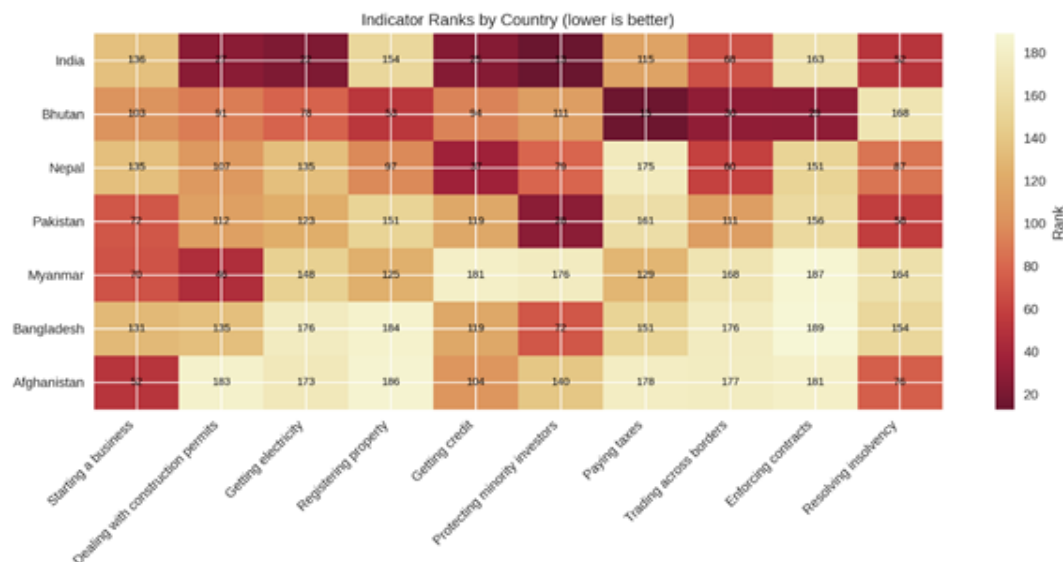
##### *Weaknesses:*

- **Tax Complexity:** Ranks #175 in Paying Taxes, suggesting a highly cumbersome or expensive tax compliance system.
- **Utility Reliability:** Getting Electricity (#135) is a major constraint for industrial scaling.

#### IV. Pakistan

##### *Strengths:*

- **Governance:** Strong performance in Protecting Minority Investors (#28), providing



Source: CEPR's Illustration based on the WB 2024 Doing Business Index data

*The heatmap shows the rankings of six South Asian countries across 10 business indicators, with lower ranks indicating better performance. Across the board, India generally performs better on trade-related and cost-related measures (e.g., starting a business, paying taxes, registering property) than on regulatory efficiency and contract enforcement, indicated by warmer colors (lower efficiency) in several indicators. Bangladesh and Myanmar show relatively better performance on some indicators, like registering property and paying taxes, but lag on others, such as enforcing contracts and dealing with construction permits. Nepal and Pakistan have mixed results, with notable strengths in certain areas but significant weaknesses in others. Overall, the pattern suggests India has competitive advantages in basic trade facilitation and market access, yet faces challenges in the regulatory environment and business enforcement, while neighboring countries demonstrate uneven progress across different dimensions, indicating targeted reforms are needed to raise overall ease of doing business.*

a safe environment for equity investment.

- **Market Entry:** Ranks #72 in Starting a Business, which is relatively competitive within the region.

#### Weaknesses:

- **Taxation & Compliance:** Significant challenges in Paying Taxes (#161) and Registering Property (#151).
- **Infrastructure:** Electricity access (#123) remains a persistent bottleneck for business operations.

#### V. Myanmar

##### Strengths:

- **Permitting:** High efficiency in Dealing with Construction Permits (#46).
- **Market Entry:** Efficient registration process for Starting a Business (#70).

##### Weaknesses:

- **Judicial & Financial Risk:** Extreme difficulty in Enforcing Contracts (#187) and Getting Credit (#181), creating a high-risk environment for lenders and partners.

#### VI. Bangladesh

##### Strengths:

- **Investor Protection:** Its primary strength is Protecting Minority Investors (#72), providing a

baseline of corporate governance.

#### Weaknesses:

- **Legal & Infrastructure Crisis:** Ranks near the bottom of the global list for Enforcing Contracts (#189), Registering Property (#184), and Getting Electricity (#176). These are the critical barriers to large-scale FDI.

#### VII. Afghanistan

##### Strengths:

- **Low Barrier to Entry:** Ranks #52 in Starting a Business, indicating a very fast and inexpensive process to formalize a company.

##### Weaknesses:

- **Institutional Collapse:** Ranks in the bottom 10 globally for Construction Permits (#183), Property Registration (#186), and Trading Across Borders (#177), reflecting severe institutional and logistical challenges.

## 4. Strategic Recommendations

### For High-Growth Potential (Bangladesh, Pakistan, Nepal):

- **Judicial Modernization:** Implement electronic filing for commercial courts. Moving from rank 189 to sub-100 in contract enforcement would be the single most effective way for Bangladesh



to attract FDI.

- **Credit Transparency:** Nepal's strong credit rank (37) shows that robust credit information bureaus can exist even in smaller economies. Pakistan and Bangladesh should adopt Nepal's credit reporting model.
- **One-Stop Windows:** Afghanistan's rank in "Starting a Business" (52) is surprisingly strong compared to its overall rank (173). This indicates that the entry gate is open, but the operational environment (Electricity, Taxes) is where the project dies.
- **Digitalization of the Economy and Reinforcing Good Governance:** Digitalizing business registration and tax administration is essential to cut time and costs. Strengthen contract enforcement and insolvency frameworks to boost investor confidence. Reduce corruption, improve property rights and land registry systems to enable collateralization, reduce disputes, and enhance transparency.
- **Development of Infrastructure and regional collaboration:** More investment is required in electricity reliability, renewable energy transition, connectivity, and trade logistics to reduce

operational barriers. In addition, regional regulatory cooperation needs to be enhanced and further promoted to streamline cross-border trade.

## 6. Conclusion

The South Asian region stands at a crossroads. While India has decoupled from the laggards, the rest of South Asia must urgently address the "Big Three" bottlenecks: Electricity access, Property registration, and Contract enforcement. Priority areas for reform include simplifying business registration, improving property rights and land registry systems, enhancing cross-border trade infrastructure, and strengthening insolvency and contract enforcement mechanisms. Failure to do so will result in continued capital flight to more efficient markets in the ASEAN region and beyond.

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