



Assessing Competitiveness of North Indian States

Stimulating Inclusive & Sustainable Growth

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EDITOR'S NOTE

The Prime Minister of India has repeatedly stressed on the need for states to cooperate and compete with each other for development, in the process of achieving producer and consumer welfare.¹ While literature is available on assessing competitiveness of nations,² limited guidance is available on assessing competitiveness of Indian states, especially on indicators of entrepreneurship, innovation and employment generation.³ A state-level assessment is important in light of unique social, economic and political milieu of Indian states, which needs to be taken into account to stimulate inclusive and sustainable growth.

Owing to the federal structure of Indian polity, states have adopted divergent approaches to enhance competitiveness, achieve economic growth and development, and promote entrepreneurship and employment. The approaches comprise a mix of enabling policies and regulations, administrative efficiency, ease of doing business (EoDB) initiatives, skill development, infrastructure growth, etc. Presumably, the approaches would have met with divergent results. Consequently, there is a need to evaluate impact of approaches adopted by states to assess the progress made and take corrective action to improve their competitiveness.

Given this, CUTS International implemented a project in 2016, 'Evaluation of Competitiveness among select North Indian States: Lessons from the US'.⁴ There is considerable opportunity for India to gain from the vast experience of US and such cross-learning would be beneficial for India to assimilate the good practices and suggest improvements in the existing governance mechanisms of states. There exists a similarity in scenarios between the two countries, in terms of competitiveness between states which has been present in the US and is slowly gaining importance in India. Thus, India could benefit from the extensive experience and expertise of the US in managing as well as devising strategies to overcome various challenges.

¹ The Hindu story dated February 17, 2015 - <https://goo.gl/J6Lw5D>

² Drivers of Competitiveness:- Institute For Strategy and Competitiveness - Harvard Business School
<https://goo.gl/RwLa2H>

³ Institute of Competitiveness, India State and City Competitiveness Reports, 2013 -
<https://goo.gl/koKqyg>

⁴ Project Website: <http://cuts-ccier.org/state-comp>

The project was implemented with the purpose of mapping key reforms, identification of good practices and also challenges that remain to be addressed to facilitate EoDB among the six North Indian States (Rajasthan, Punjab, Haryana, Uttar Pradesh, Uttarakhand and Himachal Pradesh). The project comprised a scoping visit to the mentioned States with the purpose of mapping relevant stakeholders' perception *vis-à-vis* EoDB reforms, followed by a visit of three US experts⁵ in intervals, for interaction with these stakeholders and a Symposium on Competitiveness inviting participants from select North Indian states to deliberate on issues of competitiveness and EoDB.

This Paper captures the perception of relevant stakeholders from six North Indian States during the project activities on EoDB in Punjab, Haryana, Rajasthan, Uttar Pradesh, Himachal Pradesh and Uttarakhand. It abstains from undertaking deeper analysis and provides a situation analysis of implementation of EoDB reforms in these states, as of 2017.

Pradeep S Mehta
Secretary General
CUTS International

⁵ 2016 - Albert A. Foer, Founder & Former President - American Antitrust Institute (<https://goo.gl/fbMzW3>)

2017 - Shanthi Nataraj, Economist - RAND Corporation (<https://goo.gl/X17jP8>)

2018 - Daniel Mitchell, Chairman - Centre for Freedom & Prosperity (<https://goo.gl/84ietx>)

EXECUTIVE SUMMARY

Against the backdrop of Department of Industrial Policy and Promotion (DIPP) state-wise ranking on EoDB,⁶ states have undertaken multiple reforms to simplify business procedures. The Centre's plan to rank states on their efforts on EoDB intended to inculcate a spirit of competitiveness amongst the states for attracting domestic and foreign investments.

Other initiatives by the Central Government include the 'Make in India' initiative, which was an attempt to promote inclusive and sustainable growth. The DIPP has come up with a draft industrial policy,⁷ which will revamp the 1991 policy that keeps emerging technologies and job creation at the helm of designing this revamp.⁸

The Goods and Services Tax (GST) reforms, introduced in July 2017, are one of the biggest reforms introduced in the country since independence. With the intent to create a single indirect tax nation, these reforms have eliminated the cascading effect of multiple taxes that were a deterrent in doing business in India.

Improving EoDB in India has been recognised by the government as a key strategy in enhancing national competitiveness. There are on-going efforts at improving the business climate in the country. Minister of Commerce & Industry of India, Suresh Prabhu emphasised that one of the strategies of this present government is to bring economic development by taking India's manufacturing to at least 20 percent of the Gross Domestic Product (GDP). Conscious efforts are being made to include small and medium-sized enterprises (SMEs) in this endeavour, so as to become a significant part of the global supply chains, identifying and creating opportunities.⁹ Further, the government has been targeting several reforms to make progress on EoDB rankings issued by the World Bank.¹⁰

The importance of state led efforts on facilitating business can be gauged by the fact that the recently constituted 15th Finance Commission¹¹ has been authorised to

⁶ DIPP Business Reforms Action Plan Portal: <http://eodb.dipp.gov.in/>

⁷ CUTS Comments on Draft Industrial Policy 2017: <https://goo.gl/47BTxA>

⁸ Economic Times story dated November 27, 2017: <https://goo.gl/Yn9sre>

⁹ Hindu Business Line story dated November 30, 2017: <https://goo.gl/sVjW4J>

¹⁰ Economic Times story dated January 04, 2018: <https://goo.gl/zX8oyQ>

¹¹ The 15th Finance Commission of India: <https://goo.gl/qvYMXJ>

propose performance-based incentives for states, based on review of progress made by states in promoting EoDB and labour intensive growth.

Thus, this paper makes an attempt to map the overall perception of relevant stakeholders (Bottom-up Approach) regarding some of the key reforms undertaken in the mentioned six North Indian states *vis-à-vis* EoDB. Further, the paper also presents some of the challenges that still remain to be addressed at the lower level and maps good practices that are being followed with the objective of facilitating cross-learning among relevant actors.

The uniqueness of this paper lies in the fact that it benefits from secondary as well as primary data – one-to-one interviews and focussed group discussions (FGDs) with policymakers, industry associations (representing both large and SME), start-up incubators, policy think tanks, media and academic institutions.

Key Findings

Based on the information collected during the interviews and FGDs, it was emphasised that all states need to focus on ‘effective implementation’ and most important ‘long-term sustainability’ of reforms. While reforms are being introduced at a competitive pace, the benefits of the same are not percolating to the beneficiaries at the same rate.

The GST reforms have changed the dynamics of Centre-State relationship as these reforms have led to a situation where state governments can no longer provide fiscal incentives to attract business investments.

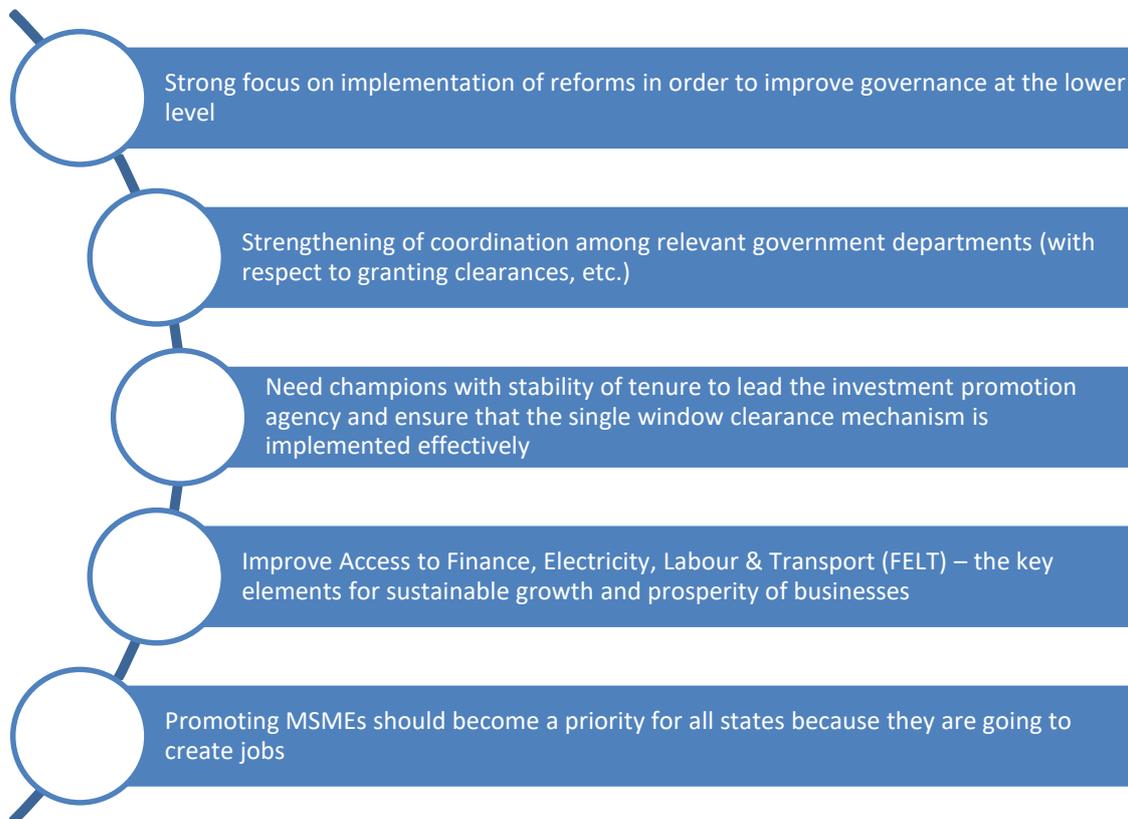
While states are being ranked and assessed on DIPP performance indicators, cities and districts of these states also need to be assessed to ensure a ‘Bottom-up’ approach to design interventions to address EoDB and competitiveness challenges, instead of the action being ‘Top Down’.

Further, while small enterprises drive economic growth with their ability to innovate and employ in large numbers, the biggest challenge faced by them is access to finance. Financial institutions require a lot of information and data and the state financial corporations takes several months to take decision on extending loans to

small-scale sector, as they are not in the position to offer collateral required by financial institutions.

Even when there is an opportunity to obtain small loans from government agencies, the procedure is so cumbersome and time consuming that most of the entrepreneurs who are either illiterate or semiliterate, hesitate to make use of these facilities. Another key challenge faced by SMEs is delay in receiving refunds from various taxation departments, choking their funds and impacting credit and payment flow in the entire value chain.¹²

As per our interactions with stakeholders during visits¹³ and secondary literature review, this paper suggests following measures:



¹² Bloomberg Quint story dated December 05, 2017: <https://goo.gl/qCvuPp>

¹³ CUTS team undertook visits during 2016-17 to all mentioned six North Indian States to meet relevant stakeholders (industry, government, media, academia, MSMEs, regulators, think tanks, etc.) and capture their perspectives on EoDB reforms at the State level with the purpose of identifying good practices and the unfinished agenda (challenges).

BACKGROUND

The Global Competitiveness Report (GCR) 2017-18 released by the World Economic Forum ranks India at 40th position in Global Competitiveness Index, slipping down from 39 in 2016-17.¹⁴ It defines competitiveness as a set of institutions, policies and factors that determine the level of productivity of an economy.



Source: *The Global Competitiveness Report, 2014-2015*

According to the GCR Report, competitiveness is assessed on 12 pillars: institutions; infrastructure; macroeconomic environment; health and primary education; higher education and training; goods market efficiency; labour market efficiency; financial market development; technological readiness; market size; business sophistication;

¹⁴ World Economic Forum Global Competitiveness Index 2017-18 – India Ranking: <https://goo.gl/NqMvNn>

and innovation. Of the 12 pillars of competitiveness, first four pillars are of critical importance for factor-driven economies like India. These are: institutions; infrastructure; macro-economic environment, health and primary education. A closer look reveals that these pillars include issues like: framework for interaction between firms, individuals and governments; government attitude towards market efficiency and transparency; domestic and foreign competition; and government intervention in business activity.

These issues are critical to evaluate confidence among businesses to invest and operate in economies. Collectively, these indicators form a significant proportion of indicators to assess EoDB, as developed by the World Bank.

Improving EoDB in India has been recognised by the government as a key strategy in enhancing national competitiveness. There are on-going efforts at improving the business climate in the country. Commerce & Industry Minister of India, Suresh Prabhu emphasised that one of the strategies of this present government is to bring economic development by taking India's manufacturing to at least 20 percent of the GDP. Conscious efforts are being made to include SMEs in this endeavour, so as to become a significant part of the global supply chains, identifying and creating opportunities.¹⁵

The 'World Bank's Doing Business 2017' report¹⁶ revealed that at 130 rank, India's performance was poor on issues, such as dealing with construction permits, getting credit, paying taxes, while it remained constant for parameters, such as starting a business, registering property and resolving insolvency. It is interesting to note that India made the sharpest jump in providing electricity connections, with its rank jumping 44 spots to 26 by streamlining the processes. This is an important step towards ensuring energy access.

In order to meet the other goals, various reforms had taken place in the span of one year to simplify doing business in India, which resulted in a massive jump in India's ranking in the 'World Bank's Annual Doing Business 2018' survey by 30 points to 100.¹⁷

¹⁵ Supra Note 7

¹⁶ World Bank Doing Business Report 2017: <https://goo.gl/36TQK7>

¹⁷ World Bank Doing Business in India 2018: <https://goo.gl/iQM54B>

The role of private sector in inclusive growth cannot be understated. Businesses aid governments in job creation, infrastructure development, and revenue generation, and result in several indirect benefits. Thus, enabling business environment is a critical component to improve competitiveness of an economy. The concerns highlighted by competitiveness and doing business rankings cannot get resolved by efforts of Central Government alone. Owing to the federal nature of India's polity, legislative mandates on several economic sectors rest with states. Thus, states need to play their part in effective and efficient implementation of legislations and policies enacted by the Centre. Their involvement is key to reach to the last mile, and ensure that growth benefits the poor.

The importance of states in inclusive economic development has not gone unnoticed. The Central Government has been pursuing the agenda of cooperative and competitive federalism, which entails greater power and role of state governments in policy making design and implementation. State governments have realised this and are making significant efforts to adopt and implement reforms.

The need to encourage competition among states and facilitate cross-learning has resulted in development of several indices comparing performance of states. For instance, the World Bank, in association with DIPP, assessed implementation of business reforms undertaken by states in September 2015. In 2017, the *NITI Aayog* and the IDFC Institute launched an Enterprise Survey¹⁸ of over 3,000 manufacturing firms across Indian states and union territories, which revealed that fairly less has changed on the ground as far as business environment is concerned, raising questions on the World Bank and DIPP methodologies and the fact that EoDB has unfortunately been interpreted by states as ease of granting entry and establishment related licences.¹⁹

¹⁸ IDFC-*NITI Aayog* Report 2017: <https://goo.gl/pKMLYN>

¹⁹ KNN India story dated August 31, 2017: <https://goo.gl/Jg7rLN>

STATE COMPETITIVENESS *VIS-À-VIS*

EODB

What makes a State competitive *vis-à-vis* EoDB? The answer lies in the narrative extending much beyond the EoDB indicators formulated by DIPP. The stakeholders' understanding of EoDB, which has emerged through various project activities, brings to light the need to ponder upon the larger ecosystem within which the businesses operate. This includes factors ranging from facilitating the setting up of businesses efficiently, to their execution and finally their sustenance. Amongst these factors, the nature and functioning of institutions, quality and presence of appropriate hard and soft infrastructure and predictable regulatory and policy framework are of significant importance.

According to the DIPP's assessment of states on the basis of EoDB, which broadly encompasses the institutions, procedures and regulatory/policy framework for setting up businesses, the performance of the six North Indian States are as follows:

S. No.	States	Rank as per Assessment of State Implementation of Business Reforms 2017	Score in percentage (percent completion of suggested reforms by DIPP) ²⁰
1.	Haryana	3 rd	73.71
2.	Himachal Pradesh	7 th	69.06
3.	Rajasthan	8 th	67.48
4.	Uttarakhand	12 th	65.04
5.	Uttar Pradesh	18 th	57.72
6.	Punjab	19 th	40.98

Given below is a brief analysis of the EoDB reforms, based on the perceptions of relevant stakeholders referring to the ground level realities and the associated challenges. The analysis is broadly categorised as institutional procedures, systems,

²⁰ Supra Note 6

policy/regulatory framework established to facilitate easier setting up of businesses as well as the factors forming the larger ecosystem for businesses to operate.

Ease of Doing Business Reforms

The North Indian region owing to its ever increasing population (resulting in high consumer demand) and high resource potential in terms of land, labour and capital, is one of the most sought after destinations for private led investments in the country.²¹ The region has a unique geographical setting (with many states being larger than some European nations, both in population and size) makes it challenging, yet opens the doors to a plethora of business opportunities. While some common traits run across states in the region, the unique challenges with respect to each one of them are interesting to analyse. This section highlights the common EoDB reforms implemented by states in the region and also captures certain key challenges, as emerged from the stakeholder interactions, that needs the attention of policymakers, in order to address some of the unfinished agenda *vis-à-vis* EoDB reforms.

Single Window Clearance Mechanism

A Single Window Clearance Mechanism (SWCM) has been effectively conceptualised across four states in North India. These comprise Haryana, Punjab, Rajasthan and Uttarakhand. The mechanism mainly refers to an umbrella system covering all modular systems to ultimately achieve the computerisation of state-wide investment processing and efficient monitoring of businesses. The mechanism acts as a single point of contact for investors to reduce the time and efforts involved in obtaining various mandatory clearances and approvals required from respective departments for starting a business/project with ease and minimal 'running around'. It provides the facility of online submission of documents.²² The states have been successful in providing a comprehensive list of documents required from investors to seek clearances and approvals. Further, clear timelines for the grant of approvals/rejection under the SWCM have also been specified. The SWCM system is backed by statutory provisions formulated by the respective state legislatures.

Despite the important step taken by the mentioned states in implementation of SWCM, the State of Punjab has emerged as a leader amongst its peers in innovating

²¹ Forbes story dated October 10, 2016: <https://goo.gl/5ux81b>

²² DIPP Report 'Improve Business Environment': <https://goo.gl/zbCDzF>

and establishing an autonomous institution for effectively implementing SWCM. Box 1 provides a brief description on the initiative adopted by the State Government of Punjab.

Box 1: Punjab Bureau of Investment Promotion:

An Institution Worth Emulating

The Government of Punjab has established a separate institution known as Punjab Bureau of Investment Promotion (Invest Punjab) for efficient functioning of its Single Window Clearance System or SWCS, by bringing on board the staff from various government departments under one roof and one command. For instance, an electricity utility's employee is deputed to work in Invest Punjab and has full powers to sanction the electricity connection and convey it to the field staff. In other states, the Single Window service for electricity is still dependent on the power utility's distant staff to secure the approval of electricity connection.

Thus, the institution is able to take timely decisions and ensure efficient delivery of its services. This is a first of its kind initiative and no other State has been able to replicate the same as on date, as it needs strong political will to be successfully implemented. It involves addressing turf issues, wherein officials in different government departments would hesitate to give up their own powers and the ability to extract rents.

Challenge: The initiative undertaken by Punjab emerges as one of the best practices in the country amidst various approvals/windows, etc. which still persist in various states despite the implementation of SWCM. The reason for the same is the presence of several windows, behind the single window, i.e. challenges pertaining to lack of coordination amongst various government departments and procedural delays. Apart from this, states, such as Himachal Pradesh and Uttar Pradesh still need to take few steps to be able effectively establish a one-stop single window system and to be at par with their peer states. As on date, only 33 percent firms in Rajasthan have used the SWCM.²³

²³ Supra Note 18

These SWCMs are designed to cater to new businesses, while the percentage of existing businesses is higher and have to otherwise approach multiple departments to resolve their grievances. SWCMs should be applicable to new and existing businesses to maintain consistency and efficiency in business operations. While the 'Deemed Approval'²⁴ status, granted through SWCM, provides certain benefits to new businesses, ends up being another document in the file that holds no value for securing approvals and licences from other departments such as banks, etc.

Land Availability and Land Allotment

With regard to land availability, states have created a system of an online land bank with the provision of geographic information system (GIS) data on area, infrastructure and distances for effective management of land records system. These land banks form part of the land areas earmarked by the respective State Industrial Development Corporations (SIDCs) as potential industrial belts for setting up various categories of industries. The 'first-come-first-serve' principle is followed for land allotment, and the procedure needs to be completed within the stipulated time. An online facility to check the status of one's application has also been provided and clear timelines have been specified for allotment of land. Apart from this, conversion of land use which has been a cause of much pain to the investors for long has been tackled through the provision of clear timeline for the process to be undertaken.

In addition, Rajasthan has taken the lead amongst all states in enacting a law on property titles, known as the Rajasthan Urban Land (Certification of Titles) Act, 2016. The law enables property owners to indulge into smooth land transactions and legally trade rights over their properties. This is a right step ahead in real estate development in the State.²⁵

Challenges: Ineffective utilisation of potential land for setting up industries has been highlighted as one of the key limitations in states, such as Uttar Pradesh and Uttarakhand. Thus, state governments would need to undertake assessment of the land-use potential in their respective states. On an average, it takes 242 days for

²⁴ In such cases where the SWCM fails to provide necessary approvals within 30 days of a new application being submitted, the system auto-generates a 'Deemed Approval' status to fast-track the application.

²⁵ Scroll story dated July 16, 2016: <https://goo.gl/CmWYVU>

clearance in land approvals in Punjab, while in Himachal Pradesh it takes only 28 days.²⁶

The Delhi-Mumbai Industrial Corridor (DMIC)²⁷ aims to develop new industrial cities as 'Smart Cities', with the objective to expand India's Manufacturing & Services base and develop DMIC as a 'Global Manufacturing and Trading Hub'. The programme will provide a major impetus to planned urbanisation in India with manufacturing as the key driver. A major part of this corridor would pass through Rajasthan and hence there is an urgent need to expedite corridor activities.

Labour Reforms

States, such as Haryana and Rajasthan have introduced reforms in labour laws. These laws majorly include the Industrial Disputes Act, the Contract Labour Act and the Factories Act. The amendments in the laws have been made by state governments in order to reduce the hassle for the industries owing to labour related issues. Further, the provision for self-certification and third party certification has also been made for the industries.

Challenges: The newly introduced labour reforms in Rajasthan and Haryana are relevant only to the medium and large industries, whereas micro and small industries are still prone to '*inspector raj*', as reflected during the stakeholder interactions. Compliances of various labour regulations are still a cause of concern for small scale industries. Rajasthan has limited manufacturing activity across the state and hence, would have less impact on such establishments where these labour reforms would apply. To attain all relevant labour permits, currently it takes 20 average days in Himachal Pradesh, while the duration in Uttar Pradesh stands at 60 average days.²⁸ While Haryana adopted labour reforms in March 2016, state-based industries have suffered with frequent strikes and labour unrest. This has resulted in business coming to a stand-still. Punjab has perennial problem of lack of skilled labour, and has limited grievance redressal mechanism for labour-related issues.

²⁶ Supra Note 18

²⁷ DMIC Website: <http://dmicdc.com/>

²⁸ Supra Note 18

Infrastructure Development

There has been a lot of the thrust on part of state governments to build appropriate infrastructure for attracting investments in the state. For example, the State of Rajasthan has invested heavily to build industrial corridors, special investment zones for foreign investors, industrial parks, smart city projects, etc. The State Government of Uttar Pradesh has also been laying great emphasis in this direction, with respect to building expressways in the State and starting of the metro project in Lucknow. Uttarakhand, on the other hand, has established textile parks, spice parks and also a business hub for women entrepreneurs in the State. Further, states have also been investing in power sector to ensure good quality supply to its industries. States, such as Rajasthan and Uttarakhand are resorting to renewable sources of energy, such as solar, wind and hydro to fulfill their energy demands within the state.

Challenges: The infrastructure development pattern in states reflect an uneven picture with the inclination of developmental policies more towards a few select urban districts. Huge regional disparities exist among various districts in Haryana in terms of economic development. The State Government's focus on development has largely remained on the region comprising NCR and as a result, other districts have not been as developed in comparison to cities, such as Gurgaon (renamed as Gurugram) and a significant difference in income levels exists between the two.²⁹

Further, pricing of land is affordable in rural and less-developed regions of Haryana but investors would not be attracted to invest in those regions, unless proper infrastructure is in place. The situation is quite apparent in case of the State of Uttarakhand, where the development is limited to three districts covered by plains. Consequentially, this has led to migration of inhabitants from hilly areas to plains in large numbers. According to stakeholders, migration is a result of three factors, i.e. absence of education, healthcare and transportation facilities.

This further indicates that state governments need to focus on building hard as well as soft (education, healthcare, skills development, finance etc.) infrastructure in states. Availability of poor quality infrastructure has been underscored as one of the key impediments for investing in Himachal Pradesh. However, the State performs well in terms of providing construction permits in mere 8 days, while it still takes 136 days to

²⁹ Hindustan Times story dated March 03, 2015: <https://goo.gl/tYDQxn>

attain a similar permit in Uttarakhand.³⁰ So while attaining permits is easy in Himachal Pradesh, the quality of such constructions has been dismal. Absence of railway tracks, owing to the hilly terrain, is a point of concern for industries as the entire transportation is dependent upon roadways, which results in high transportation costs. Additionally, cartelisation of truckers is yet another factor which amounts to significant increase in cost of transportation for industries. In Uttarakhand, the city of Dehradun has a railway station with limited platforms that may be commercially unviable and difficult to scale up and linked to business supply chains.

Regarding the power sector, the status of transmission and distribution infrastructure remains a cause of concern. Thus, there is need for more thrust on part of state governments in putting in place the appropriate infrastructure in order to reduce the losses of the power utilities.

The river and water bodies of Himachal Pradesh, Punjab, Uttarakhand and Uttar Pradesh have immense potential to provide alternate transportation modes for businesses and should be considered while planning the regional connectivity.

Ease of Doing Business - 'Plus'

In addition to above mentioned reforms and associated challenges in states, stakeholders have brought forth several other factors that need attention of policymakers. These largely refer to the supporting ecosystem for doing businesses, and are as follows:

- **Access to Finance:** Industries (especially MSMEs) face challenges in getting access to finance from both the state finance corporations and banks. Therefore, the financial institutions still need to be on board with state governments' EoDB reform agenda.
- **Access to Market:** The market linkages for Micro, Small and Medium Enterprises (MSMEs) need to be strengthened; otherwise the huge potential within states will remain unutilised. States must work together with MSMEs in providing domestic as well as international business linkages to promote inclusive growth.

³⁰ Supra Note 18

- **Provision of Skilled and Semi-Skilled Labour:** One of the major challenges faced by the investors in states (except Uttar Pradesh) is the lack of availability of skilled and semi-skilled labour. Most of the labourers are migrants and unskilled. Thus, there is a need felt to scale up the skill set of labourers. Another concern with respect to the subject is lack of inter linkages between the education sector and the industry requirement. A large number of engineers in the region are unemployed due to absence of efforts on part of colleges in making their students industry-ready.
- **Governance Reforms:** Governance reforms in the form of setting up a system to maintain the institutional memory needs to be introduced. Frequent bureaucratic transfers in state departments are a major cause of concern. There has to be harmony in the way states operate, which can be facilitated through a cross-learning platform to share best practices and achieve heterogeneity in governance reforms.
- **State-Specific Export Policy:** Each State should consider building its own unique selling proposition (USP) and build an export policy around it in order to be more competitive and build an efficient ecosystem. For example, Uttarakhand has highly fertile lands that grow natural herbs as a critical input while developing pharmaceutical products. It is also a known fact that pharmaceutical businesses require huge investments in R&D facilities and licencing. Hence, it would ideal for the State to come up with a common facility area where new and existing businesses have access to infrastructure, equipment and services to develop unique pharma products, which may be directly exported from the facility.
- **New Avenues:** The Northern states share international borders and operate in highly sensitive areas. These states should work together with Ministry of Defence to develop their own military/defence training centres in order to attract investors and youth to join such programmes.

CONCLUSION

While India is making changes to improve business climate and investor sentiment, the pace of reforms seems to be slow. Further, these rankings indicate the process, time and costs associated with the legal requirements in the country; however, most companies often circumvent these to get their work done faster, often at a higher cost, which is not a healthy scenario. It is important to evaluate the possible impacts of regulations before they come into force by undertaking a thorough *ex ante* regulatory impact assessment (RIA). The objective needs to be clearly spelt out and all possible alternatives must be evaluated to select the best possible solution with the maximum benefits at the least cost and do a *post facto* evaluation where the public pain is high. Stakeholder consultation is another important aspect, which is often missed out while drafting/finalising a regulation, which could help provide critical insights.

The DIPP has shown a positive intent by undertaking a similar exercise for all states in India. Such an approach would not only provide direction to all states and enhance competitiveness, but also make available an opportunity for states to learn from good practices of others. This exercise will be a regular feature through the creation of a dynamic dashboard for states to showcase their good practices with even an option for investors to log in and assess their performance and help in their business decisions.³¹ Implementation of reforms is key but it is important to note that several parameters are not covered within the World Bank rankings, such as labour laws and governments, both Central and state, should keep the holistic picture in mind while undertaking reforms.

To conclude, given below are few overall challenges that have emerged from stakeholder interactions, which needs the attention of policymakers in these respective States:

Single Window Clearance Mechanism

Several Indian states, such as, Uttarakhand have implemented a concept of 'deemed approval' under its SWCM. While this laudable reform has helped the State move up

³¹ Livemint story dated December 01, 2015: <https://goo.gl/ZQrHfW>

the rankings, feedback from investors reveals that such 'deemed' approval is not considered equivalent of 'in principle' approval by financial institutions. This limits the ability of SMEs to raise finance. Similarly, efforts of Uttar Pradesh government to institutionalise a dedicated body for providing approvals for setting up of business are worth appreciating and emulating. SWCMs of states, such as Rajasthan and Himachal Pradesh have also reported to be functioning below par despite being in existence for considerable period of time. Thus, the SWCM should not just be a mere mirage, which hides several windows behind one single window but should be implemented in a manner which offers an actual one-stop shop or a single roof for investors, as done in Punjab. These SWCMs should also cater to existing businesses so that there is long-term relevance and harmony among business and government.

Geographical Imbalance

Like the cross-country World Bank ranking that compares reforms in top cities of countries (Mumbai and Delhi in India's case), the inter-state comparison also seems to have focussed on state capitals and neighbouring areas. Such narrow focus might nudge states to improve performance within the limited geographical area relevant for rankings. For instance, a review of economic development in Haryana points to state government's focus on developing the region within National Capital Region (NCR) and huge income disparity between Gurugram and other cities. Thus, promoting back ward and rural areas with incentives will allow dispersion of employment and urbanisation.

Availability of Skilled Labour

Ease of obtaining labour-related approvals does not ensure availability of skilled and committed labour at all times. As mentioned previously, Haryana adopted labour reforms in March 2016, state-based industries have suffered with frequent strikes and labour unrest. This has resulted in business coming to a stand-still. Punjab has perennial problem of lack of skilled labour, and has limited grievance redressal mechanism for labour related issues. Unfortunately, these issues do not get mentioned in any of the rankings.

Competitiveness of MSMEs

We need to create many more jobs in India so as to ensure that our demographic dividend does not become a demographic liability. One understands that big corporations would not create large number of jobs, as many would prefer to move towards automation. Thus, it would be MSMEs that are going to be the important source of job creation. While North Indian States have taken several steps to encourage growth of MSMEs, there is plethora of challenges that they face from accessing finance to delay in receiving payments, which negatively impacts their growth.

According to a 2014 World Bank Report, 35 percent or one in three MSMEs receive payment only after 90 days or more.³² While larger corporations can alleviate the adverse effects of delayed payment, managing cash flows is a struggle for MSMEs due to the nature of their businesses. Adding this chaos are the new GST reforms, which further complicate things when it comes to claiming refunds from various taxation departments. Thus, promoting SMEs should become a priority for all these states because they are the bigger job creators. The thrust on SMEs requires special attention particularly on their high pain points, such as inspectors and delayed payments.

Further, attention also needs to be paid at effective dissemination of information regarding EoDB reforms to industries, especially MSMEs. The industries lack information regarding relevant policies and regulations that are in place and thus, resort to middlemen to fulfill simple procedures. It is important to undertake awareness workshops as well as an interactive website in order to disseminate information to MSMEs.

Frequent Transfers of Bureaucrats

Across states, one key challenge that emerged was regarding frequent transfers of bureaucrats, which results in impacting the working of the system and demoralises the bureaucracy.

³² Economic Times story dated July 06, 2015: <https://goo.gl/MDKskw>

The 15th report of the Second Administrative Reforms Commission³³ stated that appointments at the highest level of administration often lack transparency and objectivity. The report observed that transfers often coincide with a change in political regime. This leads to instability of administration and lack of faith in the system among the common people. Our own experience of dealing with different bureaucrats within the same department in a state during the tenure of this project confirms the fact that such approaches erases the legacy of communication and increases the gap between industries and the government.

A survey undertaken by 'Times of India' in 2014, reflected that ,on an average, an IAS officer is transferred in 11 months and 25 days in Haryana, with similar performance by Chhattisgarh, Himachal Pradesh, Jharkhand and Punjab.³⁴ Good governance is the need of the hour. The citizen demands a more responsive, transparent and accountable set-up, which is premised on probity and integrity. What we need are champions with stability of tenure to lead the investment promotion agency and ensure that the single window/one roof really works.

³³ Report on State and District Administration: <https://goo.gl/tNnd59>

³⁴ Times of India story dated January 08, 2014: <https://goo.gl/R7avMA>

About Project

To engage with relevant stakeholders from six North Indian States (Rajasthan, Himachal Pradesh, Uttarakhand, Haryana, Punjab, and Uttar Pradesh) and sensitise them about the means of improving competitiveness of the North Indian states through the US experience, expertise and case studies.

CUTS International

Established in 1983, CUTS International (Consumer Unity & Trust Society) is a non-governmental organisation, engaged in consumer sovereignty in the framework of social justice and economic equality and environmental balance, within and across borders. More information about the organisation and its centres can be accessed here: <http://www.cuts-international.org>.



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