



Ease of Doing Business in Uttar Pradesh

The State of Uttar Pradesh (UP) of India seems to have covered a middle ground in the Ease of Doing Business Reforms as per the (Department of Industrial Policy and Promotion (DIPP's) Doing Business Action Plan. The State has great potential for industrial development in terms of its abundant resources, availability of skilled and semi-skilled labour and huge consumer market. The State Government has been taking the right steps, leveraging upon its investment potential in order, to attract industries and provide them an enabling environment to set up new and expand existing industries. The state currently stands at the 14th position according to the EoDB rankings of DIPP. However, there are a few challenges in the path, which the state needs to overcome. Thus, this Briefing Paper focusses on the status of Ease of Doing Business (EoDB) Reforms in UP, highlighting key reforms undertaken and mapping of remaining challenges and recommendations for addressing the same.

Background

In order to assess the economic performance of states in India and also showcase the comparison against other states, the DIPP initiated an exercise to rank various states in India on 98 parameters of EoDB, undertaken by the World Bank in 2015. A review of the ranking exercise was undertaken in the year 2016, based on the 340 action points for EoDB, where UP (referred to as the State) seems to have covered a middle ground.

UP is the State with the highest population (16.4 percent of India's population) and is the fourth largest State in terms of its geographical area (9 percent of country's geographical area).¹ The population of UP corresponds to the huge consumer market and thus, a great scope for economic activities in all sectors of the economy. Further, the State has abundant skilled labour, which is able to cater to various sectors. However, the economic growth of the State is more capital intensive than labour intensive. Further the economic growth is more urban-based than rural, even though 77 percent of the State's total population lives in rural areas.²

Table 1 provides a summary of the socio-economic profile of UP.

Item	Statistics
Geographical Area (in sq km)	241,000
Population (Census 2011)	199.8 million
Literacy Rate (Census 2011)	Male: 77.3% Female: 57.2% Total: 67.7%
Gross Income of the State (2014-15)	At Current Prices: ₹9,32,536 crore i.e. approximately: US\$14011bn
State Per Capita Income (2014-15)	At Current Prices: ₹44,197 i.e. approximately US\$664.05
<i>Source: Uttar Pradesh at a Glance 2015, available at: http://updes.up.nic.in/up%20in%20figures-%202015.pdf</i>	

Geographical Location and Potential

The State is located in the northern part of India and borders Bihar in the east, Madhya Pradesh in the south, Rajasthan, Delhi and Haryana in the west and Uttarakhand in the north. The State is

landlocked, but has good connectivity in terms of roads, railways and air to other parts of the country. The Eastern Dedicated Freight Corridor and the Delhi Mumbai Industrial Corridor is expected to accelerate development in the region. Metro rail network is also being developed in Lucknow and will be introduced in four more cities in the State.

Moreover, UP is rich in natural wealth with abundant minerals, forests, flora and fauna. It is blessed with large tracts of agrarian fertile plains and a vast river network, bringing a scope for agro-based and food processing industries. The State is known for its mineral resources, such as limestone, dolomite, glass-sand, marble, bauxite, non-plastic fireclay and uranium.³ Also, UP is popularly known for its key traditional industries comprising handicrafts, leather goods, carpet, textiles, sugar, cotton yarn, jute, vegetable oil, glassware and bangles, cement, etc.

Ease of Doing Business Reforms in Uttar Pradesh

UP stands at 14th position in the EoDB ranking of 2016 by DIPP, with a score of 84.52 percent. Even though, the State has gone down by four positions, from where it stood in 2015, the State's performance has improved in terms of its score, which was 47.37 percent in the previous year. The current (2016) score reflects that even though the State Government has put in great efforts to introduce the EoDB reforms based on the DIPP action plan, there is still scope for further improvement.

The key institutions driving the reforms in the State include the Directorate of Infrastructure and Industrial Development, the Udyog Bandhu and the Uttar Pradesh State Industrial Development Corporation (UPSIDC). The Directorate of Infrastructure and Industrial Development is the State Department, which formulates and implements relevant policies and strategies for facilitating EoDB in the State. Udyog Bandhu on the other hand, is a three tier organisation (at District level, Divisional level and State level) set up to facilitate investments in the State and resolve investor grievances. It is the nodal agency for effective implementation of the 'Single Table System'⁴ in UP. Additionally, the major functions of UPSIDC include development of industrial areas, identification and promotion of infrastructure-related and industry specific projects, land acquisition for large projects, development of integrated infrastructure industrial townships among others.⁵

The UP Government has signed several memorandum of understanding (MoUs) with investors at various Investor Conclaves, such as the 'UP Investment Summit' held in Dubai recently in 2016, Investors' Meet at Mumbai in 2015, Investors' Conclave by Government of UP in 2014, etc. Further, the Government has set up a robust investor friendly policy framework and has been laying emphasis on simplifying the procedures and processes to be followed by the industries for setting up/expanding their businesses. A summary of some of the key EoDB reforms introduced in the State is given in the Table 2 below:

(Note: Score = Number of reforms implemented by state/Total reforms as per DIPP indicators).

Table 2: Key EoDB Reforms in Uttar Pradesh

S. No.	Issues	Key Reforms Undertaken	Key Institution	Score (Refer to DIPP Indicators) ⁶
1.	Access to Information and Transparency Enablers	<ul style="list-style-type: none"> The Government has set up an online system, which provides information regarding all approvals required by the industries to set up their businesses. The State has also put in place a help line number to address investor queries 	Udyog Bandhu	9/13
2.	Single Window- 'Nivesh Mitra'	<ul style="list-style-type: none"> Entrepreneurs can apply for all the approvals/clearances required for starting a business through a Common Application Form (CAF) available at 'Nivesh Mitra' – the online Single Window system of the State. 	Udyog Bandhu	19/28

S. No.	Issues	Key Reforms Undertaken	Key Institution	Score (Refere to DIPP Indicators) ⁶
		<ul style="list-style-type: none"> The online Single Window portal of the State ensures that the services are delivered within the prescribed time limit as suggested by various acts, Government orders, charters etc. Also, a provision of an online application system for grievance redressal has been made by the Government. 		
3.	Availability of Land	<ul style="list-style-type: none"> Clear timelines have been specified by the State Government for processing of applications related to land conversion and change of land use. Also, a digitised system for maintaining land records has been set up. Information containing a comprehensive list of all procedures and documents required for land allotment is also available online 	Department of Revenue National Informatics Centre, UP State Department of Stamp and Registration	10/20
4.	Construction Permit Enablers	Clear timeline has been specified for approval/rejection of complete building plan applications.	Udyog Bandhu	20/29
5.	Environmental Registration Enablers	An online system for application, payment, tracking and monitoring has been put in place in this regard.	UP Pollution Control Board	30/31

Challenges

UP still has a long way to go in terms of providing an enabling business-friendly environment to investors. Several challenges brought forth by the stakeholders during interactions held with them as part of an ongoing project 'Evaluation of Competitiveness Among North Indian States' by CUTS International, have been listed below:

Issues related to Single Window System

Concerns have been raised by the industry regarding the ineffective functioning of the Single Window System of clearances introduced by UP Government. The timelines specified in the Act and Government Orders are not being adhered to. Moreover, there are several windows behind the single window and thus, resulting in processes being cumbersome.

Dysfunctional high-powered committee of Udyog Bandhu

To iron out the difficulties faced by the entrepreneurs and to suggest simplification of laws the High Powered Committee has been constituted. The meetings of the Committee are held under the Chairmanship of Hon'ble Chief Minister. The other permanent members of the Committee include the State level Industry Associations, Principal Secretaries and Secretaries of different departments related to Industries. The Committee however, has remained dysfunctional for the last couple of years.

Lack of institutional memory

Frequent bureaucratic transfers pose a key challenge in terms of maintaining the institutional memory within the system.

High cost of Power

The industries have been complaining of high industrial tariffs in the State, due to high cross subsidies. This increases the overall cost of doing business for the industries.

Access to finance for industries

The Micro, Small and Medium Enterprises (MSMEs) face challenges in getting access to finance from both the State Finance Corporation and the banks.

Lack of an efficient land bank system

The State does not have an effective land bank system in place to facilitate land allotment for industries, a feature adopted by most other North Indian States. There is a lot of land in UP, which has been acquired by the Government, but is lying vacant and has not been allotted towards development of industries.

Lack of dissemination of information to industries

The information regarding EoDB reforms has not been effectively disseminated to the industries. The problem persists more in case of the MSMEs who lack information regarding relevant policies and regulations that are in place and thus, resort to middlemen to fulfill simple procedures.

Political sensitivity

UP is a highly politically-sensitive State. Thus, whatever developments are planned, they are prone to great amount of political criticism. This makes planning and implementation of policies extremely challenging.

Recommendations

In response to the challenges, some of the recommendations, which can be proposed, are as follows:

Lessons from other states

UP needs to learn from the experiences and best practices of other states for an effective functioning of its Single Window System. For instance, the Government of Punjab has established a separate institution for Single Window Clearance system (Invest Punjab), by bringing on board the members from various government departments under one roof. As a result, the institution is able to take decisions on time and efficiently implement the same.

Handholding of Government officials at the local level

For effective implementation of policies and reforms on the ground, the State Government needs to handhold, build capacity, provide adequate resources to Government officials based at the local level, so as to ensure efficient performance.

Access to finance for MSMEs

It is important for the government to have the financial institutions at the State level on board to facilitate EoDB for MSMEs.

Establishing an efficient land bank system

The Government needs to earmark available land for industries to set up their businesses. An online land bank system needs to be put in place, along with GIS mapping facility to facilitate EoDB for the industries.

Regulatory Impact Assessment

Regulatory Impact Assessment (RIA) is an *ex-ante* systematic approach of assessing the positive and negative effects of regulations which are being considered by the government but have not come into effect. RIA also includes an *ex-post* assessment of the current regulations. Through conducting RIA, the government can ensure that its regulations are conducive to support its objectives of EoDB reforms. It offers an introspective evidence based methodology to policy making wherein the government can bring in effectual changes in regulations which are not in sync with the EoDB reforms.⁷

Conclusion

The vastness and internal cultural diversity in UP, makes governance a difficult task. Also, the State is highly politically sensitive, which makes policy making difficult. Despite the challenges, UP has managed to score 84.52 percent in terms of EoDB reforms based on DIPP Action Plan. However, UP has a long way to go in providing a business-friendly environment to investors. The State primarily needs to establish an effective system of checks and balances to make its investors leverage upon its efforts. Further, cross learning with other states and learning from its own mistakes could be the two steps for UP to climb up the ladder.

Endnotes

- 1 <http://up.gov.in/upecon.aspx>
- 2 <http://updes.up.nic.in/up%20in%20figures-%202015.pdf>
- 3 <http://udyogbandhu.com/topics.aspx?mid=Why%20Invest%20in%20UP>
- 4 http://www.business-standard.com/article/economy-policy/up-introduces-single-table-system-for-industry-109060900090_1.html
- 5 Score as per DIPP Action Points= Number of reforms implemented by state ÷ Total reforms as per DIPP indicators.
The indicators provided by DIPP can be accessed at: http://eodb.dipp.gov.in/data4_Business_Reform_Action_Plan_2016_340_Points_26_September_2015.pdf
The Reforms implemented by Uttarakhand can be accessed at: http://eodb.dipp.gov.in/ReportView.aspx?st_id=9&r_id=0
- 6 <http://www.upsidc.com/glance.htm>
- 7 CUTS projects on undertaking Regulatory Impact Assessment are available at: <http://www.cuts-ccier.org/BHC-RIA/> and <http://www.cuts-ccier.org/ADB-RIA/> =

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