



Ease of Doing Business in Himachal Pradesh

In the last two years, Himachal Pradesh has undertaken multiple reforms to facilitate ease of doing business (EoDB). Progressive reforms have been undertaken in the paradigms of labour, environment and electricity permits. However, in comparison to other states, Himachal lags behind in ease of doing business rankings. The state was ranked 17th in 2015 as well as in 2016 by the Department of Industrial Policy and Promotion (DIPP) in EoDB. This Briefing Paper enlists few of the reforms undertaken by Himachal Pradesh Government and provides recommendations to address some of the remaining challenges.

Background

Referred to as *DevBhumi* or the Land of Gods, Himachal Pradesh is located in North India. The State is one of the most popular tourist destinations of India and was host to approximately 175.3 lakh tourists in 2015.¹

Besides tourism, the State attracts investments in agriculture, hydroelectric power and pharmaceuticals. Industrialisation has flourished rapidly in the past decade. During 2013-14, there were 40,429 industrial units, of which 502 were medium and large-scale industries with a total investment of around ₹183bn employing 284,599 persons.²

The Government of Himachal Pradesh has implemented relevant policies to promote and encourage investments and boost industrialisation. In the past two years, multiple reforms have been recently brought in under the aegis of EoDB. This is in line with the EoDB state rankings conducted by the DIPP.

This Briefing Paper encapsulates some of the key reforms undertaken by the Government of Himachal Pradesh. The paper also touches upon some of the challenges faced by the State in promoting investment inflows and provides recommendations to mitigate the same.

Table 1: Socio-Economic Profile

Item	Statistics
Geographical Area (in sq km)	55,673
Population	68,64,602
Literacy Rate	82.8% ³
Gross State Domestic Product (GSDP)	47,376 (Rupee Crore or US\$7.21bn)
State Per Capita Income	95,582 (Rupee Crore or US\$1437)

Source: Economic Survey of Himachal Pradesh 2014-2015

Geographical Location and Potential

As mentioned above, Himachal Pradesh is located in North India, where it shares its borders with Jammu and Kashmir on the north, Punjab on the west, Haryana on the south-west, Uttarakhand on the south-east and by the Tibet Autonomous Region on the east.

The State's topographical variations and altitudinal differences coupled with fertile soil are favourable for the production of a wide array of agricultural produce, such as fruits, vegetables, flowers, and commercial crops, thus, holding good prospects for the growth of agro-based industries and food processing.

Furthermore, in the last few years, industrialisation has made significant progress owing to the political environment. There are about 34,835 industrial units (small, medium and large-scale) with an investment of about ₹6.4bn.⁴ The State is known for having a negligible number of strikes and labour unrest. The Gross State Domestic Product (GSDP) of the State grew at a compound annual growth rate (CAGR) of 7.8 percent during FY05 to FY14. Service sector has been the major growth driver during the period growing at a CAGR of 10 percent.⁵

Importantly, given its river basin of Yamuna, Satluj, Beas, Ravi and Chenab, the biggest advantage of Himachal Pradesh is its surplus power with a hydro power potential of 27,436 MW. The State accounts for about 25.9 percent of the country's total hydro power potential. About 17,484 of 17,495 villages had electricity as of May 2015.⁶

Ease of Doing Business Reforms in Himachal Pradesh

As mentioned earlier, in 2016 Himachal Pradesh stood 17th in the EODB rankings done by the DIPP, where the implementation score of the state was 65.48 percent. The state stood at the

same position in 2015 rankings, although its implementation score was lower.

During 2015, some of key initiatives brought in by the Government of Himachal Pradesh were in the areas of environment, construction permits, land, single window clearance and access to information.

The Department of Industries has played an important role in buoying and promoting the reforms pertaining to EoDB. The DIPP particularly looks into the promoting investments. The other important departments are Labour, Himachal Pradesh Pollution Control Board and Himachal Pradesh State Electricity Board.

Some of the key reforms undertaken by relevant departments are enlisted in Table 2. The table enlists the issue as per the DIPP indicators, major reforms undertaken under, the institution responsible for the implementation of the reform and the score of the State *vis-à-vis* the issue.⁷ The score reveals the reforms implemented out of total reforms suggested to be implemented by DIPP. (Note: Score = Number of reforms implemented by state / Total reforms as per DIPP indicators).

To supplement reforms undertaken to facilitate EoDB, the State also organised investor meets in Mumbai, Bangalore, Ahmedabad and New Delhi.

Table 2: Ease of Doing Business Reforms in Himachal Pradesh

S. No.	Issues	Key Reform Undertaken	Institution(s) Involved	Score (Refer to DIPP Indicators) ⁸
1.	Access to Information and Transparency Enablers	A centralised help line has been established to facilitate queries regarding the application and approval process. Further, clear timelines have been mentioned for all clearances and punishments are provided in case of breach of timeline without sufficient reason	Directorate of Industries	6/13
2.	Labour Regulation Enablers	Registration under Factories Act, 1948, has been made online. Further, the same inspector cannot visit an establishment consecutively twice for inspection	Department of Labour	42/57
3.	Obtaining Electricity Connection	Only two documents are required for obtaining electricity – Proof of Ownership/Occupancy and authorisation document (in case of firm/company). The documents can be submitted electronically. Fixed costs are to be provided and there is also a provision for third party approval	State Electricity Board	11/11

S. No.	Issue	Key Reform Undertaken	Institution(s) Involved	Score (Refer to DIPP Indicators) ⁹
4.	Single Window	Single Window Interface has been introduced for principle approvals for medium and large scale projects. This is also a move to ensure optimum inter-departmental coordination and time bound (90 days) approvals Good Practice Single Window agencies have been created at major industrial areas like Parwanoo, Baddi, Nalagarh ⁹	Industrial Policy and Promotion, Department of Industries	10/28
5.	Availability of Land	Clear timelines have been provided for processing of application for land allotment, conversion of land/change in land use. Further, the Department is required to provide clear information on land banks for industrial use and criteria for evaluating application for land allotment	Revenue Department	7/20
6.	Environment Registration Enablers	Submission for environmental clearance can be done online. Inspection requirements have been differentiated on the basis of pollution categorization such as Red, Amber, and Green. Green Industries with a history of satisfactory compliance has been allowed self-certification	Department of Environment, Science and Technology State Pollution Control Board	31/31

In March 2016, the Chief Minister of Himachal Pradesh announced that post meetings, the State received 41 proposals and 60 projects for expansion, accounting to about US\$600mn.¹⁰ However, some challenges exist in the implementation of reforms which impede the rate of investments. These have been elaborated in the next section.¹¹

Challenges

Despite, the plethora of EODB reforms introduced by Himachal Pradesh, there are certain challenges, in terms of actual implementation of reforms and various other aspects, which are beyond DIPP's EODB parameters of ranking of states. Some of the challenges were brought forth during the stakeholder interaction held as a part of CUTS project, 'Evaluation of Competitiveness Among North Indian States'. These challenges have been enlisted below as:

Infrastructure

Poor infrastructure has been underscored as one of the main impediments for investing in Himachal

Pradesh. The lack of railway connectivity is a point of concern for industries as the entire transportation is dependent on roadways, which results in high transportation costs. Cost of transportation of goods in Himachal is ₹9/km (US\$0.16) while the same is ₹2/km (US\$0.03) in Rajasthan.¹²

Unionisation of trucks

Another major challenge is the unionisation of trucks. Cartelisation of truckers amounts to significant increase in cost of transportation for industries. Further, as mentioned above, for the lack of transportation infrastructure, the industry does not have any option but to deploy road transportation. It has been cited that the cost of transporting goods from Himachal to Mumbai is more expensive than transporting goods from Mumbai to Singapore. Freight is decided by truck unions and there is no interference in it.

Several Windows behind a Single Window

The Windows behind the Single Window Clearance mechanism need to be further reduced, as has been done by the State of Punjab, which

has established a separate institution (Invest Punjab) by bringing on board the members from various governments under one roof.

Influx of Labour from Hilly Areas to Plains

The development in the State is limited to a few districts located in the plains such as Baddi, Nalagarh and Parwanoo. This has resulted into migration of inhabitants from the hilly areas towards the plains.

Slow pace of reforms

While some of the states have shown a commendable pace in bringing reforms to attract investors, Himachal Pradesh has been relatively slow. The State needs to bring in reforms to further simplify the procedure involved in land, labour, single window clearance and information enablers need further reforms.

Recommendations

Improved infrastructure

It is crucial for the Government of Himachal Pradesh to invest in infrastructure. This includes not only on roads but also railways. As mentioned above, the existing limited infrastructure has resulted in unionisation of trucks and exorbitant freight charges. One of the ways by which infrastructure can be improved is via inviting Public Private Partnership (PPP) in infrastructure.

Truckers' associations

There is a need to break the cartelisation of trucks. One of the ways of doing this is by providing alternative ways of transportation. Accordingly, the government should start investing in railways and air transport. Most importantly, it is crucial to strong political will to tackle the issue of truckers' associations.

Areas for further reforms

Progressive reforms need to be ushered in areas of single window clearance, land and labour. As per the DIPP indicators, the State has scored lowest in single window clearance, land availability and clearances and information availability as

compared to the other 5 states assessed by CUTS. Under cooperative federalism and competitiveness, state officials have been visiting other states to understand their best practices and challenges. Similarly, officials from Himachal should also visit other states and learn from their good practices. For instance, the State can visit its neighbour Punjab, and understand how it used single window clearance mechanism.

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 governments but have not come into effect.¹³ RIA also includes 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 in sync with the EoDB reforms.

Conclusion

Before the ranking system was put in place and the concept of competitiveness among states was introduced, Himachal Pradesh in 2013 had introduced a special package to incentivise investments. The package included central excise holiday for 10 years, income tax holiday for five years and subsidy of 15 percent. The special package status resulted in laudable investments in the pharmaceutical sector. Subsequently, Himachal is responsible for about 30 percent production of India's medicines. However, with the expiry of the special package, the State needs to think of ways to sustainably re-incentivise the investors.

There is a need for the Government of Himachal Pradesh to launch such incentives and strengthen the implementation of current reforms to attract investors. Such reforms coupled with improved infrastructure can prove to be a significant boost for investors.

Endnotes

- 1 Economic Survey of Himachal Pradesh 2015-16 http://admis.hp.nic.in/himachal/economics/pdfs/EconomicSurveyEng2015_16_A1b.pdf
- 2 Economic Survey of HP 2014-15
- 3 India Census 2011
- 4 Invest in Himachal. Available at: <https://investinindia.com/state/himachal-pradesh/invest-himachal-pradesh>
- 5 MOSPI
- 6 Himachal Pradesh: Abode of Gods. Available at: <http://www.ibef.org/download/HimachalPradesh-August-2015.pdf>
- 7 Refer to the Implementation Scorecard available at: <http://eodb.dipp.gov.in/>
- 8 *Ibid*
- 9 As per interview of Industry players in Himachal Pradesh, carried out by CUTS
- 10 <http://timesofindia.indiatimes.com/city/shimla/Investment-meets-fetched-4k-cr-Himachal-Pradesh-CM/articleshow/51464821.cms>
- 11 The challenges and recommendations have been drafted on assimilation of secondary and primary data
- 12 <http://www.hindustantimes.com/chandigarh/hp-industrialists-threaten-to-close-down-units/story-SoxvkayatMBwRMgfaU5TIM.html>
- 13 For reference, 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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