

Industrial Policy of Rajasthan (2010) – *RESPECT for the Investor?*

The recently announced Rajasthan Industrial & Investment Promotion Policy (RIIPP), 2010 is a well articulated statement of intent. The Policy, however, casts upon the state government greater responsibility to flesh out the proposals made therein in detail. A sound and realistic Industrial Policy has proved difficult to implement, but fortunately, there are many lessons that one can learn from efforts of other states. The enactment of Rajasthan Enterprises Single Point Enabling and Clearance Act (RESPECT) too is welcome and the name itself has gravitas.

In this note, we highlight the strengths and comparative shortcomings of Rajasthan Industrial Policy (2010), in the light of the industrial policies of some other select states in the country.

Introduction

The origins of industrial policy worldwide can be traced to the 18th century when it favoured selective protection of industries but subsequently the focus shifted to the selective promotion of *key sectors* in overcoming economic backwardness. Later, it stressed the importance of free market *laissez-faire* in promoting structural change. In recent years, however, such policies acknowledge the role of the state in correcting externalities and market failures.

Closer home, the objectives of the Indian Industrial Policy are to maintain a sustained growth in productivity; enhance gainful employment; attain international competitiveness to transform India into a major player in the global arena; and achieve optimal utilisation of human resources. The Policy aims to deregulate Indian industry and allow it freedom to respond to market forces through a facilitative regime. Various states have formulated their own Industrial Policy in line with the above – Rajasthan is no exception.

It deserves mention here that a sound industrial policy is a necessary condition for sustained and rapid industrial development but does not guarantee it. Industrially progressive states such as Gujarat, Maharashtra and Tamil Nadu have spent considerable time and effort in designing their industrial policy documents which are indeed impressive pieces of work. However, CUTS research shows that entrepreneurial culture, effective use of formal and representative forums to conduct relations between the state government and business interests and maintain channels of communication; and availability of human capital are necessary for the potential of a sound industrial policy to be tapped. This is indeed the case in these progressive states.

Our appraisal of the RIIPP leads to a favourable impression, though with some identified room for improvement. But attention also needs to be paid towards facilitating the identified complementary conditions needed for sustained industrial development.

Improving Business Climate

The announcement in RIIPP to strengthen institutional framework and the single window system by enacting the RESPECT together with provision for single point electronic and monitoring clearance system is old and tried but praiseworthy in its intent. Equally welcome is the plan to set up an Industrial Advisory Council for regular and constant interface with the industry.

Some states such as Bihar, Tamil Nadu, Andhra Pradesh and Punjab to cite a few have already enacted Single Window/ Industrial Facilitation Acts years back. Their policies, however, spell out such measures as are obviously attractive spelling out *inter-alia*, incentives, exemptions, etc., to potential investors as against RIIPP which mainly promises simplification and rationalisation of regulatory mechanisms (paragraph 2.3 of the policy).

Some announcements in RIIPP would have not only pressurised concerned departmental officials to act but also made the policy comparable to those of some other states, such as:

- Self-certification relating to labour and factories regulations;
- Outsourcing of inspections under Indian Boilers Act, Standards of Weights & Measures, Indian Electricity Act and Water and Air (Prevention & Control of Pollution) acts;

- Cut off points for large projects that could be kept on 'fast track';
- Setting up of a Foreign Investor's Forum under the Chairmanship of the Chief Minister (CM) to work in close collaboration with the Foreign Investment Implementation Authority of the Government of India which would help the Bureau of Investment Promotion (BIP) and give teeth to attracting foreign direct investment (FDI) envisaged as a thrust area in RIIPP; and
- Trading activity which has been innovatively incorporated by Punjab in its Industrial Policy Document.

The major elements of RIIPP and recommendations in regard to their detailing and implementation, which followed from examination of the industrial policies of other states, are discussed below as well as summarised in Table 1.

Single Window System

The Single Window System is a popular measure amongst the states and finds a place in many state industrial policies. In Rajasthan, too, it has been in existence for long. Other states have taken additional steps that make the system more effective, such as:

- A comprehensive operational manual available online containing forms, procedures and timelines.
- Providing for a 24-hour helpline at the state and district level.

However, it should be analysed why an industrially advanced state like Maharashtra does not mention the single window system in its industrial policy. Is it that the system has not really succeeded as final approvals continue to rest with individual and independent authorities?

Developing Infrastructure

Developing high quality infrastructure by encouraging PPP; creating a fund for critical infrastructure needs; augmenting industrial infrastructure; developing a gas grid; ensuring availability of water and power; developing logistics parks; leveraging Delhi-Mumbai industrial corridor; developing special investment regions; developing industrial townships and urban infrastructure and ensuring pollution control are the planks on which the RIIPP focuses for development of infrastructure in the state.

The RIIPP devotes an exclusive chapter to this important component which is well conceived and forms the backbone of the new Industrial Policy. In particular, leveraging of the Delhi-Mumbai Industrial Corridor and providing for Viability Gap Funding are innovative strategies.

As with any policy, its success depends on the implementation. An Infrastructure Development Board has been mooted specifically for PPP projects with BIP as its Secretariat. Most states have a high powered implementation committee usually headed by the CM, an arrangement that Rajasthan would do well to replicate.

Two critical aspects need attention:

- a. Use of infrastructure assistance (in place of tax breaks or capital subsidies) to industries that with investment of say Rs 100 crores and more). For example, the state government could underwrite a 3 lane road of up to 10 kms, but not less than 1 kms away, from the NH or State highway, up to the factory site with commercial load capacity/promise 120 KV industrial power line free up to the factory gate up to 5 or 10 kms from a 220 KV substation. This would also ensure industries go off the main roads leading to deeper penetration of development.

Table 1: Summary of Status and Recommendations

Major Elements	Current Status	Recommendations
Single Window System	Has been in existence for a long time and complemented by an operational manual and the services of a helpline	Cost benefit analysis is recommended as value from implementation of this system is not clear
Infrastructure Development	Public-private partnerships (PPPs) and funding of critical infrastructure; ensuring availability of water and power; attracting investment through development of industrial parks; and leveraging of Delhi-Mumbai corridor has been given due emphasis	<ul style="list-style-type: none"> • High powered implementation committee headed by the CM should be set up • Means to ensure availability of water for industrial development need careful exploration; and related guidelines should be woven into the part of the policy dealing with industrial location
Human Capital Development	Provisions exist for skills mapping; industrial training centres; on-the-job training; and entrepreneurial development	Human Resources Skill Development Task Force should be appointed
Ensuring Easy Availability of land	Provisions exist for easing of procedures for land use change; conversion of use; approval of layout/building plans; simplification of land acquisition process; and creation of a land bank	<ul style="list-style-type: none"> • Implementing Committee needed in regard to provisions • Concessions and exemptions need to be highlighted
Encouragement to Micro, Small and Medium Enterprises	Provisions exist for financial assistance for cluster development in Special Purpose Vehicle (SPV) mode; and dedicated Government of India schemes and funds	Same as above

- b. Encourage development of private industrial areas by promising four lane/three lane/two lane road link to SH/NH free for private industrial areas that come up in rural areas not within 50 kms radius of cities such as Jaipur/Jodhpur; 40 kms radius of Udaipur, Kota, Bikaner; 30 kms radius of all other cities with a population of more than 2 lakh; and within 5 kms of all municipal towns-provided a pre-determined threshold of investment is tied with private parties and demonstrated (for example actual sale of industrial land). Similarly power/water availability can also be promised.

Human Capital Development

Enhancing skills level and employability is the next major plank of RIIPP. Besides upgrading of industrial training centres, on-the-job training; skills mapping/survey; skills development for service sectors, entrepreneurial development and new schemes have been proposed.

From amongst the select states surveyed, Tamil Nadu is the only other state to focus on this issue in depth. Credit is due to the policy makers of Rajasthan for not only acknowledging its importance but also in identifying felt needs such as knowledge of English language; leveraging benefits from National Skill Development Initiative of Government of India and dovetailing the same with state initiatives and involvement/collaboration with business.

The state would, however, do well to take a leaf out of the strategy of Tamil Nadu to appoint a Human Resources Skill Development Task Force for giving desired direction to the well articulated policy in this regard.

Ensuring Easy Availability of Land

Prompt and easy availability of land for investment projects at a reasonable price is one the major concerns of most investors. To address the issue a four-pronged strategy has been laid out, viz., easing of procedures for land use change, conversion, approval of layout/building plans; simplifying land acquisition process; creating a land bank; and formulating New Policy guidelines to leverage land for investments.

To make the policy in respect of land more attractive, there is a need for highlighting exemptions and concessions upfront. Further, an Implementing Committee should be set up for ease of reference, monitoring and follow up.

In this too, a fourth plank should be added: that of encouraging private aggregation and creation of land banks. For this simplified procedure for land aggregation (for instance, easing of agriculture land ceiling, permission to purchase lands belonging to SC/ST and permission to companies to buy agriculture land for this purpose) would be necessary.

Encouragement to Micro, Small and Medium Enterprises

A vibrant Micro, Small and Medium Enterprise (MSME) sector is critical for investment, growth, employment and poverty reduction. A new scheme for financial assistance for cluster development in Special Purpose Vehicle (SPV) mode and leveraging Government of India schemes and funds have been identified as the main strategies.

An Implementing Committee and detailing exemptions and specifying support would add value.

Other Issues

- Research and Development (R&D) activities only have a passing reference in RIIPP – other states carry greater details like promotion and incentives in R&D.
- Incentives for investment, attracting mega investments and FDI, access to markets, towards better regulation are other issues that could have found detailed mention in the RIIPP.
- An 'Agro Industrial Policy' on the lines of Punjab could also have been considered in more details.

Conclusion

In the overall, the RIIPP is a well conceived document. It would have added value in case exemptions, incentives and interest subsidies had been spelled out. A further criticism is that review and monitoring systems, which have been laid down in most of the state policies, are not highlighted in the RIIPP which makes it less attractive to investors.

Moreover, as mentioned above a good policy is not enough for sustained and fast paced industrial development – unless there are (corresponding) good practices it (policy) may not mean much.

Furthermore, other reforms are needed to complement the industrial policy. In Rajasthan the government is compiling an inventory of legal and procedural requirements; has promised rationalisation of licences, permissions and approvals; and announced its intentions to devise free-of-harassment mechanisms and review Factories and Labour laws as well as procedures for granting of Mining and Municipal licenses. To support such reforms, the policy lays down a detailed agenda for various state departments to act upon.

Finally, neutral evaluation of the policy would greatly add to its value. If Rajasthan has to show that it is better than others in terms of the enabling environment, the Policy could also provide for an independent review by a reputed firm of consultants after a period of time. That would add to its credibility and thus saleability of the state as an attractive investor destination.