

Policy Study on Doing Business in Rajasthan

Executive Summary

The Government of Rajasthan (GoR) has been undertaking several initiatives to enhance investment and employment opportunities in the state. To this end, it has created an online Single Window Clearance Portal (SWCP)¹ as a one-stop and time-bound clearance system to facilitate smooth running of business and ease of obtaining clearances. GoR has also enacted the Micro, Small, and Medium Enterprises (Facilitation of Establishment and Operation) Act, 2019, which exempts MSMEs from any approvals or licensing requirements for three years from the beginning of their operations. It's approach towards reducing the compliance burden can be summarised as: temporary exemption, digitisation, and fixing timelines.

Such measures are necessary but not sufficient to rationalise compliance burden and enhance ease of doing business. To contain excessive unemployment and ensure resilient recovery from covid-19 pandemic for the state, attracting private investment and creating an enabling business environment will be crucial. Reportedly, unnecessary and avoidable compliances in the state are one of the key reasons for a large proportion of investment commitments not materialising. Typically, only around 15 percent of investment commitments materialise on ground. Even a recent report by ORF-TeamLease RegTech points out that compliances issued by GoR to businesses carry 810 imprisonment clauses,² which has the potential to disincentivise industry.

Thus, a complete overhaul of compliance philosophy in the state is necessary. A systemic framework is required, based on which, proposed and applicable compliances can be reviewed on a regular basis, for identification, amendment, and removal of unnecessary compliances.

The CM Rajasthan Economic Transformation Advisory Council (CMRETAC) tasked Consumer Unity & Trust Society (CUTS) to design such a framework, to enable reduction of compliance burden in the state to a significant extent.

Upon review of frameworks adopted by different countries to enhance ease of doing business and reduce compliance burden, CUTS zeroed on the globally recognised Regulatory Guillotine (RG) framework to design a framework for Rajasthan. The RG framework rapidly reviews compliances through a consultative mechanism, reverses the burden of proof, and requires clearances to pass the tests of legality, necessity, and proportionality, to be retained. Based on such framework, a three-step framework was designed for reducing compliance burden in Rajasthan.

The Three-Step Framework

Requirement	Explanation	Result	Result	Result	Result
Legality	Does the compliance fall within the scope of any law?	Yes	Yes	Yes	No
Necessity	Are the forms, procedure, fees,	Yes	Yes	No	Not

¹ Retrieved from, <https://swcs.rajasthan.gov.in/AllServicesBasket.aspx>

² Gautam Chikermane and Rishi Agrawal, Jailed for Doing Business: The 26,134 Imprisonment Clauses in India's Business Laws, February 2022, Observer Research Foundation

Requirement	Explanation	Result	Result	Result	Result
	essential to ensure compliance?				Required
Proportionality	Is implementation fast and simple?	Yes	No	Not Required	Not Required
Action needed		Retain	Amend	Abolish	Abolish

To test this framework, the entire life cycle of a business in the state was analysed to understand key interaction points with different government departments. Compliances applicable across major industries at such interaction points were identified, addressing which would have a ripple effect in terms of enabling business environment, and attracting investments in the state.

Key compliances covered

<ul style="list-style-type: none"> • Change of Land Use • Use of Land for Warehousing Purposes • Consent to Establish under Water and Air Acts • Consent to Operate under Water and Air Acts • Renewal of Consent to Operate under Water and Air Acts • Fire No Objection Certificate (NOC) • Building Plan Approval • Registration under Rajasthan Shops and Commercial Establishment Act • Renewal under Rajasthan Shops and Commercial Establishments Act • Registration under Building and Other Construction Workers Act • Registration under Inter-State Migrant Workmen Act • Payment of Taxes, Levies, and Cess • Installation of Telegraph Infrastructure • Allotment of Industrial Land • Grant of Mining Lease
--

These compliances cover the key department that industries need to interact within their operations. These include labour, pollution control board, industries, urban development and housing, and local self-government, among others.

Selection of compliances was also validated through interaction with industrialists, representatives of industry associations, consultants, advisors, experts, and other stakeholders. Feedback from automotive, food products, metals, chemicals, soaps, garments, edible oils, solar, food processing, textiles, and mining, among other industries were obtained. Businesses of different sizes, including micro, small and medium enterprises (MSMEs), shops, and commercial establishments, among others, were covered.

It was pointed out in order to liaison with government departments, industries typically employ liaison officers at an approximate cost of INR 3 lakhs per annum. It has also been reported that the cost of compliance with fire NOC norms may go up to INR 70 lakhs annually,

disproportionate to the risks involved. In addition, reportedly, unreasonable pollution control norms have forced the industries to shift to other attractive locations. Similarly, inability to obtain change in land use has been adversely impacting hospitality industry for quite some time now.

Avoidable processes, duplicity of documents, and delays in grant of approvals may lead to high sunk and opportunity costs. Stakeholders pointed out that reducing compliance burden can contribute to materialising substantially more investment proposals.

In order to test necessity and proportionality of compliances, and suggesting viable alternatives, rules, forms, processes, practices, and implementation mechanisms in other states were analysed and compared with Rajasthan. Consequently, practical recommendations have been made to reduce compliance burden. Possibility of replacing approvals with self-certification and third-party certification were also recommended.

Key specific recommendations

- Reduce the number of forms and documents for grant and renewal of consent to operate/ establish under Air Act and Water Act.
- Ensure consistency among central and state classification of industries for pollution control norms.
- Enable self-certification for change in land use from agricultural to non-agricultural purposes.
- Adopt risk based criteria for applicability of fire no objection certificate.
- Avoid unnecessary steps/ procedures in building plan approval.
- Avoid imposition of tax, cess, levies from retrospective effect.
- Grant warehouses industrial status for land use purposes.
- Make registration under Rajasthan Shops and Commercial Establishments Act, one time.
- Do away with the requirement to submit similar documents for different registrations under labour and other laws.

Recommendations for sharing of data among government departments, to reduce compliance burden on industries and institutionalising the three-step framework in Rajasthan have also been made. To this end, best practices such as, adopting sunset provisions, i.e. mandatory review of compliance within a pre-specified period of time, would be crucial.

Key general recommendations

- Review processes/ steps involved in grant of clearances, for identification and doing away with avoidable steps, and fixing accountability of officers causing delay.
- Enable data sharing among government departments, to avoid duplication.
- Rationalise fees and timeframe across compliances, and ensure implementation.
- Adopt a practice of deemed approval/ auto renewal, unless specified otherwise.
- Adopt a practice of self/ third party certification, unless specified otherwise.
- Leverage technology for approval and post-approval management. Avoid physical inspections.
- Transition from single window to single roof.

- Adopt sunset clause for periodic review of compliances.
- Institutionalise regulatory impact assessment.