



Chapter 3

The Way Forward: Strategies and Recommendations

This chapter summarises the strategies and recommendations for the development of Uttar Pradesh based on the analysis in previous chapters. Discussion in Chapter 1 and Chapter 2 leads to three key findings:

1. Relative decline of Uttar Pradesh in National Economy.
2. Available resources provide strong base in agriculture and wide range of production possibilities in industrial sector with export potential.
3. Growth is constrained due to overdependence on agriculture and low level of industrialisation, while agriculture itself is plagued with poor yield.
4. Investment climate needs to be improved through fiscal management, effective governance, progressive policy initiatives and effective use of central plans.

Thus, focussed approach is required to address above problems, which include: the need for rapid industrialisation, and the need to improve yields of agriculture products. The solution lies in better investment climate, public-private partnerships, involvement of local bodies to a greater degree, a change in attitude of the administration, increasing education and health facilities, rapid urbanisation, modernising the cities, and improving the connectivity, power supply and communication. A sense of competition with other states must be generated among the bureaucrats and leadership. The dynamism has to percolate from the top. It is tragic to note that Uttar Pradesh was not able to formulate even those developmental plans that were to be funded by the Centre. The expenditure set out in the Ninth Plan was only partially utilised, in contrast to other states, which bargained for more. Such is the apathy of

managers of the state towards new initiatives. The financial condition of the state is in precarious situation and must be improved by cutting revenue expenditures, while at the same time generating other means of receipts.

3.1 Uttar Pradesh Needs to Improve its Financial Condition to Promote Development

The most important threat to the state economy comes from the financial management of the state government. Uttar Pradesh is critically indebted and the debt is on the verge of becoming unsustainable. Average primary deficit as a percentage of GSDP is more than the difference between real growth and real interest rate. The primary deficit continues to be positive. This debt in Uttar Pradesh is relatively expensive, with higher interest rates than other states. Clearly, Uttar Pradesh needs to restructure its debt by adopting measures such as debt swapping. With a high fiscal deficit, little is left for development expenditure. This places serious constraints on the capacity of the state to stimulate economic activities. This also has negative effects on the investment decisions of potential investors. A comprehensive programme of reducing deficit should include both receipt as well as expenditure management and wide ranging reforms implementation of Fiscal Responsibility Act, user charges, VAT, pension reforms, subsidy management, public sector enterprises reform and debt management.

3.2 Uttar Pradesh Needs a Green Revolution Programme for Agriculture

The strength of Uttar Pradesh lies in its strong agricultural base and high levels of output. However, in terms of per capita production and yield per hectare, Uttar Pradesh is an average state. Agriculture is not

market-oriented in Uttar Pradesh as it has been in Punjab and Haryana. There is hardly any surplus to what is produced and consumed on an average in the country. Serious analysis and scientific development is needed to professionalise agriculture. Modern science of agriculture including biotechnology, genetic engineering, new product processes and agro-climatic can be considered as the hallmark of new green revolution.

There are several areas of improvement, which can be accomplished only through scientific methods such as soil testing, better seeds, efficient irrigation, mechanisation and farmer education.

Despite 76 per cent of the cultivated area being irrigated, the agricultural sector continues to depend heavily on rainfall. The main reason appears to lie in management of water resources and technology choices for irrigation. Irrigation in Uttar Pradesh is dominated by privately owned tube wells as against canal based irrigation in several other states. With predominant use of tube wells, replenishment of groundwater is critically dependent upon rain, which is not the case with canal based irrigation. Canals also help in replenishing groundwater utilised by the tube wells. Thus, a strategy of optimal combination of tubewells and canals may reduce dependence on regional rain. It is in this context that contribution from the governments (Centre as well as state) is lacking compared to several other agriculture dominant states. Therefore, a comprehensive irrigation and water management system needs to be worked out (also refer to Chapter 11 in Volume II).

Currently most of the tube wells in the state are diesel powered, which need to be replaced by electric or solar power in order to increase profitability of the farmers. However, this requires fast and efficient rural electrification.

3.3 Uttar Pradesh Needs to Emphasise Rapid Industrialisation

The analysis amply emphasises that Uttar Pradesh must give top priority to rapid industrialisation and improving the yield of agriculture production. However, this requires basic changes in attitude and approach in administration and governance. Industrialisation through special economic zones (SEZ)¹ and technology/industrial parks is considered to be effective ways to grow industry.

The eastern zone is by far the most backward region in terms of industrialisation and value addition. Three

special economic zones (SEZs), one each at Gorakhpur, Allahabad and Varanasi, need to be created as soon as possible, besides those at Moradabad, Kanpur and Greater NOIDA already planned. Action has been initiated with respect to Varanasi, this must be given top priority in implementation. Special incentives should be provided to attract participants. The network of special zones should be enlarged depending upon a programme of performance based review.

Target mega investors under a strategic plan: Identify a competent and skilful advisor to the Chief Minister, and assign growth targets to key officials. Possibly, hire an international agency to market the strengths of Uttar Pradesh and mobilise mega projects. Mega projects should be given special packages if they agree to locate in industrially backward areas.

Promote awareness in entrepreneurs about export potential, facilities of loans, export processing zones.

Investment in social, physical and financial infrastructure both in urban and rural areas are critical for industrial development. Development of airport, water supply, power, roads, education, communication and financial institutions should get priority in developmental expenditure and the strategy should be such as to reduce government's involvement in operating such programme.

Encourage unorganised manufacturing in rural sector to increase scale of operation: Uttar Pradesh has relatively high share of unorganised manufacturing in rural sector as compared to the urban sector. However, this potential of rural entrepreneurship has

1. The incentives offered under the SEZ scheme include duty-free importation/domestic procurement of goods for the development of SEZ and setting up of units, 100 per cent FDI in the manufacturing sector under the automatic route, 100 per cent income tax exemption for the first five years and 50 per cent tax for two years thereafter. Other incentives include sub-contracting of part of production abroad, reimbursement/exemption of central sales tax on domestic purchases by the SEZ units and retention of 100 per cent foreign exchange earnings in the Exchange Earners Foreign Currency (EEFC) Account. In the EXIM Policy for 2002-07 as announced in March 2002, SEZs were given the following concessions: Overseas banking units (OBUs) which would, *inter alia*, be exempt from CRR and SLR requirements, would be permitted to be set up in SEZs. These OBUs would be given access to SEZ units and SEZ developers to international finance at international rates. SEZ units would be extended income tax exemptions and would be exempt from external commercial borrowing (ECB) restrictions and would be allowed to make overseas investment and carry out commodity hedging. SEZs would be exempted from central sales tax in respect of supplies from domestic tariff area (DTA) and transactions from DTA to SEZs would be treated as exports under the Indian Income Tax and Customs Acts. So far, eight existing export promotion zones have been converted into SEZs and approval has been given for the setting up of 17 SEZs in Gujarat, Maharashtra, Tamil Nadu, West Bengal, Orissa, Uttar Pradesh, Andhra Pradesh, Madhya Pradesh and Karnataka (RBI, 2003). More recently (October 2003), the labour laws are being relaxed for SEZs whereby employers in SEZ will not be required to contribute towards provident fund and state insurance schemes.

not been fully exploited because of a very low level of operations. The state could formulate policies for village level enterprises according to prevailing specialisation to increase scale of operation based on the Chinese models of village and town level enterprises. However, the government should not indulge itself in managing such activities. Instead, the management should be in the hands of private or self help groups.

3.4 Private Investment is Critical: Adopt Policies Conducive to Private Participation

Uttar Pradesh requires huge amount of investments in the industrial sector. In addition, investment is also required to build human capital and ensure social security. The right policies have to be selected to support these goals. It is learnt that several of the entrepreneurs backed out due to process delays and other problems but there is no mechanism to assess and scrutinise such cases and take remedial measures.

3.4.1 Implement Power Sector Reforms in Right Spirit to Make it Effective as Quickly as Possible

Uttar Pradesh is critically short of power and no development can take place in absence of adequate power. Existing industry suffers from power shortages and new industries consider it a major bottleneck.

The initiatives to privatise the power sector should be complete in all its functions including generation, transmission and distribution without any interference from the bureaucracy except that of the regulator. Competition at all levels must be the key test of disinvestment. Power sector reforms have strong signalling effects as well as tangible effects in attracting investment and promoting production process. However, making power sector reforms a success is ticklish problem because it is already a highly inefficient system to be transferred to private sector. Therefore, government cannot expect itself to be completely free of past liabilities and plan a profitable proposition for both the operators and self. In this respect the recent N.K. Singh Committee Report on power sector reforms could possibly form a basis to strategise success (also refer to Chapter 7 on Power in Volume II).

3.4.2 Demonstrate Progressive Attitude in Policy Formulation

- Demonstrate change by the substantive implementation of radical policies, including VAT, labour reform, free entry and free exit, a genuine single window concept, a genuine escort facility, and full-fledged e-governance.

- Advocate and implement privatisation: Even Communist China and West Bengal are doing that. There is no clear data to support whether recent privatisation moves have increased employment. However, the dynamics of globalisation requires governments to change their role from producer to regulators and facilitators. The same is happening in all fast moving states and countries.
- Promote economies of scale through legislation such as low tax regime and revoking reservations of products in small-scale sector and modifying labour laws. Small businesses should survive on merit and not support. Chinese garment and shoe industries are known to employ up to 80000 people. Limit of SSI (with benefits intact) may be increased to either 1000 workers or Rs. 10 crore of investment or based on matching turnover. Alternatively, concept of small scale should be abolished altogether leaving behind only tiny sectors.
- Develop initiatives in long-term, vision-driven policy formulation and implementation. Progressive legislation such as those related to ownership and tenancy of agricultural land, single window, time-bound clearance of projects and contractual labour should be enacted without delays.
- Set-up effective grievance cell to be monitored by the Chief Minister's office.
- Utilise the concept of private-public partnership to the maximum. Involvement of local people, private sector and commitment oriented incentives from the government can be very effective.
- Involve private participation in the development and management of industrial clusters and corridors including rural industrial development

3.4.3 Demonstrate Changes in Governance

Good governance has become a prerequisite for attracting investment. Some analysts argue that political organisation and the administrative competence of government are the most important explanatory variables of development. There are multiple strategies to create these features in the system of governance. Some of these can be implemented.

Introduce Comprehensive Computerisation

Extensive use of IT can bring about transparency and accountability in all areas including online

clearances of projects, taxation, information dissemination, land record, statistical data on all issues of development. Therefore, the pace of introducing e-governance in Uttar Pradesh should be accelerated.

Almost all fast moving states of the country are extensively utilising information technology to provide information to the people in the most convenient way. The first step towards matching these states is to man information technology departments with top quality IT professionals with clear vision of the systems needed, and the freedom to plan and execute these systems. The state machinery should be assigned the job of a facilitator. Such programme should be directly under the Chief Minister for efficient and quick execution.

Simplify the System in all Spheres of Administration

Simplification of procedures and reduction of red tape barriers can go a long way in reducing corruption. Consider the progressiveness demonstrated by Karnataka, which has already passed a Karnataka Industry Facilitation Bill, focussed on simplifying procedures and reducing bureaucratic controls. Choice of factories for inspection will be through random numbers and all inspections will be joint inspections so that factory inspectors, boiler inspectors, excise inspectors, or whoever is required to inspect, will go together and finish the inspection at the same time. Similarly, the multiplicity of application forms is to be replaced by a Combined Application Form (CAF) in order to simplify the business operations. The focus of the programmes is not only to compete with the other Indian states, but also to compete globally. Therefore, quality, delivery, services and product all are getting due consideration in the policy design. Andhra Pradesh is also following a similar pattern and its implementation of single window programme has the backing of law, along with online registration and automatic clearances after a deadline.

Adopt Positive Approaches

The state government should promote a culture of self-regulation of projects. This will also act to reduce paperwork by negative list by emphasising what is not permitted. Get commitments from the private sector on infringement of regulations, and set up a system of enforceable penalties

There should be automatic clearance of projects if deadlines are not met by officials in processing a proposal, with a responsibility of the concerned official to explain the delay.

Empower People with Information and Right to Information

Empowering people with information and the right to information is another possible way of improving governance. However, the moot question is about the mechanism to get justice against societal evils. The legal system is so slow and non-transparent that it is almost impossible to secure redress. A recent study by the World Bank has brought out a comparative analysis of India's regulatory environment with that present in China. Procedures in India are more complex, more numerous, and cause greater delays.

One way to involve local bodies in development activity effectively. The provisions of the 73rd and 74th amendments must be implemented to reform management of revenue and expenditure. The First State Finance Commission had made a number of recommendations regarding financial power to local bodies. Government of Uttar Pradesh needs to pursue the recommendations of the SFC aggressively and give autonomy to urban and rural local bodies (ULBs). Transparency can be achieved through public disclosures of the revenue and expenditure statements at the local body level. Involve media and independent NGOs in dissemination of information about policies and programmes of the government so that the lapses at the middle level can be brought to public knowledge.

Legislate to Reduce Moral Hazards

Recently, the Indian Parliament has passed a bill that permits fund raising from private corporates for election under specified procedures. This is a good example of arriving at better policies by legalising the illegal. To consider another example, if driving licences are provided smoothly just on the recommendation of recognised motor training institutes with easily traced driving licences, then monitoring the quality of driving is far simpler. The police just have to record driving licence numbers into monitoring system while penalising the defaulters. This information can be used for delisting institutes from which more defaulters graduate. Thus, the risk of getting derecognised will ensure that institutes do not illegally sell licences. Technology needs to be used in order to make this possible.

Institute Focussed Advisory Committees

It may be helpful to rely on focussed advisory committees comprising top class professionals, industrialists, social scientists and journalists, instead

of a bureaucracy-loaded system, to get advice on industrial/scientific/social developments. If governance through committees is to be successful then advice of the expert bodies must be made binding by the law.

3.4.4 Assign Targets to Investment Promotion Boards

In most states, bureaucrats, with no implicit or explicit targets and incentives, head the investment promotion boards. One possible way to ensure the performance of these boards is to utilise the dual measures of actual investment and the ratio of offers to actual investment. Incentives should be linked to performance.

3.4.5 Systematise Urban Development and Bring Major Cities to Modern Standards

The state should create a comprehensive policy for urban development. Any area falling under urbanisation schemes must follow set norms, which should be enforceable. Basis of these norms should be a mandatory master plan including well laid-out roads, water, sewage systems, electrification and communication.

Special emphasis is needed to modernise Agra, Lucknow, Kanpur, Allahabad, Varanasi and Meerut. The development of these cities should be priority.

3.4.6 Develop Tailor-made Infrastructure to Be More Cost-effective

The results of investment in infrastructure are physically visible and demonstrate the seriousness of the government in enabling business. In creating connectivity, there are two types of facilities that are important. First, facilities that connect regions and big business centres. Second, connections between industrial centres of the state and the local system. Both are important in decision functions of the investors.

States are implementing tailor made policies for different target industries. Flexibility is needed to realise efficiency gains from infrastructure development. It is important to identify the type of industrialisation suitable for an area. An attempts should then be made to create infrastructure such that investors are automatically motivated to go to that area.

This calls for a spatial strategy of industrial development through specialised agencies, which can take up industrial area development projects at large scale. For example Karnataka Industrial Area Development Board (KIADB) has been assigned

responsibility to develop sector specific and location specific industrial parks in Karnataka. Several such initiatives are needed in Uttar Pradesh.

3.4.7 Develop Financial Infrastructure

The financial infrastructure is closely related to all economic activities, particularly industrial and trade activities require extensive support in terms of financial markets. It includes not only the development of commercial and rural banks, but also, clearing houses, trade centres world exposition centres, and exhibition parks. Uttar Pradesh should plan financial and commercial complexes at Lucknow with modern amenities, connectivity and research facilities through public private participation. This will help attract major corporate houses to the city.

Andhra Pradesh has placed special emphasis on developing financial and other commercial services in order to make Hyderabad and Vishakhapatnam attractive locations for corporate head quarters and for transacting national and international business. Andhra Pradesh has also proposed well-designed and modern world trade centres at these locations through private participation. In addition, at Hyderabad, a World Export Exposition Centre is also being planned in collaboration with the Government of India. These policies display a vision and foresight.

In another instance, Haryana is concentrating on modernising the operations of the state financial institutions through reliance on information technology and greater professionalism. These institutions are redefining their role to focus on venture capital and small and medium size enterprises (SMEs).

Credit to the small and tiny sector has been a chronic problem. This needs to be solved through the mechanisms of self-help groups and incentives to local bodies for developing successful arrangements with rural banks.

3.4.8 Initiate Labour Reforms

The need for labour reforms are felt by most progressive states. Significant changes have already been made in selected sectors such as information technology, special economic zones and export processing zones. States such as Maharashtra and Karnataka have already initiated reforms on a limited scale. Besides, the central government is also in the process of changing legislation. Labour reforms are needed to meet new economic challenges, where efficiency and competition are the key considerations in policy formulation. The

reforms include amendments in working time, exit policy, contractual labour, minimum wage, inspections related to labour disputes, trade unions and prevention of unfair labour practices and paper works related to labour laws.

3.4.9 *Create a Strong Pool of Human Capital*

Human capital is essential for attracting investment and achieving faster growth. Some states have built up a reputation for their skilled workers. Human capital is the composite effect of human development and intellectual disposition. It is important that the basic needs of every person are adequately met so that people can concentrate on their intellectual development. Therefore, the strategy of accumulating human capital should concentrate on health, hygiene, nutrition as well as intellectual development.

3.4.10 *Promote Intellectual Development*

The nature of the education policy, institutional development and the presence of quality faculties at the institutions are needed for intellectual development. The system should not permit very low quality students to secure professional degrees. This does not serve any purpose. Radical policy initiatives are needed to build an image comparable to states such as Tamil Nadu, Maharashtra and Karnataka.

Karnataka had been developing a network of Artisan Training Institutes (ATI), the District Training Institutes and Polytechnics to upgrade the quality and skill of manpower employed by SMEs. However, recently, ATIs are being closed and/or replaced by Centres for Entrepreneurship Development of Karnataka (CEDOK) and a chain of Rural Development and Self-Employment Training Institutes (RUDSETI's), with the direct involvement of industry and communities.

CEDOK utilises the creative capabilities of the local community, particularly in less industrialised districts. The Government of Karnataka has ambitious plans to turn CEDOK into centres of excellence in Entrepreneurship Development, Business Management and Training. RUDSETI's are now operational in most districts of the state. The management of these institutions is largely through private initiatives, focused on the needs of local industry.

3.4.11 *Formulate Policies Leading to Economies of Scale and Increase in Domestic Consumption*

Promote cost reducing policies such as low tax regimes and industry structure so that domestic

consumption increases. A large domestic market is essential for industry in the state to grow and attain economies of scale. In this context it may also be noted that several sectors are still reserved for SSI and even if a sector is taken out of reserved list, the barrier arising out of differential treatment between an SSI unit and a non-SSI unit in the same sector continues. This effectively blocks the expansion of scale of operation. Therefore, it is important that scale of SSI operations be raised sufficiently. In countries, such as China enterprises having less than 1000 workers or less than Rs. 10 crore equivalent of investment are reported to be considered as small scale. A similar definition could be adapted in India context also. Alternatively, the concept of SSI could be abolished altogether leaving behind only so called tiny industries for preferential treatment.

3.5 **Create and Develop Institutions**

There is ample literature to support the view that institutional development and long-term growth are positively correlated. However, institutions are known by their quality of work, delivery system and human resources manning them. Therefore, a proper environment is necessary to attract the right people to the right place. Private investment in education and institutional development, ranging from basic education to R&D, needs to be encouraged.

The need for institutional development has been recognised by most state governments, but Maharashtra and Karnataka are frontrunners in this respect. Maharashtra is providing land in industrial areas for institutes for higher learning, including business schools, at nominal or subsidised rates.

There are many areas such as banking, legal system and constitutional matters where states have supportive roles in implementing Central reforms. However, subjects such as business rules, law and order, state finances, state financial institutions, industrial development, rural development, statistics, education system, local-body programmes, academic research, economic analysis, which are at the heart of development, fall entirely under states' purview. These institutions need to evolve continuously because of a changing economic environment and new challenges.

3.5.1 *Develop Centres of Excellence*

Centres of excellence help build the image of the state as an attractive investment destination. The focus should be on promoting original research, and attracting the best staff. These should be merit-based

and free from bureaucratic interference. Uttar Pradesh already has some of the important leaning centres such as Central Drug Research Institute (CDRI), IIT Kanpur, IIM Lucknow, Roorkee Engineering University, the BHU and Sanjay Gandhi Post Graduate Institute of Medical Science. However, it appears that state has not been able to project them as important contributors to the state economy. Many universities such as Allahabad University, once called as Oxford of the East, have lost their glory. Research and Education centres need to market their potential through tangible results. Research activities from all key institutions should be documented and published to generate a sense of competition and awareness. An advisory body can be set up to publish and promote research in all areas of interest being contributed from the state.

3.5.2 Strengthen Statistical Analysis

Good decisions are helped by good analysis and high-quality data is the backbone of any meaningful analysis. If economic research is to be improved, special emphasis must be given to collection and analysis of data. States like Karnataka are developing data sources to estimate district level domestic product, when many states find it difficult to estimate state domestic product. Karnataka, through its institutions has also initiated a process of building extensive and credible databases on WTO matters, and its implications for various sectors, to be disseminated throughout industry for awareness.

3.6 Develop Sector Specific Policies

Different states have identified specific promotional activities or focus areas for industrial development and achieving high growth. These policies bring about clarity in the decision making process. Sector specific policies are also helpful in giving a direction to implementing authorities. In this endeavour, export promotion should be at the heart of overall policy frameworks. There is galaxy of policies, which can be simplified and compiled for public consumption. To enumerate some of these, a list is presented in Box 3.1.

3.6.1 Be Focussed in Identifying Thrust Areas

It may be difficult to direct the incentives to every sector. In fact, an under-performing administration should focus on specific sectors, since it does not have the resources for more broad-based policies. Thrust areas should be periodically revised; as soon as the inflection point is reached in a sector, the government should change its focus to more under-developed

BOX 3.1

Facilitation and Knowledge Management Related Policies

1. Entrepreneurship development
2. Awards for meritorious entrepreneurs
3. Education policy
4. Environment and pollution control
5. Export promotion
6. Financial infrastructure
7. Simplification and streamlining of rules and procedures in administration
8. Development of industrial parks, complexes, estates and special economic zones and trade centres
9. Infrastructure development policy
10. Industrial policy
11. Investment policy
12. Land allotment policy
13. Labour laws and related procedures
14. Natural resources and conservation policies
15. Procedures and clearance to set up units
16. R&D policy
17. Human resource development
18. Tax related procedures
19. Sick industry policy
20. Women entrepreneurs
21. Single window system of project clearance

Promotional Policies

1. Agro and food processing policy
2. Electronic policy
3. Information technology policy
4. Transport policy
5. Telecommunication policy
6. Forest based industries policy
7. Handloom and handicraft policy
8. Biotechnology policy
9. Medical and Medical college policy
10. Mineral and mineral based industries policy
11. Rice export policy
12. Road policy
13. Power policy
14. Rural non-farm sector policy
15. Sericulture policy
16. Tourism policy
17. PSU related policies
18. Small-scale industry policy

sectors. Thrust areas should include comprehensive computerisation and quality education. Industries with a high ratio of gross value-added to capital stock should be targeted for rapid development.

3.6.2 Analyse Incentives Provided to Industries by Other States

Andhra Pradesh, which attracted almost 5 per cent of FDI during 1991-2001, is known to offer some of the largest fiscal and infrastructure incentives for investment. On the other hand, states such as Karnataka do not mention any tax-based incentives in their policy document and prefers to focus on enabling factors. The GoK has withdrawn all exemptions on stamp duties and standardised the rates. The incentives on offer in Andhra Pradesh include:

1. Infrastructure facilities (roads, electricity, water, drainage, and allied infrastructure, etc.) at the doorstep of the proposed industry. Allied infrastructure includes facilities such as telecommunication, internet connectivity, transport linkages, housing complexes, container depots, exhibition halls.
2. Industrial Infrastructure Development Fund (IIDF) of Rs.100 crore to take care of infrastructure needs of the proposed industry.
3. Whenever industries are located in places other than industrial areas (isolated areas), the government will bear up to 25 per cent or Rs. 100 lakh, whichever is less, infrastructure cost.
4. Captive power generation will be allowed.
5. To ensure no power cuts or tripping, dedicated feeders and dedicated lines will be laid to all existing and proposed industrial areas and industrial estates.
6. Up to 10 per cent of water from existing projects and new projects will be reserved for industrial purposes including existing industrial units.
7. Fifty per cent exemption on stamp duty, registration fee and transfer duty of lands meant for industrial use. Exemption of stamp-duty and registration fee for loan agreements, credit-deeds, mortgages and hypothecation deeds executed by the industries in favour of banks or financial institutions.
8. Additional investment subsidies at 5 per cent of fixed capital cost up to Rs. 5 lakh.

9. In case of large projects with capital investments exceeding Rs. 500 crore, the government should consider a special package of incentives, excluding tax-based incentives, on a case-to-case basis.
10. Twenty-five per cent rebate on power bills for three years, up to Rs. 50 lakh (large and medium scale) and Rs. 30 lakh for small-scale industry.
11. All procedures for inspections, maintenance of registers, pollution control procedures, etc. will be simplified.
12. All industrial units will be exempted from payment of non-agricultural land assessment
13. Environment tax equal to the cost of plantation and maintenance for five years will be levied for growing green belts. Industries that cultivate green belts to the stipulated extent will be exempted from payment of this tax.
14. The need for conversion of land use from Agriculture use to Industrial use should be dispensed with except in the case of tank bed lands.

Comments

Clearly, like Karnataka and several other states, Andhra Pradesh also is moving away from tax-based incentive to enablers in the large and medium scale segment. Andhra Pradesh is also trying to create facilities that are attractive to investors. Enablers are more sustainable than incentives. Once a facility is created it will continue to exist but incentives are likely to be withdrawn under fiscal pressure. In that case it is not guaranteed that the investors would keep tied to the location. Therefore incentive schemes must be designed carefully. However, the case of mega projects where investment is long term, the basis for considering incentives can be different.

3.6.3 Review Incentives to Small-scale Industries

Most of the states continue with the incentives for small scale industries (SSI), probably because this segment is by far the largest employer. However, enablers and incentives differ across states. Some states, including Uttar Pradesh and Karnataka, have policies of preferential purchases from state SSI units. These governments also help in marketing SSI products through equity participation in agencies constituted for the purpose. However, at this time, existing subsidies

are either being withdrawn slowly or being released in stages after careful monitoring as in the case of Tamil Nadu.

Comments

Deferral and exemption of interest rates, taxes and duties are inherently less sustainable policies. Small scale industries should be freed from procedural hassles and permitted to develop competitively. A preferential purchase policy reduces the pressure on SSIs to maintain quality. In order to make SSI sector more competitive the following policies could be implemented:

1. Most SSIs face high credit costs from commercial banks. States can help them by ensuring favourable credit policies so that credit is available at competitive cost and with fewer problems. Note that the prime lending rate (PLR) is no more the best rate for creditors.
2. Instead of supply side benefits, governments should consider influencing the demand side—by providing incentives to large customers of SSIs.
3. Further, taxes and duties can be brought down uniformly so that all segments benefit.

