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High cost and frequent outages of power supply hurts industry the most in Karnataka

World Bank-CII study assesses the ‘Investment Climate in Karnataka’

Bangalore, June 22, 2005: Karnataka, while ranking high amongst other major Indian states on investment climate indicators, is constrained by issues such as regulation & corruption and limited infrastructure. These issues were given prominence by over 200 firms surveyed across the state by the World Bank and Confederation of Indian Industry (CII), who shared these studies at their workshop on “Assessing the Investment Climate in Karnataka”, held in Bangalore on June 21st.

The workshop brought together senior government officials and private sector representatives to discuss the findings of two recent World Bank Group reports: the *India Investment Climate Assessment (ICA) 2004*, and *Doing Business Report 2005*, with a focus on the findings for Karnataka. Another recent paper titled “*Reform in Business Regulatory Framework - Experiences and Challenges in five Indian States*” was also presented at the workshop.

Research by the World Bank and others shows that private sector performance in India continues to be constrained by a range of bottlenecks. **India’s record in attracting private investment has not been very impressive.** Private investment averaged around 15% of GDP in the 1990s—somewhat below the average for low income countries and below the level necessary to accelerate growth to a sustainable 8% a year. It was largely financed from domestic savings. As a share of GDP, FDI in India stood at under 1% in 2002/03, compared with 4% in China and between 2% and 3% in many emerging market economies. Indian manufacturers have become more competitive over the past decade and exports have grown. But the share of Indian manufacturing exports in world exports stood at 0.7% in 2000, against China’s share of 4%.

Karnataka’s performance on investment climate indicators is by and large good, though particularly in terms of infrastructure there is scope for considerable improvement. Overall on most indicators it ranks high relative to other states and is generally amongst the top 4-5 states. In several indicators Karnataka sets the benchmark for the rest of the states in the country. The state has scored well in terms of out-of-state investor perception as well as in its success in attracting FDI. However, there remain a number of challenges that need to be addressed urgently to retain Karnataka’s leading position.

Mr. Michael Carter, Country Director (India), The World Bank, in his opening remarks said, “In the case of Karnataka, our assessment shows that respondents ranked **regulation & corruption and infrastructure** as the top constraints affecting productivity and growth”. The composite cost of power and loss of output due to power outages or surge in grid supply is amongst the highest for firms in Karnataka, which has serious implications for competitiveness and hence investment and location decisions.

Mr. K K Misra, Chief Secretary of Karnataka, in his introductory remarks highlighted that industrial dispersion in Karnataka must be promoted and we must remember that Bangalore is not Karnataka. He added that despite good infrastructural facilities at Hasan, industrial investment was not forthcoming.

Looking forward, **Mr. Gokul Ram, Principal Secretary Commerce & Industries, Government of Karnataka** highlighted the significant growth in the industrial and services sector in Karnataka in the past 4-5 years. He also elaborated on the state government's plans to promote cluster based industrial development, accelerate setting up of sector specific SEZs, focus on physical infrastructure development and implement the range of business deregulation measures to improve the state's investment climate.

Mr S Viswanathan, Convenor, Economic Affairs and Public Policy Panel, CII Karnataka in his welcome remarks highlighted the hurdles in the establishment of firms in the country. He said that while in India it would take around 274 days to register a firm, in countries such as Australia it would take just two days for the same. Karnataka had emerged as the knowledge capital of the country and it was ranked amongst one of the five industrialized states in India, he said.

The ICA 2004 is largely based on a survey jointly carried out by the World Bank and the Confederation of Indian Industry (CII) during March to July 2003 on a random selection of 1,860 manufacturing establishments sampled from 40 cities in 12 of India's 14 major states (Andhra Pradesh, Delhi, Gujarat, Haryana, Kerala, Karnataka, Madhya Pradesh, Maharashtra, Punjab, Tamil Nadu, Uttar Pradesh, and West Bengal). Based on shares in aggregate sectoral output, the sample was largely drawn from eight manufactures: garments, textiles, leather, drugs and pharmaceutical, electronic goods and equipment, electrical white goods, auto parts, and food processing. Specifically for Karnataka, 200 firms across 4 cities (Bangalore, Mangalore, Mysore, Hubli-Dharwad) and the sectors listed here were surveyed.
