

Subnational Reform in the Business Regulatory Framework

Experiences and Challenges in Select Indian States

Paramita Dasgupta
The World Bank
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Structure of the paper

- Linkages between investment climate (macro policy, regulatory environment and infrastructure) and growth
- Focus on regulatory framework for business in India
- Business regulation reforms in select Indian states
- Lessons learned

Contents of this presentation:

- Focus on regulatory environment
 - Broad regulatory framework : entry, exit and labor related policies for business in India
 - Reforms initiated by five Indian states to improve the regulatory environment?
- Have the business deregulation reforms launched in Karnataka had any impact?

Regulatory framework matters

- Demonstrated that ease of business entry and exit improves productivity gains (Liu, 1993)
- DIPP commissioned study (2001) revealed that 20% of respondents considered governmental clearances to be a problem
- Easy entry-exit rules help businesses to innovate and take advantage of new opportunities (WB-CII, 2002)
- An ICRIER study concluded that the percentage of management time spent with government officials on regulatory and administrative issues is negatively associated with productivity (2004)

Business Regulation in India

(i) Entry Regulations

- More of an issue for the SMEs

(ii) Exit Regulations

- Limited scope at the state level

(iii) Regulation over Operations

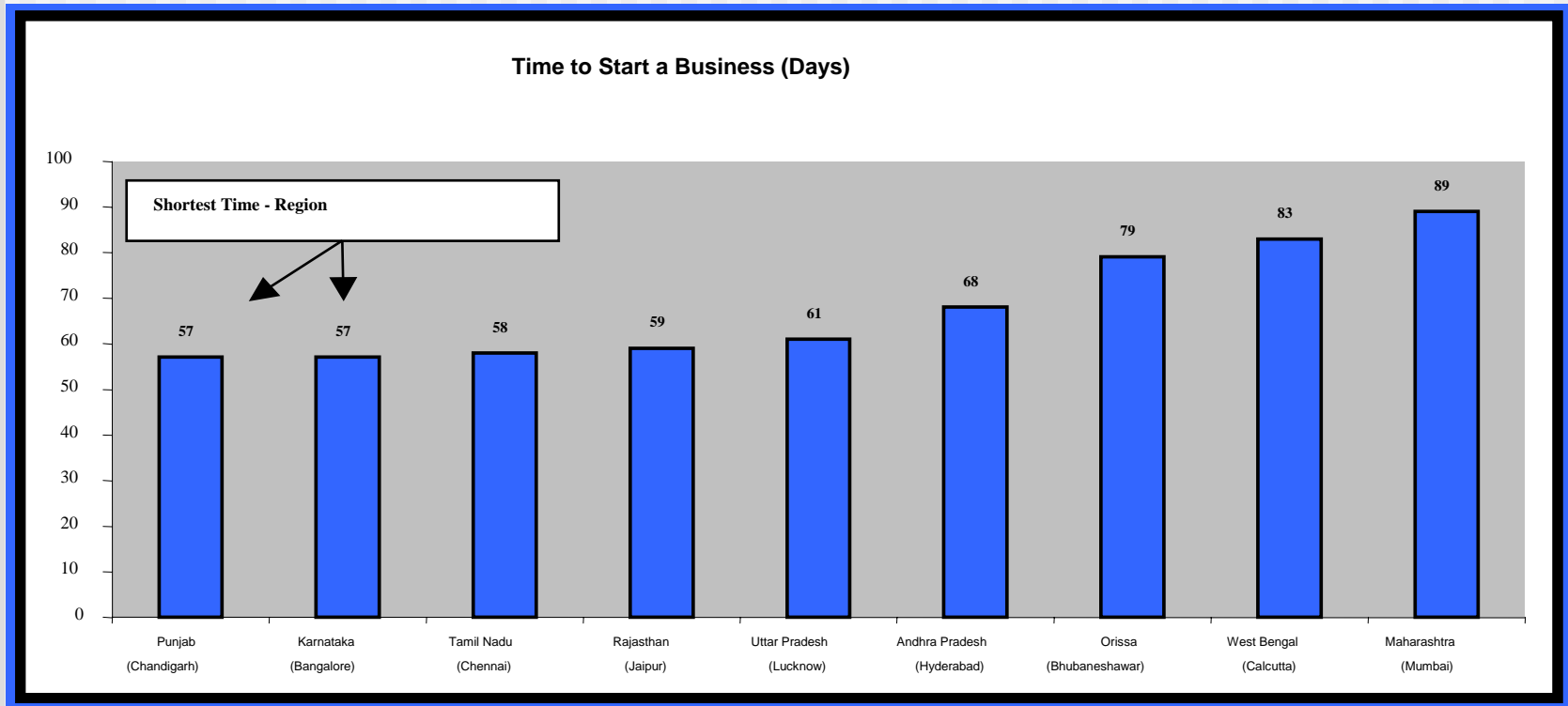
- Significant constraint for business

(i) Entry Regulation

■ Entry Regulation

- At central government level: Areas open for the private sector have expanded
 - Number of sectors with automatic FDI rising
 - Most manufacturing sectors open to private investments
 - SSI dereservation
- At the state government level: Ease of setting up private business has not improved much
 - Varies across states
 - Institutional set up for approvals vary across states
 - e.g. multiple forms for similar clearance
 - Reforms have been slower

(i) Entry Regulation in Indian states



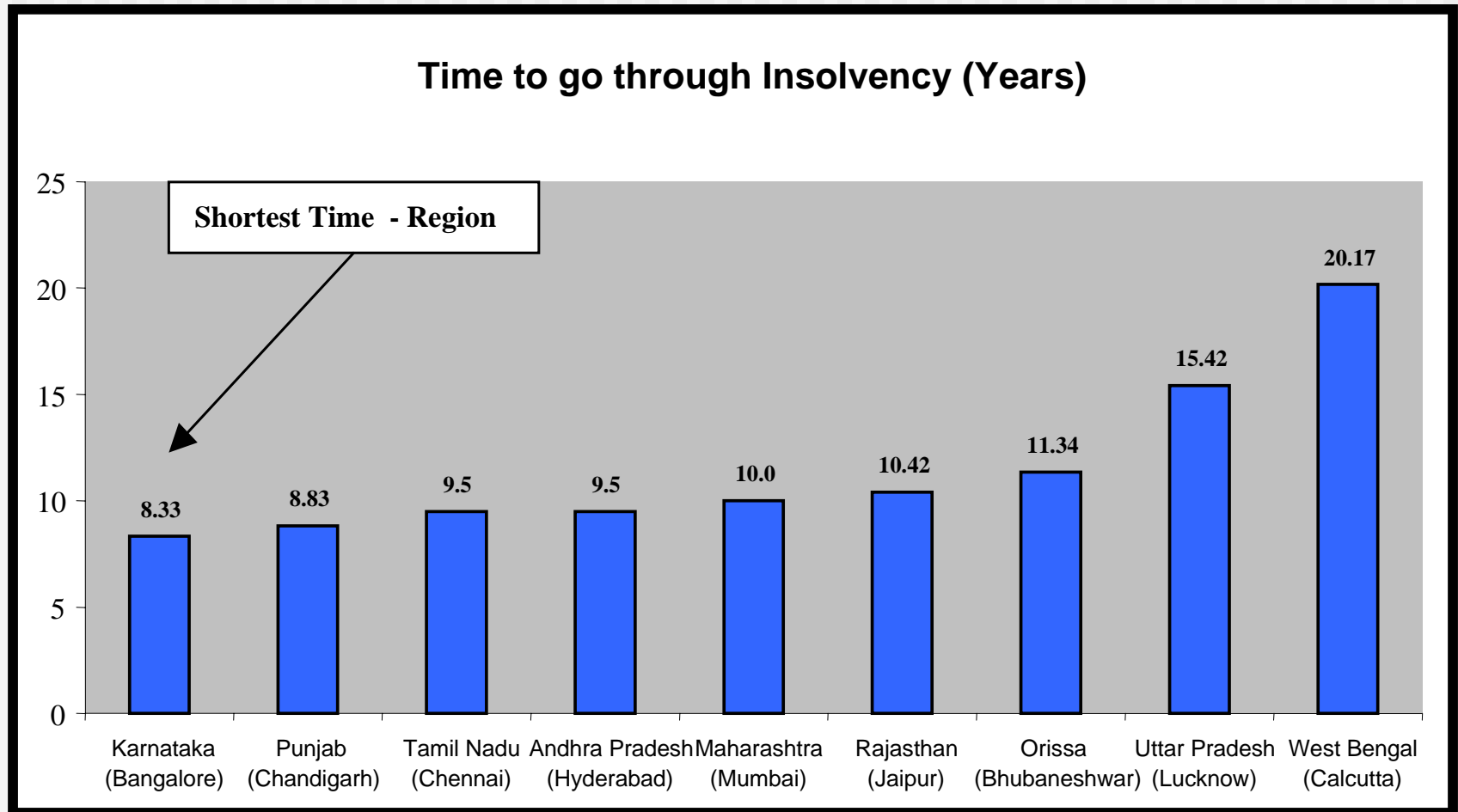
(i) Entry regulation

- Clearances and approvals
 - Single Window Agency
 - Move away from in-principle to actual clearances
 - Deemed clearance clause (AP)
 - Many states have provided a legislative framework.
 - for e.g. Karnataka Industries Facilitation Bill
 - Business facilitation agencies
 - For e.g, IndextB (Gujarat), Udyog Sarathi (Maharashtra), Industrial Guidance Bureau (TN)
 - AP has created a special agency called APFIRST for IT firms
 - Application forms
 - Combined Application Form
 - E-governance

(ii) Exit Regulation

- Bankruptcy procedures governing disposal and restructuring of capital assets
 - Regulations outdated, liquidation process protracted and complex
 - Bankruptcy not within the states' purview
- Labor laws governing retrenchment of the labor force
 - Restrictive laws – closure difficult, flexibility in hiring contract labor is limited

(ii) Exit regulation



(ii) Exit regulation

- Bankruptcy - within GoI purview (SICA amendment, National Company Law Tribunal)
- Labor laws
 - IDA 1947 requires firms with more than 100 workers to seek state government approval on issues related to business closure and retrenchment
 - Efforts underway in Maharashtra, AP to address labor related issues affecting business
 - Maharashtra: Seeking amendment to IDA clause for firms with > 300 workers
 - AP: Contract labor regulations made flexible

(iii) Regulation over Operations

- Regulation of labor
- Inspection process – compliance with laws and regulations
- Renewal of business permits

(iii) Regulation over operations

- Annual returns and registers for labor regulations
 - Streamlined and reduced
 - Common returns: AP, TN, Gujarat, Karnataka
- Inspections
 - Random sampling (Karnataka)
 - Reducing statutory inspections to once a year and drawing up annual schedule of inspections (AP)
 - Ad hoc inspections based on written complaints
 - Accrediting private agencies for inspections (Gujarat)
- Self certification
 - AP - barring major hazardous industries, all industries can self certify compliance with labor laws
 - Tamil Nadu – Self certification for compliance with select labor laws being considered

Looking forward

Lessons learned:

- There is a lot states have achieved and can learn from each other in this area.
- Nature of institutional reform is complex
 - Sub-national reform effort in a federal context
 - Mindset change is crucial
- Inter-departmental co-ordination and co-operation important
- Extant laws need to be constantly consolidated and updated
- Implementation is key
 - So far have focused on documenting legislative/regulatory changes; now need to assess impact of these on the ground (e.g. follow-up survey in Karnataka).

A few questions:

- Has the Karnataka Industries Facilitation Act been well communicated to businesses/industry associations? Are the provisions well understood?
- Are businesses aware of the random sampling mechanism introduced for inspections? Barring complain based inspections, do all other inspections provide advance notice?
- Have any of you used the Common Application Form? Is it simpler than before?
- Do you approach the Karnataka Udyog Mitra as a one-stop shop or do you still do the rounds of various departments?
- Are annual returns easier to file?
- Are staff records easier to maintain?

Assessing the Investment Climate in Karnataka
