

**India's Investment Climate: *What do
the data tell us about State-level
performance***

Roundtable on Improving India's Investment Climate

New Delhi, April 11, 2005

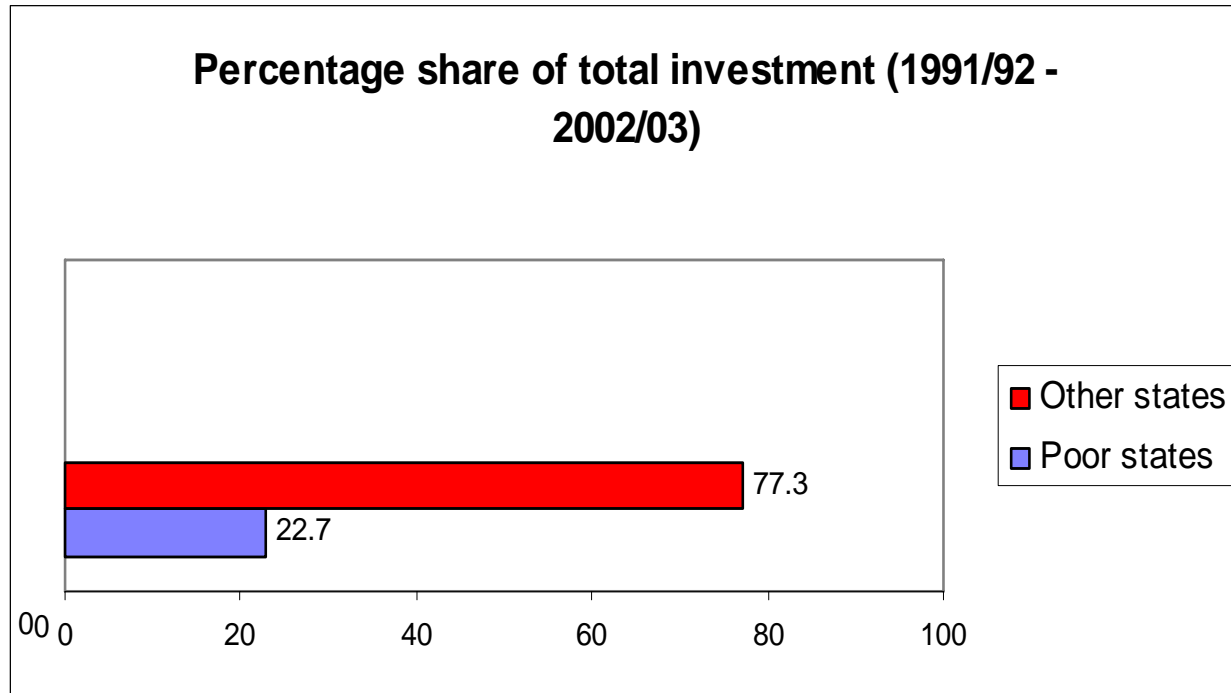
Presentation by

Priya Basu

The World Bank

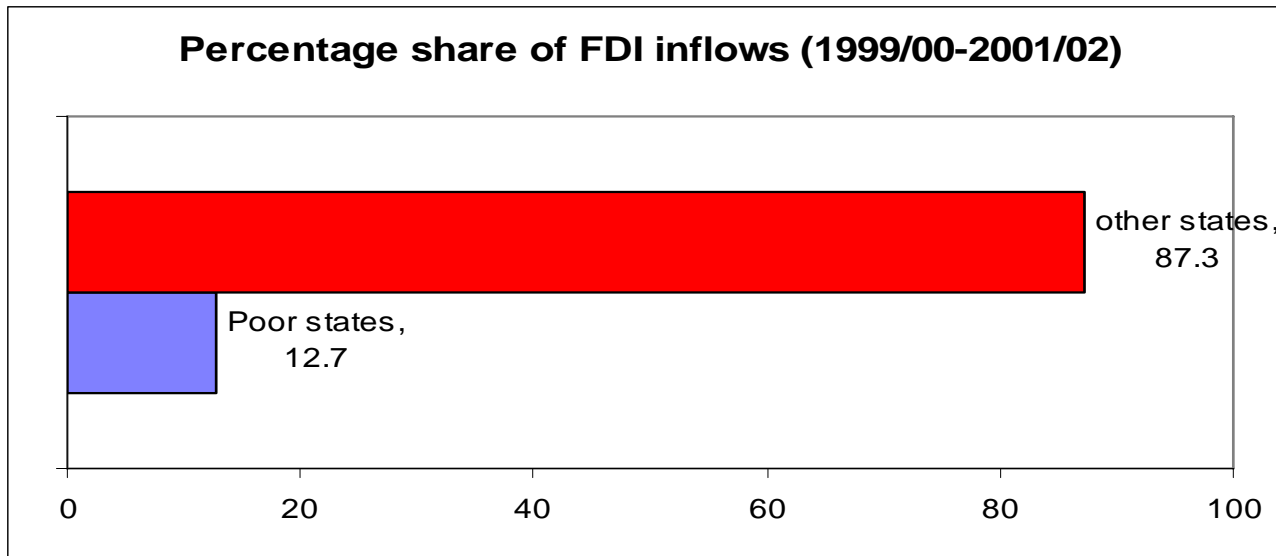
**I. Disparities are growing across the
Indian states**

Total investment



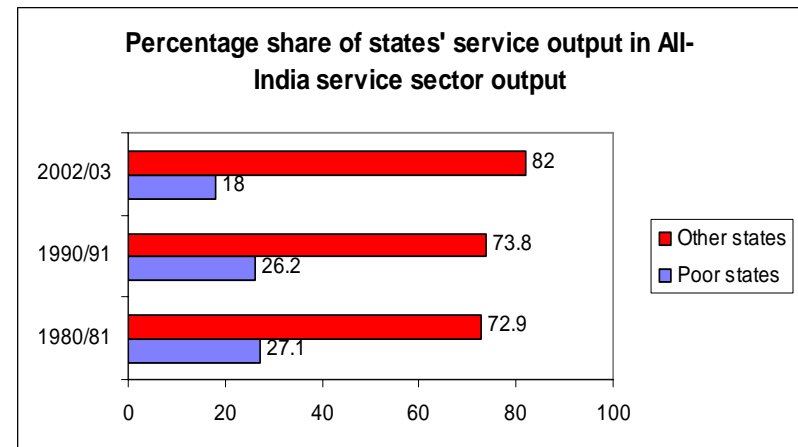
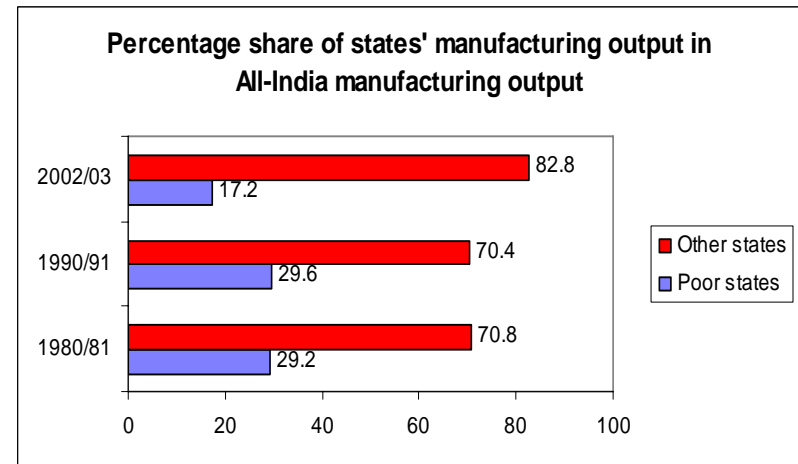
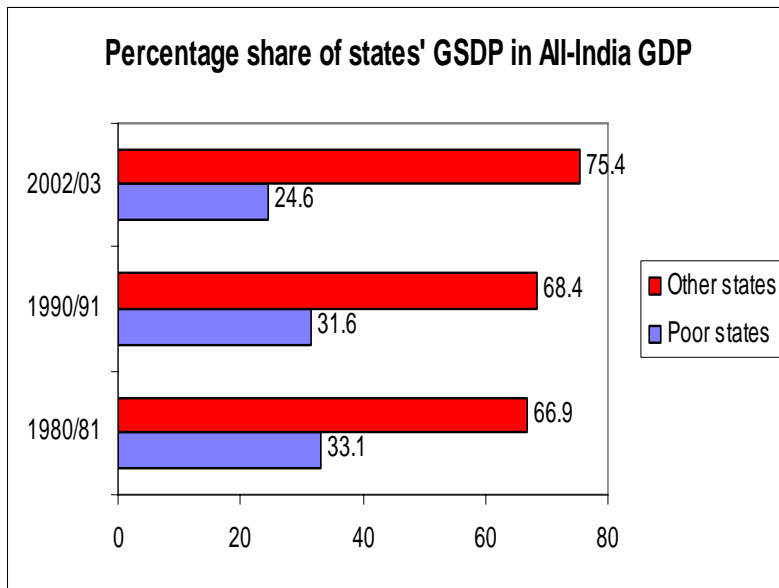
Source: Secretariat for Industrial Assistance, DIPP,
Government of India

FDI concentrated in a handful of states



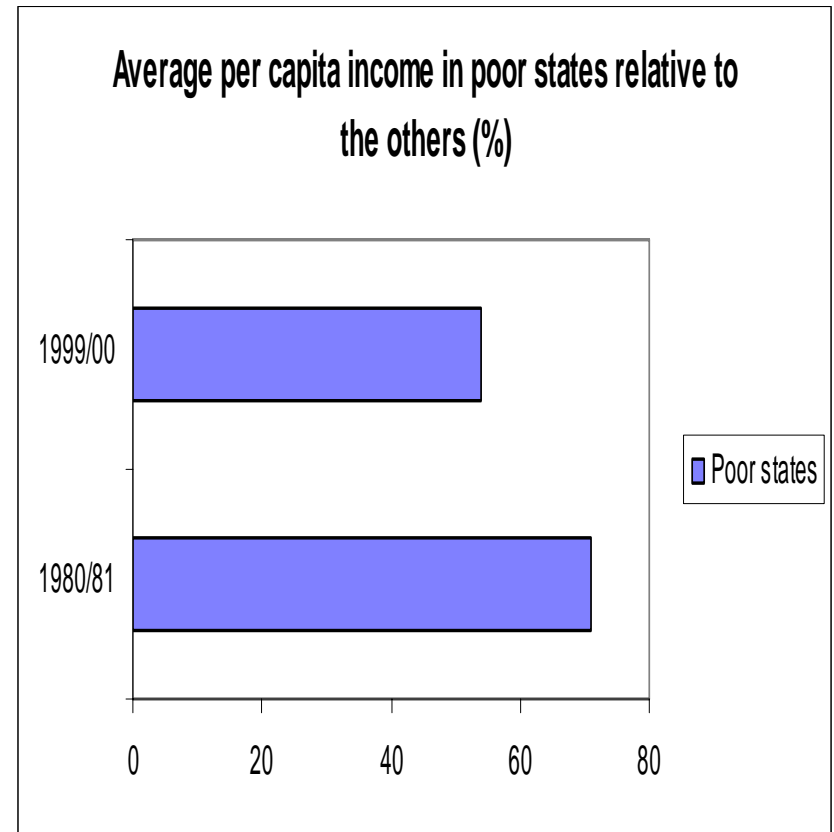
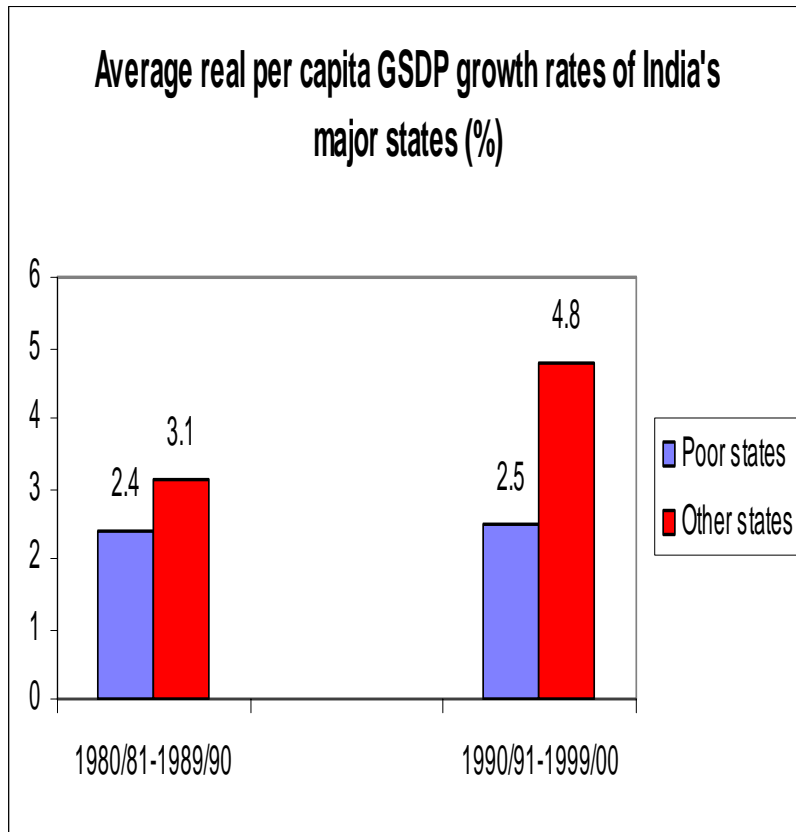
Source: Secretariat for Industrial Assistance, DIPP,
Government of India

Poor states' contribution to All-India GDP (total, manufacturing and services) has declined sharply



Source: CSO

Per capita GSDP

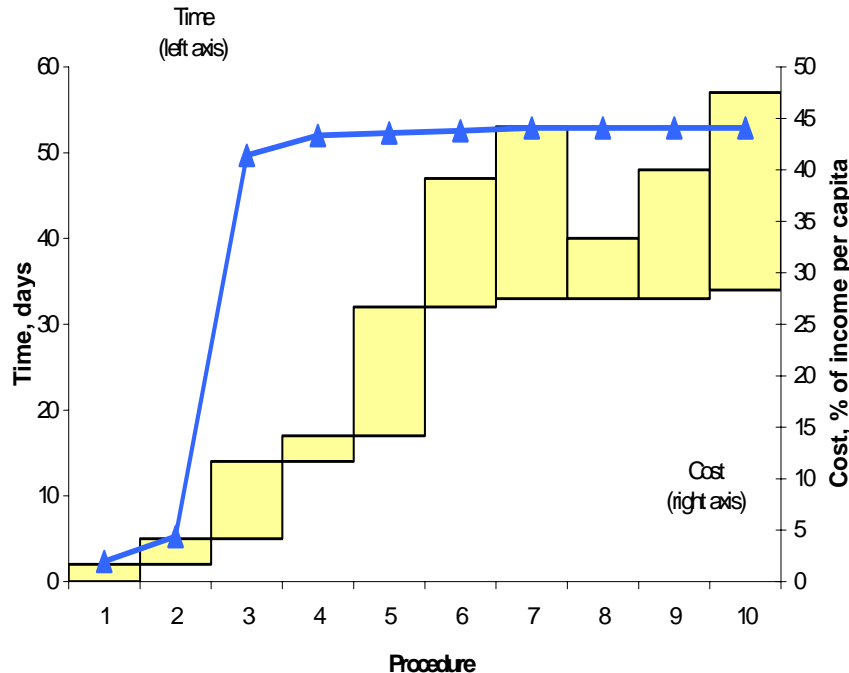


Source: CSO

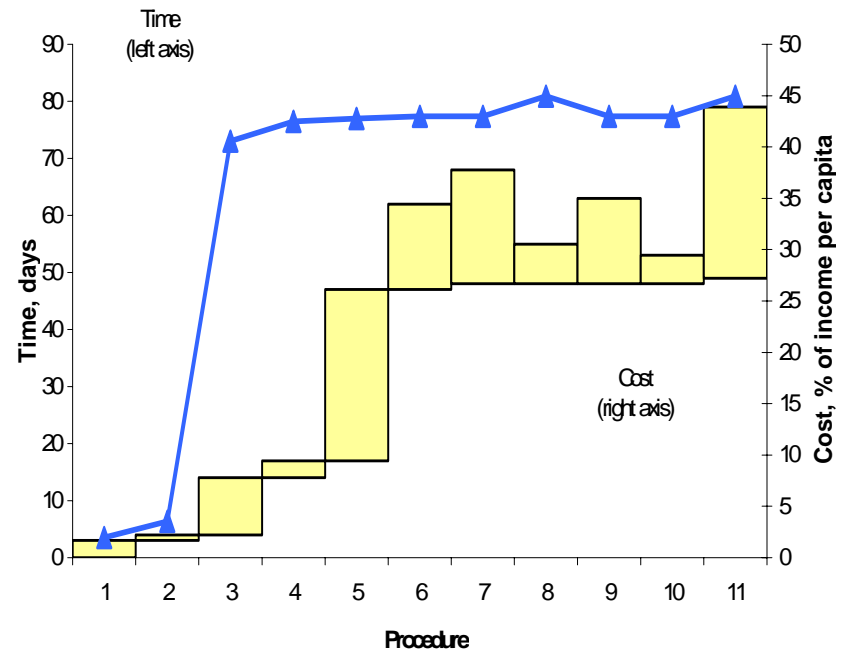
II. How do the states compare on investment climate indicators?

Entry: *Starting a business*

India- Chandigarh



India- Bhubaneswar



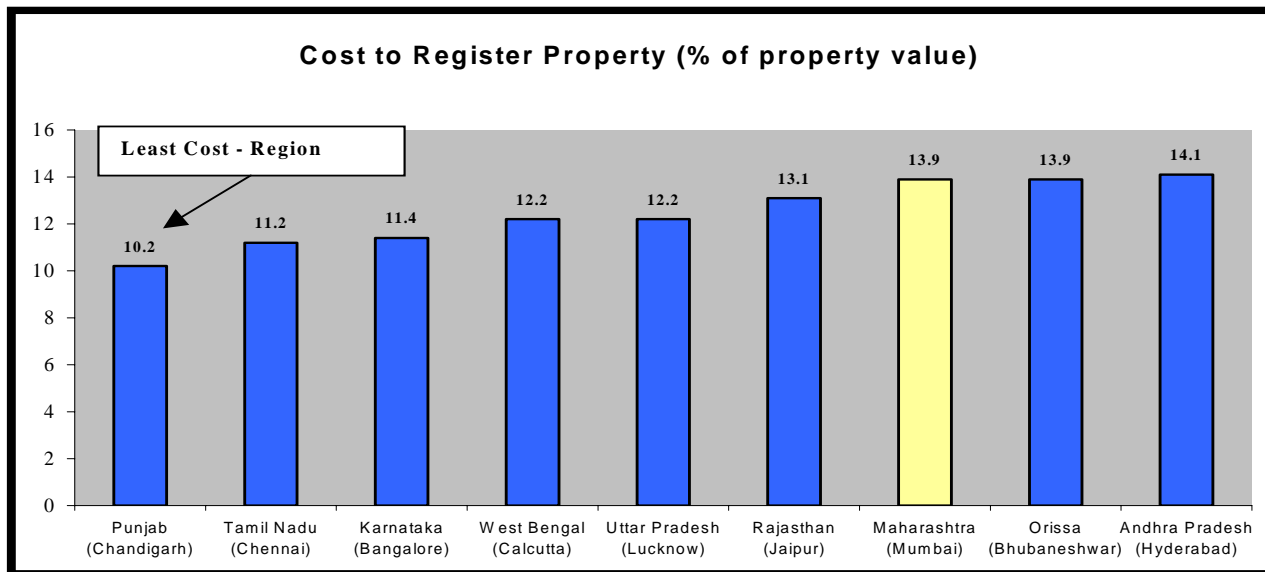
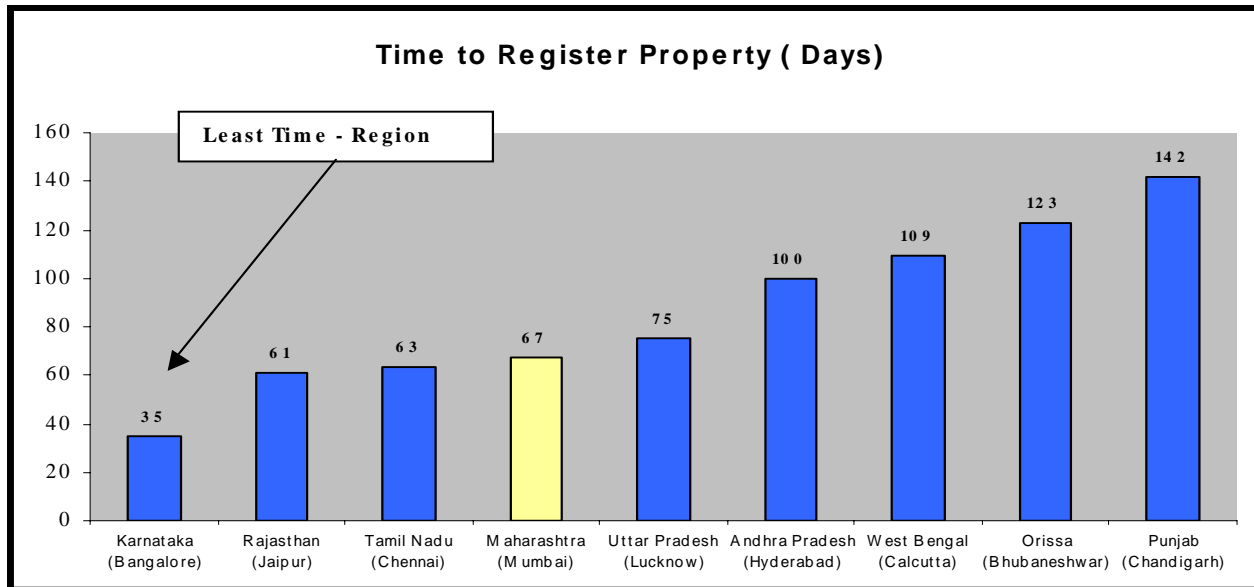
1. Obtain pre-approval of name, have documents vetted;
2. Stamp memorandum & articles of association;
3. File for registration;
4. Make a seal;

5. Obtain Permanent Account Number (PAN) for income tax;
6. Obtain Tax Deduction Account Number (TAN);
7. File for sales tax & Register under EPF;
8. Register for profession tax;
9. Register for Employees State Insurance Act;
10. Register with Shops and Establishment Act;
11. Register under Factories Act

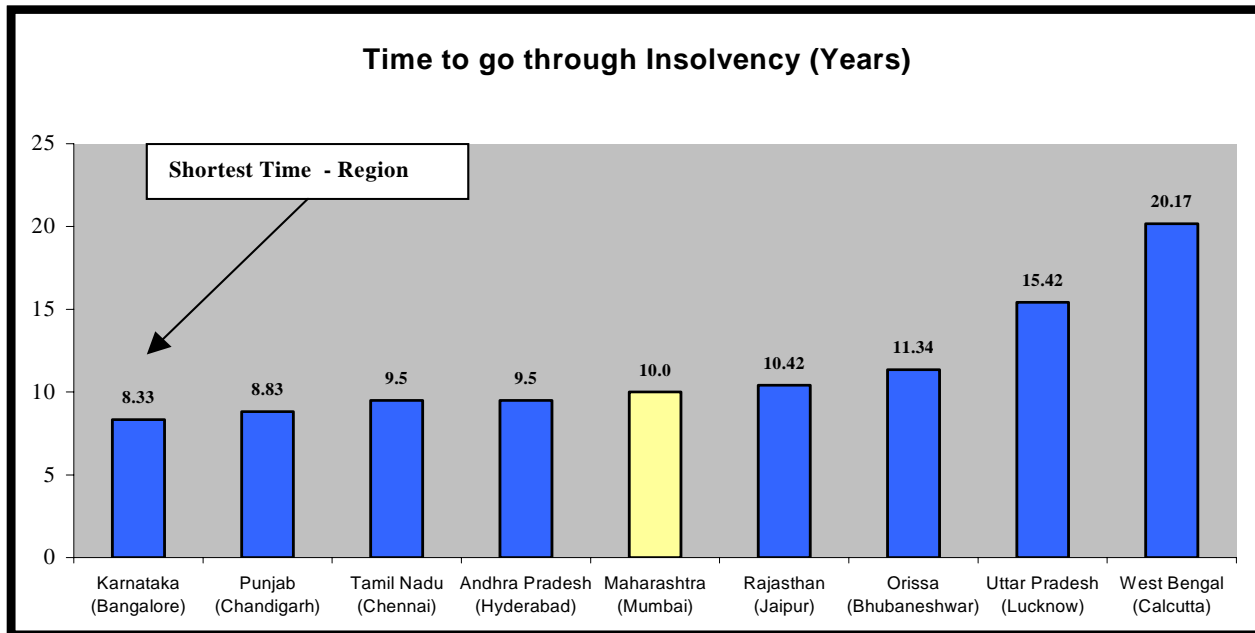
Reforms launched to ease entry regulations

- Clearances and approvals
 - Single Window Agency
 - Move away from in-principle to actual clearances
 - Move from sequential to concurrent steps (Karnataka)
 - 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

Entry: Registering a property



Regulations governing exit: *Years to go through bankruptcy*

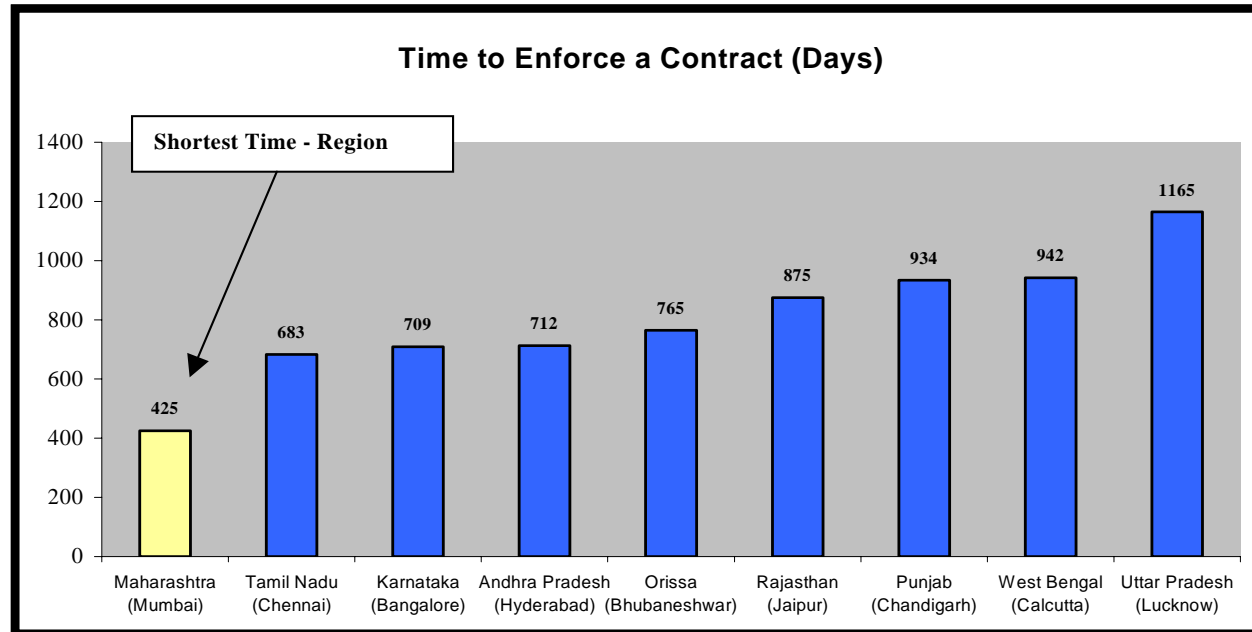


Source: Doing Business, 2005

Exit: *Labor Laws*

- Labor laws
 - Section V-B of IDA 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: Sec V-B clause for firms with > 300 workers
 - AP: Contract labor regulations made flexible

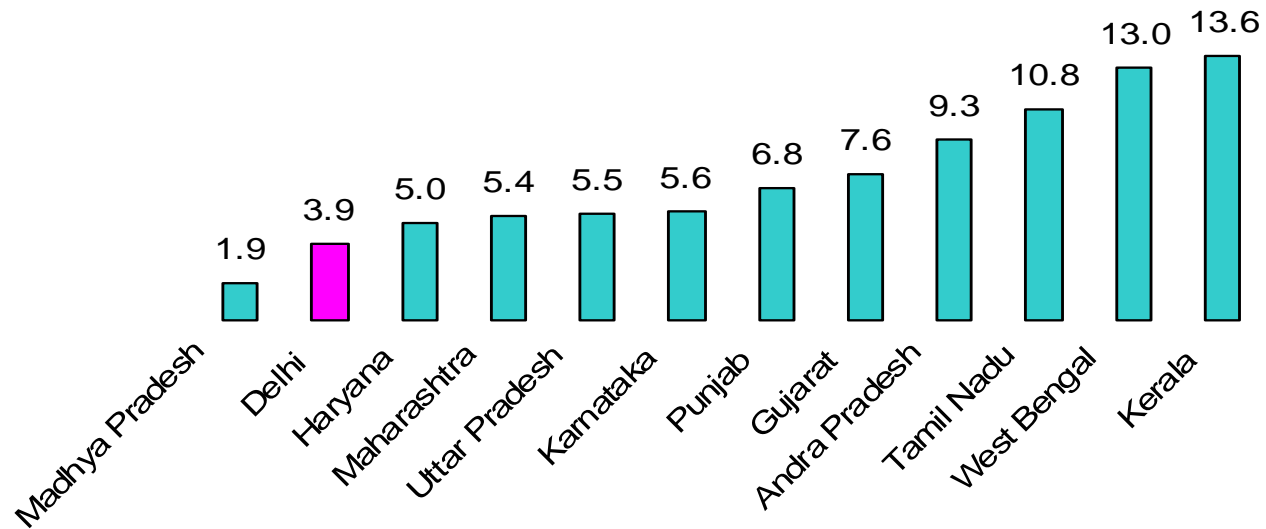
Regulations over operations: *Days to enforce a contract*



Source: Doing Business, 2005

Regulations over operations: *Number of inspections a year*

Figure 3.14. Number of inspections by government officials



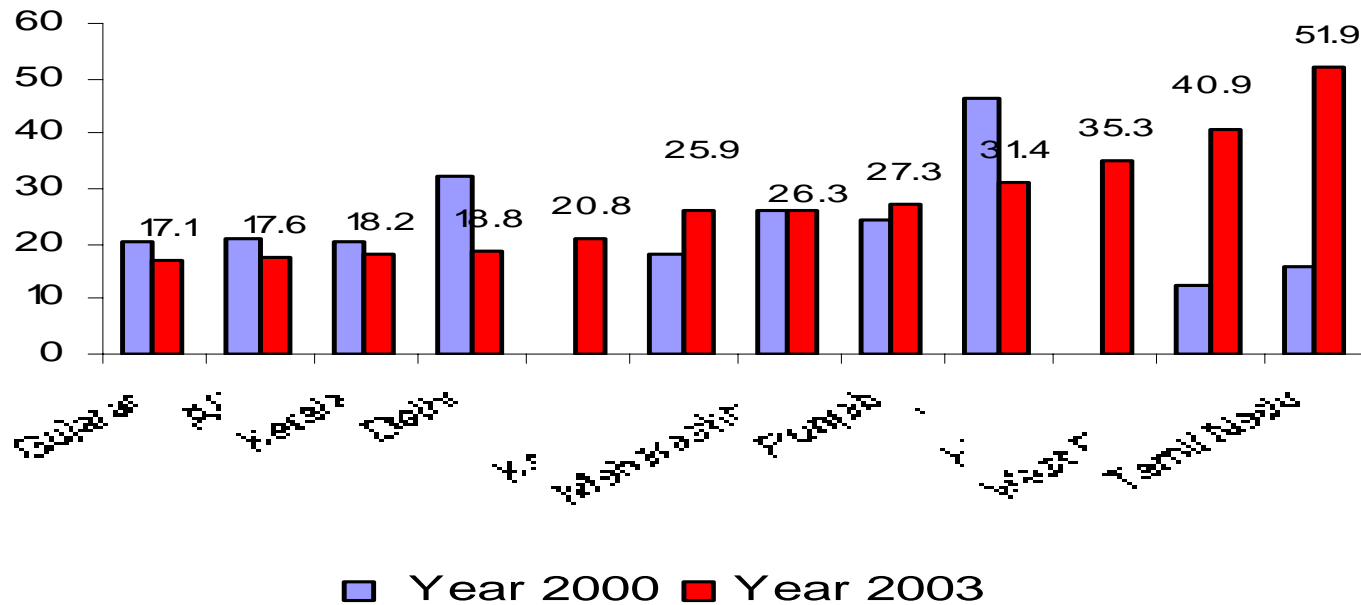
Source: India Investment Climate Assessment, 2004

Reforms launched to reduce the burden of regulation over business operations

- 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
- Annual returns and registers for labor regulations
 - Streamlined and reduced
 - Common returns: AP, TN, Gujarat, Karnataka

Infrastructure: *Access to electricity at reasonable cost*

Percent of Power Supply from Own Generators



Source: India Investment Climate Assessment, 2004

Main constraints to manufacturing productivity

- Unreliable and expensive power
- Regulatory burden and corruption
- Land
- Access to finance

Need to catch up

- The states with poorer investment climate need to catch-up with the better states
- But the better states also need to catch up with their counterparts abroad – on some key regulatory indicators, as well as in providing more reliable and infrastructure (particularly power) at more competitive prices
- If each Indian state could attain the best practice in India in terms of investment climate, the economy would grow about 2 percentage points faster.