

04

Strategies for Growth: Assessment of Options

Alternative Development Paths: Issues and Concerns

Two extremes of the development debate are represented by the opposing views that attach different degrees of importance to mining and agriculture. One view contends that the development of the mining sector can usher in a new decade of development in Jharkhand as the natural launching pad for growth acceleration and financing of broad-based social development. This view states that since the state has the largest share of mineral Gross Domestic Product (GDP) amongst all Indian states, it should capitalize on this strength, towards mitigating its weakness of crop agriculture that is almost totally dependent on rainfall. This focuses on potentially substantial fiscal gains, through mobilizing rents as mineral revenue, and spending the additional gains on rural and social development, thereby providing win-win approaches to both growth and equity.

In contrast, the second view is that potential risks associated with the mining sector are high and that agriculture has shown great potential through impressive growth in recent years, contributing significantly to poverty reduction and human resource development. This view recognizes the emerging evidence of high risks in unregulated development of the mining sector under relatively poor governance, apart from the risks of flouting social and environmental safeguards. Without a capital development fund supported by mineral revenues, and exclusively earmarked for rural and social development,

the prospects for more than off-setting compensation are uncertain as untargeted funds get used for less important purposes, besides encouraging corruption. All these can lead more to livelihoods destruction than creation. Hence, the natural launching pad is not all that natural after all, and agriculture provides a much safer option, given the adverse governance conditions.

The present study suggests a third alternative for a state like Jharkhand, namely, achieving an inter-temporal balance between the two strategies. While mining and broad-based industrial progress will lead growth over the medium to long-term and on to resource mobilization, it is the agricultural and rural sector, which needs to be continuously addressed in the short to medium term. This requires several things to move in tandem. *First*, there is a need to focus on institution building, especially those dealing with risks, risk-perception, and risk-mitigating measures, central to the growth and poverty reduction agenda. *Second*, there is the diagnostic analysis in Chapter 1 leading to a key two-sector message that is, increase in labor productivity in the agricultural and rural sector which has high employment, and increase in employment in the non-rural sectors, which has higher labor productivity, especially through development of SMEs. *Third*, each of the economic sectors should be able to grow to its long-term potential, including mining and mineral-based industries. However, efforts to “force in” development of a particular sector without addressing sector governance constraints can backfire in the

context of a rather sharp rural-urban "dualism", and the socially and spatially polarized economy of Jharkhand.

Low Risk-Low Return: Can Subsistence Agriculture Lead the Way?

During the period between 1993/94 and 2003/04, rural growth has been more pro-poor as compared to urban growth, and agricultural growth has been considerably higher than the all-India average (Chapter 1). Two questions arise in this context: (i) What have been the sources of agricultural growth during this period; and (ii) Can modernizing subsistence agriculture lead the way for overall revitalization of the rural economy through linkage effects.

Opportunities for and Limits to Technological Progress in Crop Agriculture

A considerable increase in food production over the past three decades was largely supported by rainfed agriculture. The decade of the 1980s was largely one of stagnation in agricultural production, while improvement

became pronounced from the early 1990s. Crop agriculture is largely restricted, however, to rice, which is cultivated mainly during the *kharif* (rainfed) season. The state has done well in increasing foodgrain production during the period 1973/74 to 2003/04 as reflected in higher growth rate (3.27 percent) than the national average (2.4 percent). Improvement in yields has significantly contributed to this increase (Table 4.1).

The yield level as well as cropping intensity are much lower than the national average for both rice and non-rice crops. With largely untapped opportunity for winter cultivation, due to lack of irrigation facilities, the cropping intensity is low (114 percent compared to the national average of 134 percent). There is significant scope for area expansion, given the large share of fallow land (17 percent of the total cultivable land).

The factors that contribute to agricultural growth are fertilizers, chemicals and seeds. Over the last decade there has been tremendous growth in the use of fertilizer and seeds. Crop responsiveness to these inputs is, however, highly dependant on the availability of water, which is

Table 4. 1: Annual Growth Rate in Area, Production and Yield of Principal Crops

Crops	1983/84 to 1993/94			1993/94 to 2003/04			1973/74 to 2003/04		
	Area	Production	Yield	Area	Production	Yield	Area	Production	Yield
Rice	-1.29	0.76	2.08	0.13	3.85	3.71	0.42	3.71	3.28
Wheat	-1.29	0.34	1.65	1.44	2.86	1.40	2.06	4.17	2.07
Maize	-2.38	2.14	4.63	4.11	4.19	0.08	1.19	2.34	1.14
Jowar	-5.59	-3.97	1.71	1.06	12.79	11.61	-1.94	4.09	6.15
Bajra	-5.18	-6.28	-1.16	-17.26	-0.71	19.99	-6.96	-1.75	5.59
Ragi	-4.44	-4.84	-0.42	-9.31	-8.60	0.79	-4.83	-4.21	0.65
Barley	-9.89	-6.70	3.54	8.04	11.61	3.31	-1.19	1.32	2.54
Foodgrains	-1.49	0.71	2.24	1.27	3.14	1.85	0.65	3.27	2.61
Sugar	-6.70	-4.46	2.40	7.18	2.92	-3.97	-0.54	-3.26	-2.74
Arhar	-2.72	0.00	2.80	12.90	7.68	-4.62	2.75	4.20	1.41
Ground Nut	-2.11	-2.84	-0.74	3.38	5.96	2.50	3.14	6.68	3.43
Sesame	0.20	-8.81	-8.99	-5.17	-4.29	0.93	-2.56	-2.28	0.28
Linseed	0.54	1.53	0.98	7.92	0.62	-6.76	2.66	1.66	-0.97
Niger seed	4.27	6.46	2.10	-13.16	-23.31	-11.69	-7.37	-9.83	-2.65

Source: Agriculture 2005- CMIE report.

available only during the kharif (rainfed) season. So far, there has been negligible expansion of irrigation during the *rabi* (winter) and summer seasons. As a result, the crop sector in Jharkhand has been largely monocrop (that is, paddy) in nature.

The major thrust for agricultural development has to come from the development of irrigation. Given the insufficient rainfall, very low area under irrigation, poor productivity and drought conditions, water resources need to be developed urgently. The policy for developing water resources should include major, medium and minor irrigation prospects. Larger multipurpose projects would be very important in view of the power shortage. Increased power supply to agriculture will help to reduce the cost of irrigation. Minor irrigation could be developed, along the lines of the Gram Bhagirathi Yojana. Participatory irrigation management should be emphasized in all these schemes. Groundwater exploitation should be done through dug well and shallow tubewells and should not be more than the recharge. The current move to enact legislation in this regard is a step in the right direction.

However, there is scope for bringing additional area under cultivation, which is currently fallow. The strategy should be to develop agriculture by focusing on increasing the production of non-rice foodgrains, horticultural production as well as animal husbandry and fisheries. Increase in productivity of land under rice production is the key to crop diversification as productivity gains can release land for other food and cash crops. Moreover, an increase in rice productivity can lead to better acreage for producing high value-added crops.

The state's conditions are well suited for horticultural production. Productivity levels are high in crops such as onion, mango, litchi and guava, which should also be linked with market and infrastructure development such as cold storage facilities. One reason for poor agricultural income has been the absence of cash crops such as cotton and sugarcane (there is no sugar factory in the state). With the development of water resources, sugar cultivation can

be experimented with in a few pockets. With judicious crop planning, different categories of land can be used for remunerative crop production. There is also potential for producing flowers, medicinal and aromatic plants. In the case of livestock products, emphasis should be to increase the production of milk, eggs and meat. Cross-bred cows and better availability of fodder can raise milk production. Piggery can be emphasized as there is high consumption of pork and excellent breeds are available. Food processing units including those for fruit and vegetable preservation, milk and meat preservation and processing minor forest produce would enable farmers to get better prices. The role of agencies such as ATMA and KVKs is important in developing effective farm plans while also ensuring adoption of appropriate technology to improve farm income and the marketing chain. These prospects are still at the initial stage of development and will require substantial technological and institutional development.

To the extent that technological progress is dependent on the expansion of irrigated agriculture, especially during the winter season, agricultural growth prospects in the state will be modest. Even if investment in irrigation schemes enables expansion of the acreage under irrigation to its potential, it will remain restricted to only 40 percent of the state's irrigable land.⁶⁶ This can be compared to 70–80 percent irrigable land in the neighboring regions of the erstwhile Bengal Presidency that is, Bihar, West Bengal, and Bangladesh where groundwater irrigation potential is huge.

Crop sector growth, even with full expansion of irrigation acreage every year would remain restricted to the trend growth rate of 3 percent per year and 4 percent per year for agriculture overall, taking the standard achieved in West Bengal and Bangladesh in the best possible agricultural growth scenario. If the state is realistically aiming at a 6 percent growth rate over the medium term, from the current trend of 4 percent per year, it will have

⁶⁶ World Bank/Government of Bihar, Bihar Plateau Irrigation Project, 1994.

to focus on sectors outside agriculture. With agricultural value-addition of only 22 percent, agriculture's direct contribution to the overall growth rate under the best possible scenario cannot exceed 15 percent; the remaining 85 percent would have to be generated in other sectors.

In view of the limitations to agricultural growth, the question that arises is whether the forestry sector can play a lead-sector role in the rural growth process.

Forestry as a Subsidiary Source of Employment and Growth

The importance of the forestry sector in Jharkhand's economy can be judged both by its initial high share in total land and by its recent growth performance. Land under forests, for instance, constitutes about 30 percent of total land, with wide district-wise variation, ranging from 9 percent in Dhanbad to 43–45 percent in Garhwa, Palamu and Hazribagh (Annex Table 4.1). Besides, during 1993–2003, while the overall share of agriculture and allied sectors has dropped from 23 percent to 17 percent the share of the forestry sector has doubled from 1.9 percent to 3.4 percent. The growth in the forestry sector accelerated, particularly after the emergence of the new state and was in the range of 15 percent per year, compared with 4 percent for other agricultural sub-sectors from 2001–03.

Jharkhand's forest resources, which at present contribute to rural livelihoods on a subsistence level, could play a much bigger role in economic growth and poverty alleviation. Forests not only cover about 30 percent of the land area but are dominated by economically valuable SAL species⁶⁷ *Shorea robusta*. Nearly half the forest area is at least partially degraded and the remaining forests face growing pressure from encroachment caused by chronic rural poverty. A majority of the forests, constituting 81 percent, is classified as protected. Forest productivity in the state is at present approximately half the national average despite excellent natural conditions for growth.

⁶⁷ Shorea species are valued for timber and for pole production.

This represents a significant opportunity to expand forest productivity and attain growth potential through investments and institutional arrangements.

During the lean season, many people's livelihoods depend critically on forest products for subsistence or supplementary income. The most destitute gather wood for sale. A major part of the wood that head loaders and bicycle loaders carry is meant for the urban markets. The degree of dependence on forests for subsistence or cash income varies from place to place and depends on the state of forests, access and presence or absence of other income-generation opportunities. Preliminary results from the recent Citizen's Report Card survey (PAF, 2004) suggested that in the 400 households surveyed, about 12 percent depend totally on the forest during times of unemployment. Also, the survey reported that most forest products are collected for personal use.⁶⁸ In all the six villages surveyed by the Tata Energy Research Institute (TERI), the results showed that fuel-wood, fodder and wooden poles were gathered for household use and construction. Estimates of fuel-wood collection ranged from 2 kg per household per day to 30 kg per household per day. This large range is due to the fact that some of these households sell fuel-wood in the market. At least 70 percent of fodder requirements come directly from the forest. The villagers also depend on poles from the forests for construction and maintenance of their houses. On an average a household extracts around 6–10 poles from the forest in a period of three years.

Although public expenditure on forest resource development and management has been increasing in accordance with new priorities, this has not yielded the expected returns. The annual budget for forestry programs from state and central sources is just under Rs. 2 billion (less than 0.5 percent of GSDP), and represents a significant increase from the situation in undivided Bihar. Approximately half of this is meant for operational

⁶⁸ It is important to note that, due to security reasons, forest villages in Naxalite areas were not included in the survey. These may have a higher dependence on forests.

programs, with approximately 70 percent spent on forest management, mainly to establish plantations on degraded lands and in association with new community-based forest management approaches. While average expenditure (Rs. 407 per ha) is nearly 26 percent higher than the national average, the average revenue per ha of forest cover is significantly lower (Rs. 71 per ha) than in many other states and one-third the national average.

Hence, while there is ample scope for increasing efficiency in the forestry sector, given that it contributes only 4–7 percent of employment, and has low productivity (approximately half the all-India level), it cannot be the lead sector for rural growth. On the other hand, its critical importance for the rural poor and the tribal population lies in providing access to ecological reserves in times of crisis to supplement food consumption.

Potential of Rural Non-Farm Sectors

The rural Jharkhand baseline survey household data suggests that approximately 48 percent of the workers are engaged in non-agricultural wage labor. The performance of the rural non-farm (RNF) sector, that is, self-employment and wage-employment in service, trade, transport, and rural manufacturing depends on two factors in this sector: (i) whether labor productivity is higher; and (ii) whether employment is poverty-reducing as distinguished from poverty-sharing.⁶⁹

The rate of return in rural non-farm self-employment is higher compared to the casual wage labor engaged in both agricultural and non-agricultural sectors.⁷⁰ The route to upward mobility for agricultural wage labor lies not in the transition to casual non-farm wage-employment but in non-farm self-employment and salaried wage-employment. Further, analysis based on the NSS round shows that the transport business, formal service, trade, and rural artisan activities lead to significant increases in income compared to unskilled construction or agricultural

labor. A switch to informal service and mining activities appears to be poverty driven with no clear welfare enhancing effects (Annex Table 3.1).

Although there are activities within the RNF sector, which could provide upward mobility for rural unskilled wage labor, this has no automatic entry. On the supply side, such movement is restricted by limited access to financial capital and vocational skills (for self-employment) and by poor access to human capital (for salaried wage-employment). In addition, there are demand-constraints to the expansion of the RNF sector as well. Growth in RNF activities is likely to be constrained by slow crop-sector growth, especially for un-irrigated areas. When the scope for agricultural employment is limited, survival compulsions can lead to search for employment in non-farm and non-agricultural sectors, as reflected in the high proportion of non-farm sector employment in the rural labor force. Such mass exodus of farm labor to non-farm jobs takes place at the lower end of the productivity scale and represents an act of desperation, that is, push effects rather than the pull effects of a growing and dynamic sector, at present.

Medium to Long-Term Potential of the Mining Sector

Jharkhand, with its favorable geology and rich mineral endowment, can benefit by strengthening its institutional capacity to manage and regulate the development and commercial operation of the minerals sector. Mining and metallurgical downstream activities in the state account for more than 14.6 percent of GSDP; 7.4 percent of India's mineral production in 2002/03 or Rs. 53.3 billion,⁷¹ mainly from coal (91.2 percent), iron ore (6.3 percent) and bauxite (0.6 percent); and contribute Rs. 8 billion per annum or about 15 percent of Jharkhand's total fiscal receipts, second only to sales tax (Table 4.2). Consequently, any growth strategy should include sustainable development of the minerals sector as one of its key components.

⁶⁹ Osmani (1990).

⁷⁰ Table 3.3; Chapter 3.

⁷¹ Central Statistical Organization.

Table 4.2: Mineral Resources of Jharkhand

(Tonnes million)

	Reserves			Production (2002/03)		
	Jharkhand	India	Proportion (percent)	Jharkhand	India	Proportion (percent)
Iron Ore	3,758	10,052	37.4	13.7	97.0	14.1
Coal	691	2,111	32.7	78.6	341.2	23.0
Copper (contained)_	112	441	25.4	0.02	0.78	2.6
Bauxite	70	2,462	2.8	1.2	9.8	11.8
Fireclay	50	518	9.7	0.05	0.46	10.9
Limestone	511	75,678	0.7	2.3	145.6	1.6

High Investment and Growth Potential

Many developing countries in Latin America and Africa have taken advantage of the increasingly global mining industry that competes for the limited amounts of exploration and development capital, seeking the best risk-adjusted returns. Over the last 20–30 years these countries have successfully reformed their mining sectors and attracted significant private investment flows, technology and modern management to develop their natural resources. In Latin America, Chile, Peru, Mexico and Argentina have introduced the most comprehensive reforms that have produced impressive results (Table 4.3). In Africa, Ghana, Tanzania and Madagascar have followed suit with similar results. While some established Asian mining countries like Indonesia have experienced declining fortunes, PNG, Mongolia and China have enacted reforms and enjoy considerable investment interest.

International experience also suggests that not all mining-based growth strategies will be growth enhancing in the long run. The positive impact of mining reforms on growth and poverty depends mostly on competent institutions to manage mineral wealth, taking the unique characteristics of the sector into account. Indeed, sustainability of a mining-based growth strategy will depend greatly on how the dividends from such growth are managed, as indicated by the classic

example of Nigeria's boom and bust story.⁷³ Successful mining laws need to be designed to: (i) minimize corruption and rent-seeking, as well as the duration of the permit process, by eliminating discretion in the implementation of the law; (ii) reduce speculation and encourage active exploration, by the use of properly structured license fees, which also serve to finance an independent and efficient mining cadastre; and (iii) provide environmental and social safeguards and rehabilitation. These successful reforms are built around the key principles of ease of access strictly on a "first come first serve" basis; standard conditions applicable to all investments; transparent access to minerals, through a modern and open mining cadastre and title registry; free transferability of mining title; simple financial maintenance requirements; competitive royalty obligations; and proper environmental management, rehabilitation and community development.

Mineral-Dependent Development: The Risks of "Resource Curse" Scenario

In a survey of international mining companies,⁷⁴ India, including Jharkhand, ranks extremely poorly as an exploration destination because mining development faces major regulatory, environmental and social obstacles. The cornerstone of reforms in this field generally includes re-defining the role of the state; easy and transparent access to minerals under standard

⁷² The figure for Peru includes the value of Antamina, which began production in 2001 valued at about US\$ 650 million.

⁷³ Sala-i-Martin and Subramanian (2005); Kanbur and Venables (2005).
⁷⁴ Annual Survey of Mining Companies 2003/4, Fraser Institute.

conditions for all investors; security of mining title; freedom to operate on a commercial basis; competitive and stable fiscal provisions; comprehensive social and environmental protection and mitigating measures and benefit sharing mechanisms, which address most if not all externalities of mineral production, and are used to convert minerals to productive assets, thereby catalyzing broader regional development.

There are already some signs of developing the "resource curse" syndrome. The state is yet to develop appropriate institutional, regulatory and safeguard conditions for embarking on a fast-paced mineral-based growth strategy. In fact, without having such institutional safeguards in place, an unregulated mineral-based growth strategy can bring in more risks than rewards. This can be judged by several examples. One relates to the manner in which institutional safeguards of local communities directly affected by mining activities are being addressed, that is the equity aspect of mining-based growth. Other examples relate to the institutional hurdles that genuine private investors face in undertaking new investments in the sector, that is, the efficiency aspect of mining-based growth.

Mining localities often get inadequate attention in the rush for mineral development and end up suffering in economic, social and environmental terms. One would expect that with large benefits of mineral development accruing to societies, the localities affected by mining

could be compensated fully with the other sections of society still reaping large net "producers' surplus". However, in practice, this is often not the case. While many factors contribute to that outcome, one crucial factor is "governance", broadly including the institutional and policy framework for the use of mineral income and for compensating the localities adversely affected.

Jharkhand's experience over the last fifty years bears no exception to the general rule of poor performance of resource-rich developing countries. In spite of a significant increase in the extraction of minerals, the per capita income of the state remained one of the lowest in the country and localities affected by mining faced acute poverty and environmental problems. Once again, the institutional framework for utilizing the revenues from mineral development, and for addressing the welfare of the localities affected, has been an important contributory factor. The challenge before policy makers in Jharkhand is to break away from past practices and utilize the mineral wealth for truly broad-based development.

The existing legal framework that regulates land for mineral leases is weak and leaves ample scope for unfair losses to those whose land is acquired. The legal opinion in GoJ appears to be that the Land Acquisition Act (LAA) of 1894, which allows acquisition of land for "public purposes", is the preferred route for acquiring land for mining leases. However, this route is fraught with practical difficulties. *First*, it needs to be seen whether

Table 4. 3: Impact of Selective Mineral Sector Reforms

(US\$ million)

Country	Level of Exploration		Industrial Output		Exports	
	Before	After	Before	After	Before	After
Argentina	<3	150	340	1,310	70	700
Chile	15	250	2,400	7,500	2,300	6,900
Peru	10	200	2,000	3,900	1,900	3,600 ⁷²
Tanzania	<1	35	53	350	53	350
Ghana	<1	n.a.	125	700	125	650
Mali	<1	30	<1	242	<1	230

Source: Bank Staff estimates

commercial and profit-making activities like mining can be classified as “public purpose”. The LAA stipulates that notifications for acquisition of land should be published in two regional newspapers, at least one of which should be published in the local language, and also put up at a public place in the local area, besides being published in the official gazette. However, in practice, the information does not reach the local community in time for them to raise objections within the specified time limit.

The LAA does not provide any real space to the affected parties for protest, negotiations or even discussion. Compensation is determined on the basis of the market value of land taken as the average of three cases of recent land transactions in the area and based on the value on the date of first notification, rather than the date of taking possession that may be years later. As the recorded market price is often a fraction of the actual price, and land prices rise quickly over time, the current procedures amount to heavy and unfair losses to the local community whose land is thus acquired.

These kinds of inequities are no longer acceptable to the people adversely affected by leases for mining development. Jharkhand has a long history of agitation politics and the recent events in Orissa concerning mining leases have further sharpened the political consciousness to the need for making land acquisition legally sound and politically acceptable.

There are also institutional and legal barriers to attracting private investment into the sector. The most important bottleneck stems from the archaic mode of state control. Thus, although the central government has opened the mineral sector to private investors,⁷⁵ easy and transparent access to minerals remains difficult. State control and operation of coal resources, the major output of the sector, and to a lesser extent the operation of the Jharkhand State Mineral Development Corporation, creates ambiguities regarding the role of the government,

⁷⁵ With the exception of the 11 atomic minerals and coal.

and conflict of interest, thereby restricting transition of the state’s role from owner or operator to manager or regulator of the minerals sector. Coal, which is the predominant mineral produced in the state, is reserved for development⁷⁶ by the central government under the provisions of the Coal Bearing Areas (Acquisition & Development) Act of 1957. Some 80 million tons of coal are produced in Jharkhand by Coal India Limited’s (CILs) three wholly-owned subsidiaries, National Colliers Limited (NCL), Bhartiya Coking Coal Limited (BCCL) and, to a lesser extent, Eastern Coalfields Limited (ECL). In the absence of central budget subsidies, they are ill equipped to expand capacity to meet the rapidly rising demand for coal in India. The proposed amendment to the act, which remains stranded in the Economic Standing Committee of the Lok Sabha, would allow for unrestricted access to the coal sector by private investors. This amendment would also transform the role of government, create much needed competition within the sector, increase productive capacity to meet the needs of the economy and accelerate growth within the state.

Despite the limitations in the mineral policy of Jharkhand, private investors have shown great interest in investment in the mineral sector in the state. This has, in part, been stimulated by the prospect of the large increase in demand for steel and cement due to the construction boom in India and other parts of Asia. The new atmosphere is reflected in the current spate of MoUs between the GoJ and some major Indian and foreign corporate giants. It is therefore highly plausible that the pace of mineral development in the state over the next ten years will be dramatically different from that in the last ten years. The total value of investments promised by the MoUs is over Rs. 1 trillion which is several times the current GSDP of the state.

However, making mineral development environmentally sustainable and socially just is a challenge. Mitigation

⁷⁶ As part of the overall liberalization of the sector, certain coal blocks have been made available to private developers of captive collieries whose production is tied to specific steel and power projects.

of the environmental impacts of mining and progressive rehabilitation of the affected surface area is fundamental to modern sustainable mining development and retention of the "social license to operate" implicitly conveyed by the impacted local communities. Enforcement of environmental impact assessments and agreed environmental management plans is an essential part of this social compact, especially in Jharkhand with its high population density and intense competition for rural agricultural land. Reputable mining companies recognize this and now take their environmental stewardship seriously by adopting good environmental practices. This is reinforced by balanced environmental legislation, adequately funded mine closure plans, and major international financial institutions who condition their loans in adherence to the World Bank environmental guidelines.

Significant reforms are required at both the central and state levels and include amendment of the national legal, regulatory and fiscal legislations that govern mining activity at the state level, improving the permit process, and strengthening the institutional and administrative capacity of public mining institutions. These are discussed in greater detail in Annex 4.1. Besides, promotion of mining-led growth in Jharkhand will be greatly facilitated by: (i) providing guidelines for environmental impact assessments, environmental management plans and community development plans; (ii) a consultation framework to facilitate rational land-use planning, community development and sharing of benefits between local and indigenous communities; and (iii) the dual use of designated forest areas with progressive rehabilitation and afforestation.

Developing Mines within Indigenous Communities

Working with indigenous communities requires "beginning with the end in mind", conveying to them that mining is a temporary land-use, that lands will be reclaimed and reverted to other uses, and that sustainability comes from leaving lasting human capital and infrastructure after mine closure. Human capital is best fostered through

education, either job-training directly for the mine or the many innovative enterprises that may be needed locally to support the operation. Beginning with the end in mind also relies heavily on leaving shared infrastructure that can revert to other uses. In forest-based economies, this may include roads and bridges that connect larger markets, clean water systems, and the technology and capacity to monitor spatial and temporal changes of other natural resources. The Whitehorse Mining Initiative in Canada (Box 4.1) is a good example of prior informed consultation with tribal communities to agree on a framework for development of mineral resources in tribal areas for the benefit of the community, the state and the investors.

In the event that an indigenous community needs to be resettled, some important actions should be anticipated. Information through consultation is the key aspect. If residents do not clearly understand their predicament and the options available to them, they will not move. An inventory of homes and structures, regardless of titles, will complement an analysis of customary land-use in the surrounding forest. Good community consultation yields accurate information about household composition, alternative housing and compensation or relocation preferences. Criteria and norms for compensation, based on values in nearby rural locations must be established. Land swaps for replacement of agricultural or forestlands can often be arranged with the mine, taking advantage of aggressive reclamation and reforestation programs.

It is essential that options be provided to allow individuals to choose between alternatives based on cash and/or replacement of buildings and land. Those affected would want to know the level of compensation provided and how real the proposed options are. This requires offering reasonable alternatives, compensating at reasonable rates and also for interim hardships of moving. Two general principles follow: (i) indigenous communities must have an active role in the planning process and not have the planning pre-determined for them; and (ii) no option be offered to the community for which funds or lands are not available.

Finally, indigenous communities share an intense relationship with their land. The mine should prepare enough land to re-settle the community on either new lands or reclaimed mine lands, ensuring that swaps are acceptable. With the company actively engaged in the resettlement process, shared interest in success is more likely as companies do not thrive in tattered communities.

While governance problems in the mineral sector are serious, GoJ is fully aware of them and is actively developing an institutional and policy framework for tackling them. Specifically, GoJ is at an advanced stage of preparing its policy for mineral development and resettlement and rehabilitation of communities adversely affected by mineral development and related industrial activities. While the policy is still under preparation, the

Box 4.1: Whitehorse Mining Initiative (WMI)

An Early Implementation of Sustainable Mining Supported by Political and Community Consensus. The Whitehorse Mining Initiative Leadership Council Accord was created in response to varied and complex challenges facing mining in Canada, including a fractured dialogue with Canada's indigenous people. Against this background, the industry sought support within a non-adversarial framework to develop a new strategic vision for mineral development for the 21st century. The WMI started in 1992 with a multi-stakeholder consultation during which the nation's mining ministers agreed to co-sponsor the process, and mining industry representatives, senior government officials, labor unions, indigenous peoples, and the environmental community agreed to participate.

The initiative culminated into an 18-month program to develop a strategic vision for a viable mining industry, and preserve diverse ecosystems, which was built upon shared opportunities with indigenous peoples. The accord improves regulatory efficiency and ensures the participation of indigenous peoples in all aspects of mining. Central to the accord is sound environmental stewardship, recognition and respect for indigenous people's treaty rights. Informed land-use decisions are supported by mineral resource assessments undertaken by the government.

The process leading up to the accord relied on a diverse set of stakeholders addressing finance and taxation, environment, land access, and workforce, workplace and community issues. Each working group produced guiding principles and objectives that included over 150 recommendations. Implementation proceeded in stages marked by progress reports from the national and regional levels.

The WMI represents an early implementation of sustainable mining supported by political and community consensus. Through effective consultation and inclusion of indigenous peoples in the mine development process, Community Mining Agreements, also called Impact Benefit Agreements, have become commonplace in Canada.

Community Mining Agreements. These agreements establish the formal relationship between a mine and its local communities. These development agreements increasingly adopt the principles of sustainable development and thus bring to a project many of the responses needed for mining in the twenty-first century. The benefits of these agreements are distributed across several stakeholders including an empowered community, companies benefiting from a consultative process that defines rational expectations, and host governments who view such agreements as buy-in at the local level. Civil society, including non-governmental organizations, plays an active role in ongoing monitoring of the project, capacity building and ensuring good stewardship of resource lands.

Community mining agreements with indigenous peoples serve to:

- (i) address the adverse effects of commercial mining activities on local communities and their environments, culture, way of life, natural environment, and economic activity;
- (ii) ensure that the communities share in the benefits of mining from which they might otherwise suffer only negative impacts and receive nothing or only token benefits.

Community mining agreements increasingly lead to the development of downstream economic development plans in which mining serves as an engine of growth for training, formal education, and the creation of SMEs. Successful agreements begin with incorporation of end-in-mind strategies that enable transition of the community to a diversity of other economic activities well before mine closure.

Source: Bank staff

overall approach puts emphasis on “partnership” between the affected communities, the state and the mining companies. The objective is to offer terms, which should in principle enable voluntary surrender of land by the affected communities.

The Middle Option: Sustainable and Inclusive Growth

The foregoing review of the strengths and weaknesses of the two options suggest a middle course, namely, an inter-temporal balance between the two strategies. While mining and broad-based industrial activity will lead growth over the medium to long-term and enable resource mobilization, it is the agricultural and rural sector which needs to be addressed in the short to medium term through increased investments in irrigation, rural connectivity, health, education, and non-farm rural activities. The secondary and tertiary sectors, which account for more than 50 percent of GSDP, could become the principal source of growth over the medium to long term with appropriate institutional interventions. Besides meeting the prerequisites of development, this option requires an investor-friendly climate to counter the negative developmental image of the state while encouraging private investment through decentralization and de-regulation. Labor absorption must increase in non-rural sectors, to the extent technologically permissible, especially through the development of SMEs.

Fostering Labor-Intensive Manufacturing and Services

The pattern of growth in Jharkhand suggests that there is significant potential for dividends from a broad-based industrial growth strategy. Unlike the fast-growing states where the services sector continues to boom,⁷⁷ Jharkhand's successes are predicated on industrial growth clusters and on dynamic Indian industry

⁷⁷ The performance of manufacturing sector is a mixed bag; the agriculture sector is lagging across India, including Jharkhand. For details, see India, DPR, Report No. 34580-IN, World Bank, 2006.

leaders, in both the private and public sectors.⁷⁸ While the development of mineral-based industries can catapult the state on a high growth trajectory across the medium to long term, excessive reliance on this sector as a source of growth has risks as seen earlier.

A more balanced strategy over the medium to long term would require broadening of the manufacturing base beyond mineral-based industries. Jharkhand's excellent manufacturing base for small-scale industries (SSI) covering auto, steel plant, rubber components, recycling and downstream industries, among others,⁷⁹ vindicates the claim of many experts that many more industrial clusters could be established.⁸⁰ Spin-offs in terms of ancillary industries from mega-projects and industrial clusters such as Jamshedpur and Bokaro are evident. Entrants like Timken and Cummins have also helped introduce best practices, including state-of-the-art operating procedures, in the local production environment. Lastly, the existence of good quality educational and technical institutions is an additional advantage to the state.⁸¹

Despite the promises, actual investments in Jharkhand are not impressive (Figure 4.1). The Investment Climate Survey (ICS) suggests a need for substantial improvement in the investment climate (IC) which, in comparison to other states is deficient, and does not provide adequate incentive to investors, from both within Jharkhand and outside.

Constraints to Investment

Identification of the bottlenecks that deter investment and productivity growth in SMEs and large enterprises

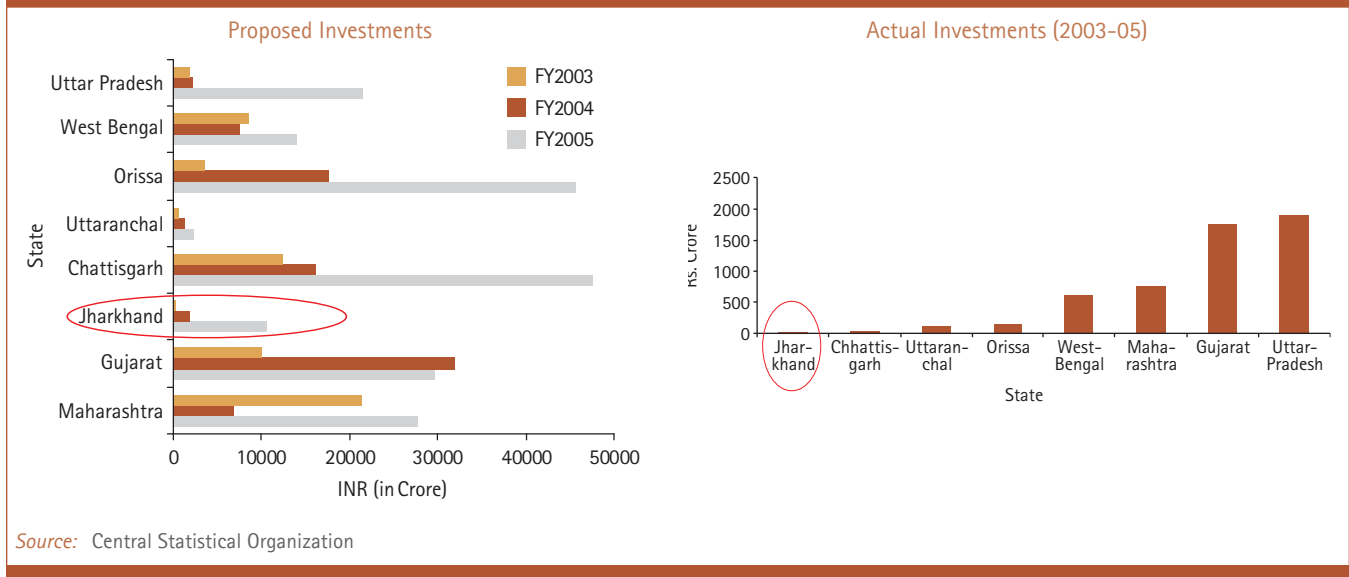
⁷⁸ They include Damodar Valley Corporation, Power Grid Corporation, Tenughat, Patratu and Bokaro thermal power stations, Bokaro Steel, Tata Steel, ACC, Central Coalfields Ltd., TELCO, Hindustan Copper Ltd., ICI, Indo-Asahi, Bharat Refractories, Dabur, Lafarge, Timken, Tata Cummins etc to name a few.

⁷⁹ Other key SSIs include: heat treatment, forgings, metal presses, castings, rubber components, machine shops, and fabrication units.

⁸⁰ Particularly in and around Bokaro, Jamshedpur, Hazaribagh, Ranchi and Dhanbad, using raw materials in the form of by-products of industries located in these districts.

⁸¹ For instance, Birla Institutes of Technology at Mesra and Ranchi, Indian School of Mines at Dhanbad, XLRI at Jamshedpur, and Central Mine Planning and Design Institute Limited.

Figure 4. 1: Proposed and Actual Investments⁸² in Various States



in Jharkhand is based on a combination of primary and secondary sources.⁸³

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Central to the problems in Jharkhand's investment climate are poor governance and weak institutions.

As a first step, the ICS asked the private entrepreneurs to rank the IC bottlenecks faced by them, in order of importance. Figure 4.3 refers to the percentage of firms that have identified a given factor as a major or severe obstacle. The results are not surprising. Firm managers ranked the lack of adequate and affordable infrastructure, particularly electricity and transport, as the most critical IC bottleneck, followed by high tax rates, and regulations, corruption and access to finance as the third. Complexities in the tax administration regime,

skill shortages and problems in accessing land were also ranked as major impediments.

An analysis in 2004 and 2005 ranked Jharkhand 19th out of 20 states, slightly ahead of Bihar based on eight parameters, namely investment scenario, budget and prosperity, infrastructure, health, education, law and order, agriculture and the size of the consumer market).⁸⁴ It is noteworthy that the two other newly-created states, Chhattisgarh and Uttaranchal, have higher rankings than Jharkhand.

An analysis⁸⁵ of constraints perceived by potential investors in Jharkhand has further highlighted its key IC bottlenecks. These include access to land, infrastructure, regulation and governance, law and order, labor laws, access to finance, and the negative "image" of Jharkhand. Most of these issues resonate with those raised by firms operating in other states in India. However, the prioritization and severity of the IC constraints in Jharkhand differs.

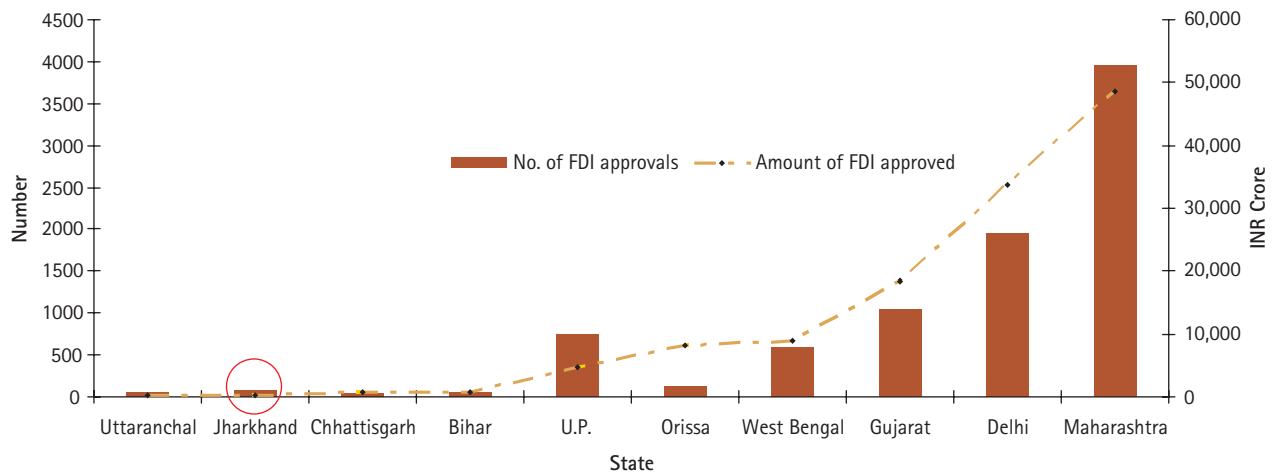
⁸² Actual investments have been measured in terms of IEMs implemented. Data for 2005 is till March, 2005.

⁸³ An investment climate survey (ICS) of firms in Jharkhand was conducted in 2005/06, as part of the All India ICS, to identify the main factors constraining the growth of Jharkhand's firms. This survey included around 120 firms in Jharkhand, across 4 industrial clusters (Ranchi, Jamshedpur, Dhanbad and Bokaro). The sectors included: metals and mining, wood and wood products, garments, leather and leather products, machine tools and machinery and parts, mineral processing, paper and paper products, auto components, electronics and electrical appliances, chemicals and plastics, and agro and food processing. Additionally, in-depth interviews of potential investors in the area of metals and mining industry, ITES and agro-processing were conducted to understand constraints faced by out-of-state investors. The choice of the sectors was driven by GoJ who considers these as priority sectors.

⁸⁴ "State of the States: India's Best and Worst States," *India Today*, 2004 and "The Best States to Live In," *India Today*, 2005.

⁸⁵ Inputs for this note are based largely on primary data from a "potential investors" survey, combined with field interviews of existing firms and other stakeholders. Preliminary results from sector policy notes on IT, agro-processing (tomato processing); and NTFPs (choice governed by client demand) have also been incorporated. Lastly, the note has relied on secondary publications and data.

Figure 4. 2: State-wise Foreign Investment Approved (1991-2002)



Source: Secretariat for Industrial Assistance (SIA), IMaCS Analysis.

Infrastructural Access for Manufacturing Growth

Availability and quality of infrastructure is a critical constraint faced by firms operating in Jharkhand and equally for potential investors not choosing the state as an investment destination. Table 4.4 reveals that Jharkhand lags behind the India average on most infrastructure availability indicators, such as road length per 100 sq km, power availability per capita, net irrigated area and tele-density.

The picture is starker in relative terms. Among 28 states, Jharkhand ranks 22nd on the aggregate infrastructure index which covers the power, communications, and transportation sectors⁸⁶. Competing states such as Chhattisgarh, Orissa, and West Bengal rank 17th, 14th, and

11th respectively (Table 4.5). Sectorally, the state is ranked 21st in communications infrastructure, 18th in power and 14th in transport infrastructure.

The findings of the survey of firms in Jharkhand, as part of the Third Investment Climate Survey -2005/06, corroborate this as well. On average, firms in Jharkhand face over 38 power outages a month compared to less than 18 per month for the rest of India⁸⁷ (Figure 4.4). Further, over 39 percent of the electricity needs of firms in Jharkhand are met through their own captive generation versus 27 percent for the rest of India.

Similarly, on the road network, Jharkhand fares poorly when compared with most other states in India (Figure 4.5).⁸⁸

Access to land

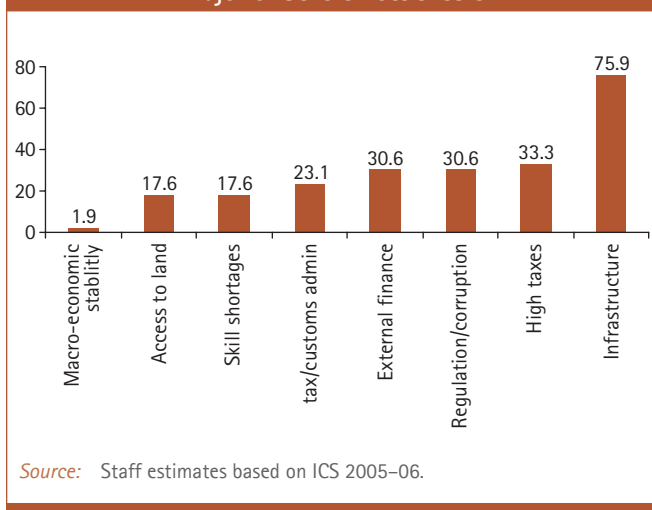
Private sector investors face several legal, policy, regulatory, process and institutional constraints in land acquisition. These cause inordinate delays in land

⁸⁶ An aggregate "infrastructure index" is defined as the degree of cost disability that states suffer in providing public services because of their underdeveloped infrastructure. Based on this definition, the top-ranked state is one that has the least cost disability, because its infrastructure is best developed. The index is developed on the basis of "enabling (network capacity) factors" and "network use factors" for three sectors: power, communications, and transportation. Enabling factors determine the usability of the network, while network use factors reflect the extent of infrastructure use. The enabling factors and network use variables differ from sector to sector. The index is based on a study of state infrastructure (Mohanty) carried out at the behest of the Twelfth Finance Commission to make a broad and systematic comparison of infrastructure development in various states.

⁸⁷ ICS 2003-04, as discussed earlier.

⁸⁸ The findings of the survey of firms in Jharkhand (as part of the Third Investment Climate Survey -2005/06).

Figure 4. 3: Managers in Jharkhand Identifying Factor as Major or Severe Bottlenecks



acquisition, thereby discouraging potential investors.⁸⁹ Each of the issues is discussed in greater detail below.

- Policies and laws related to changes in designated use of tribal and forestland:* The GoJ does not have a well-defined land policy. There is lack of clarity in land zoning or designation for specific uses, as city and regional master plans are either not available or need to be redesigned. In many cases, the small size of land holdings makes it difficult to obtain continuous tracts of land. Lastly, the lack of clear and consistent guidelines on valuation norms paves the way for informal side-payments.

Table 4. 4: Infrastructure Indicators

Infrastructure Measures	2004	
	Jharkhand	All -India
Road Length per 100 sq km	21.4 km	74.2 km
Power Availability Per Capita	225 kwh	450 kwh
Irrigated Area (percent)	10.2	40
Tele-Density (percent)	3.0	10

Source: Annual Plan 2005–06, GoJ.

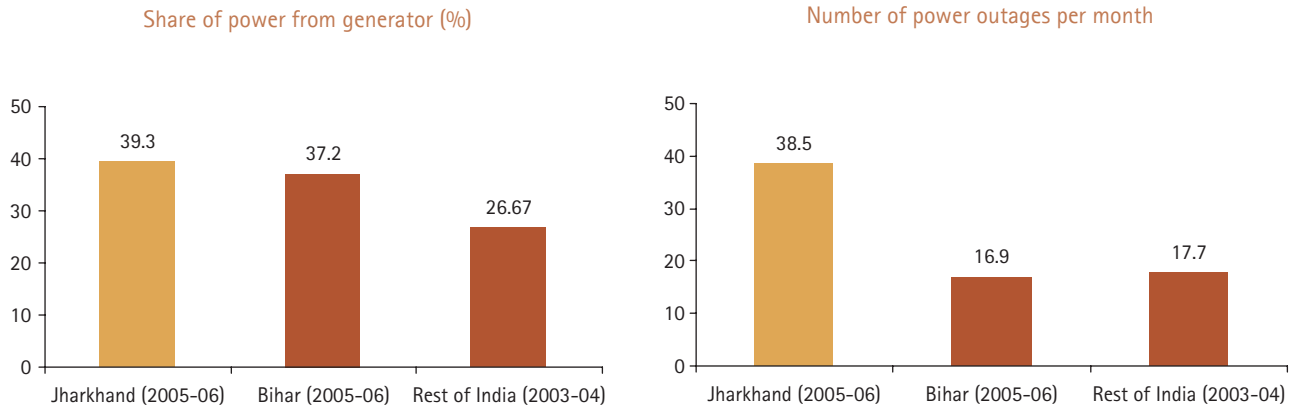
⁸⁹ In-state firms, mainly SMEs, surveyed did not rank this issue as highly as out-of-state investors did. This is so because projects from out-of-state investors are usually larger, having larger land requirements and is likelier in sectors such as mining in which Jharkhand has significant comparative advantage. But this also requires more complex approvals and is associated with socio-political and economic issues: tribal land rights and location of mining land in designated forest areas.

- Lack of clarity of title, ownership and tenure:* Irrespective of whether land is owned by the state government or by private owners, it takes a very long time to obtain a clear title deed as land records are poorly maintained. In many instances, land revenue receipts are often not enough to ascertain clear title and various informal means are employed to ascertain whether the land title is clear. In addition, land is usually obtained on a leasehold basis for 30 years, a time period not always considered sufficient by lenders for using the land as collateral.
- High transaction costs of buying and selling land:* The need for clearances from both the district collector's office and the revenue department often leads to delays and wastage of investor resources. Bureaucratic hurdles also provide an opportunity for rent seeking behavior. High stamp duties and registration charges create further distortions by way of reducing declared transaction values and corresponding revenue to the state. Stamp duty and registration charges in Jharkhand (6–8 percent) are comparable with other states in the country but are higher in comparison with other Asian developing countries. Aside from stamp duties, there is an additional service charge of about 10 percent levied for land transactions on the private sector even if the land is acquired by the private sector outside industrial areas.

Governance and Business Regulation

An overview of regulatory issues regarding business entry and quality of governance in Jharkhand, referring specifically to general governance, including law and order and corruption is provided here. Regulations and corruption are ranked in the top three constraints that firms face (Figure 4.6). Interviews with potential investors have highlighted governance, perceived or experienced, as one of the principal constraints, possibly even more than that felt by in-state firms. Within regulations, corruption, and tax and custom administration have been identified as greater hindrances (Figure 4.6).

Figure 4. 4: Burden Imposed by Inadequate and Unreliable Power Supply



Source: Staff estimates based on ICS 2005-06 and ICS 2003-04.

Both entry and exit regulations are a deterrent to private investment. Across India, it takes a long time to register a business as firms are required to seek several permits and clearances both at the central and state level. A number of states have set up a "single window" system for the large number of clearances required to be obtained at the state level. In Jharkhand too business entry regulation compliance is required in several areas and from multiple state government bodies, but each of these has to be separately obtained. Table 4.6 provides a

brief review of the clearances required in Jharkhand. It is seen that business entry regulation compliance is required in several areas and from multiple state government bodies.

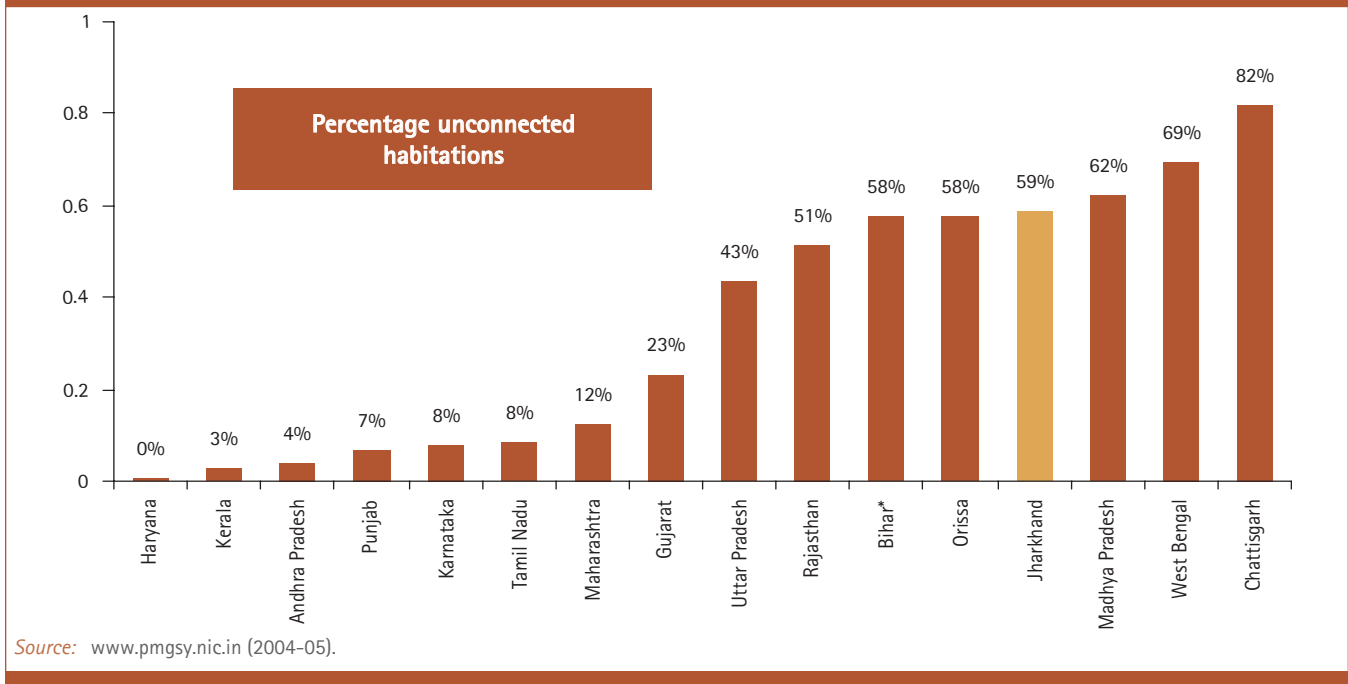
Exit regulation for the private sector in India concerns both bankruptcy procedures that govern disposal and restructuring of assets as well as labor laws governing severance. Most of these issues are within the purview of the central government except for retrenchment. At

Table 4.5: Infrastructure Index: Ranking of Indian States

HIGH
Goa, Maharashtra, Punjab
HIGHER- MIDDLE
Gujarat, Haryana, Kerala, Tamil Nadu
MIDDLE
AP, Karnataka
LOWER-MIDDLE
Himachal Pradesh, MP, Orissa, UP, Uttaranchal, West Bengal
LOW
Arunachal Pradesh, Manipur, Meghalaya, Jharkhand , Mizoram, Nagaland, Assam, Chhattisgarh, Sikkim, Tripura, J&K, Bihar, Rajasthan

Source: "Study on State Infrastructure," by Nirmal Mohanty, Report to the Twelfth Finance Commission, Government of India. Note: An aggregate "infrastructure index", is defined as the degree of cost disability that states suffer in providing public services because of their underdeveloped infrastructure.

Figure 4. 5: Inter-state Comparison of Road Networks



present, exit barriers arise out of the provisions of the Industrial Disputes Act⁹⁰ and the Sick Industries Companies Act.⁹¹ The Industrial Disputes (Amendment) Bill, 2002, proposes to increase the limit from 100 employees to 1,000 employees, for units to seek government permission for closure of units or further retrenchment of workers.

Access to Business Finance

Access to finance remains another key constraint, particularly for small-scale units. Access to adequate and timely finance on competitive terms is a problem for SMEs across India, and was identified by the firm-level survey as a key bottleneck to growth and productivity. Problems in credit access are attributable to a combination of factors rooted in: (i) weaknesses in the legal framework for loan recovery, bankruptcy, and contract enforcement, together with inefficiencies in the court system, with the latter largely accounting for inter-state variations in the time and cost of loan recovery and bankruptcy; (ii)

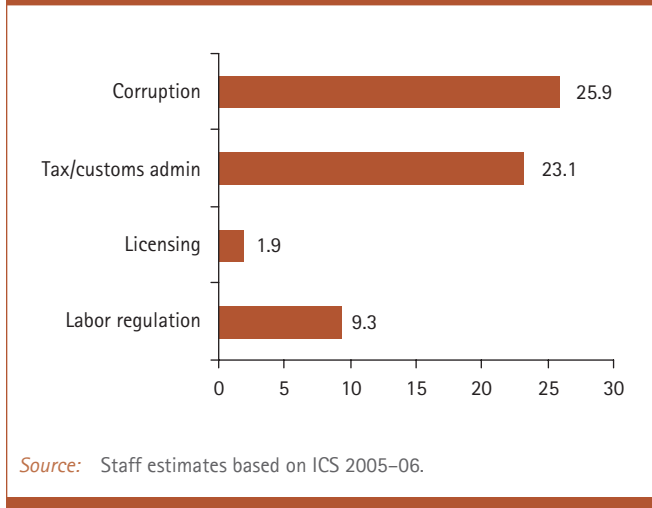
institutional weaknesses, such as the absence of good credit appraisal and risk management and monitoring tools in banks that increase transaction costs in dealing with SMEs; (iii) the absence of reliable credit information on SMEs; and (iv) lack of sufficient market credibility in the SME sector. It is difficult for lenders to assess risk premiums properly, creating differences in the perceived versus real risk profiles of SMEs and resulting in untapped lending opportunities to SMEs. These issues are largely outside the purview of the state government; the central government, on the other hand, can play an important role in improving the policy, regulatory and legal framework to support more efficient financial market functioning.⁹²

⁹⁰ Need to seek state permission for closure of units employing more than 100 persons.

⁹¹ Winding-up tasks are to be performed by the courts and revival has to be assigned to BIFR, which is a long and complex process.

⁹² Key measures by the central government would include: (i) legislative changes in mortgage registration to make the process more customer friendly; (ii) simplification of the legal framework for collateral enforcement and loan recovery by introducing alternate, out-of-court, methods of dispute resolution; (iii) establishing a bankruptcy framework that would facilitate the easy exit of small firms, given their relatively high mortality rate. Recent estimates show that it is entirely common for bankruptcy proceedings in India to take more than two years, and over 60 percent of liquidation cases before the High Courts have been in process for more than ten years. Not surprisingly, when looking at the share of firms that go bankrupt, India has a much lower share (0.04 percent) than other emerging markets, such as Thailand. This may be changed, once the recently enacted amendments to the Companies Act are put into effect; this will provide a new framework for the liquidation of firms outside the court process.

Figure 4. 6: Percent of Jharkhand Firms Identifying Regulations as Severe or Very Severe



However, the problem of access to finance for entrepreneurs appears more severe for Jharkhand's firms than those in most other major states. The ICS 2005/06 survey reveals that far fewer firms in Jharkhand had active bank credit lines as compared to firms in other states (Figure 4.7). As an additional indicator of the level of access to finance for firms based in Jharkhand, the per capita credit to deposit ratio is considerably lower in Jharkhand than in states like Maharashtra, Tamil Nadu, Karnataka and AP, the all-India average and even some of the other "lagging states" like UP, Rajasthan and MP.

As seen from the results of the survey, Jharkhand's IC is deficient compared to other states in India and will require substantial improvement. Moreover, the IC does not provide adequate leeway to investors, both from within Jharkhand and outside it to invest in the state. In order to realize its full potential, the GoJ is framing a new industrial policy,⁹³ aimed at creating an investor-friendly regulatory environment, combined with effective institutional arrangements. An improvement in the IC is likely to have wide-ranging positive externalities and an economy-wide

⁹³ A Committee under the chairmanship of the development commissioner is being notified for drafting the new industrial policy. The 2001 Industrial Policy expires next year in March. The government has not been able to fully deliver on the last policy as it was considered "unrealistic" due to its emphasis on providing fiscal incentives as opposed to creating an enabling environment for private sector growth.

impact in terms of growth and social development that is not just limited to the private sector development. What follows is a brief assessment of the state's strategy and performance till the present for promoting broad-based growth. The next section suggests specific policy and regulatory options and recommendations for each of the IC constraints highlighted here.

A cursory review of GoJ's progress in its ongoing reforms, as articulated in the Industrial Policy 2001, reveals that it lacks strategic focus, and the "thrust" sectors identified by the policy are far too broad, including almost every economic activity. More importantly, on most aspects, implementation of the industrial policy has been slow and ineffective.⁹⁴ Some reform momentum was recently built since the state's chief minister initiated the process for expediting the proposed investments (MoUs) into actual investments. The focus, nonetheless, seems to be on the larger projects, with facilitation of SMEs remaining on the back burner.

Improving Access to Quality Infrastructure Requires

- Formulating an infrastructure development policy, creation of an infrastructural development board or corporation and an enabling act along the lines of the Andhra Pradesh Infrastructure Development Enabling Act would facilitate private investment in infrastructure.
- Improving and modernizing Ranchi airport in consultation with the Airports Authority of India and in line with the present Gol policy.
- Creating a state road development corporation with the mandate of developing state and district roads and connectivity to the National Highway Authority of India (NHAI) road stretches.

⁹⁴ For example, the following measures mentioned in the policy five years ago still remain to be acted upon: IIDB has not been constituted; Jharkhand Industrial Infrastructure Development Corporation Ltd. (JIIDC) has not yet been formed and only the Memorandum of Association has been formulated while one of its mandates is to create, develop and maintain infrastructure facilities for systematic growth of industrial units in Jharkhand; and the legislation underpinning the establishment of the single window system was considered but has presently been put on hold.

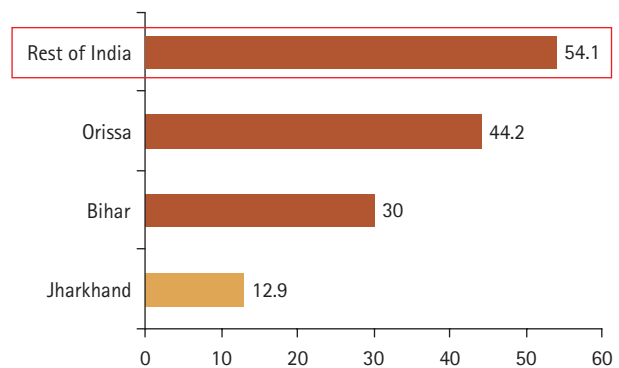
- Assigning clear responsibilities for different parts of the transport network and different activities along the recently passed Jharkhand Highways Bill, awaiting the governor's consent, along functional lines.⁹⁵
- Developing an Inland Container Depot (ICD) or dry port where all customs formalities can be completed for both imports and exports, and which can provide direct connectivity to Kolkata and Haldia ports.

Power Sector Aspects

- Commercial performance: regularizing financial reporting and internal controls, and developing business turnaround strategies for each company.
- Restructuring: Operationalizing the restructuring, including: (i) competitive recruitment of managers; (ii) development of human resources in the accounting and audit functions; (iii) new financial management systems; (iv) establishment of commercial transactions between the new companies; and (v) separate licensing and tariff regulation for each new company.
- Corporate governance: Increasing representation of independent non-executive directors on the boards of power companies and reduction of cross-directorships.
- Subsidy: Undertaking as a first step a valuation of subsidy flows and their effects, including an analysis of the distribution of the benefits of power subsidy. Develop an institutional mechanism to work out cross indebtedness. Design a targeted, efficient, subsidy mechanism for BPL households.

⁹⁵ The core highway network can be formally assigned to a semi-autonomous State Highway Authority and the core rural road network to the existing SRRDA. Over time, in line with the 73rd amendment in the Constitution, the rural road network would need to be gradually transferred to district-level road agencies as their capacities increase. For the larger cities, transport authorities may be required to integrate the various elements of a sustainable urban transport regime.

Figure 4. 7: Access to Credit in Jharkhand



Source: Staff estimates based on ICS 2005/06.

- Creating opportunities for new lower-cost entrants to provide power generation and electric service in rural areas: these should include (i) notification of areas as de-regulated for the purposes of rural electricity supply in accordance with the provisions of the Electricity Act; (ii) implementation of rural electricity franchises; (iii) policy for the development of private green-field power plants; (iv) development of rules for open access to the transmission network as required by the Electricity Act; and (v) issue of second distribution licenses by JSERC.

Improving Access to Land

- Computerizing and updating all land records.
- Creating an industrial land acquisition and facilitation agency for development and management of industrial parks in the state.
- Creating a land bank for industrial purposes, at least for urban areas.
- Developing industrial parks and SEZs, with well-developed infrastructure.
- Offering land identification services to investors.

Improving Governance and Business Regulation

- Setting up a single window clearance facility empowered by legislation and able to act in coordination with district authorities.
- Making the process of approvals transparent by setting standards and timeframes for issuing clearances, with provisions for deemed approval if such clearances are not obtained within declared timeframes.
- The Contract Labor (Regulation and Abolition) Act to be eligible for amendment at the state level, as in AP, in order to allow contract labor to be employed in non-core activities, as also in core activities subject to certain conditions, by a business organization.
- Enabling easy exit options for industries, Jharkhand can consider adopting the amendment to the Industrial Disputes Act in line with the proposed central bill amendment.
- Improving the law and order situation in the state, strengthening the capacity of the industries department, introduction of VAT and a transparent mining policy are other important steps to improve overall business regulation in Jharkhand.

Improving Access to Finance

While a number of policy recommendations concerning access to finance are dealt with at the center, particularly with regard to the policy, regulatory and institutional framework for SME financing, several enabling policies at the state level can create a more conducive environment for market-based financing of SMEs by the formal financial sector. Some of the medium to long-term actions could involve:

- Improving the credit evaluation and risk management skills of banks and other financing institutions to improve lending practices. This will involve building institutional capacity to reduce transaction costs,

reduce and manage risks related to SME lending. A risk sharing facility to accelerate commercial bank lending to SMEs could be explored wherein the facility could provide partial credit guarantees for commercial bank loans to SMEs.

- Improving credit information on SMEs, both positive and negative, through assistance to commercial banks and financial institutions, to verify and collate historic data on SMEs.
- Addressing the problem of collaterals through improving and updating land and property records, which currently impede the use of land as collateral, and promoting the use of collateral substitutes.
- Strengthening business development services and market linkage programs for SMEs thereby helping SMEs improve profitability and competitiveness, and become more credit-worthy.

The Way Forward

It is thus seen that while the development of the agricultural sector cannot by itself be the driving force for Jharkhand, it remains vitally important for growth and employment generation in the medium term. Although the mining sector has huge potential for growth over the long term, it has high risks that need to be carefully managed. The solution lies somewhere in between, with the crux of the overall strategy aimed at reducing risks associated with growth, especially in an economy with high levels of poverty and inequality. Building institutions, increasing the productivity of labor in agriculture and employment in the non-farm sectors through development of SMEs, is a possible way forward in the short to medium term. A balanced strategy would call for broadening the manufacturing base beyond mineral-based industries and establishing forward and backward linkages leading to employment generation. To promote sustained mining development, a strong governance framework and institutional capacity is essential for mitigating social or environmental impact.

