

INDUSTRIAL DEVELOPMENT IN U.P- AN APPRAISAL

&

SUGGESTIONS FOR NEW INDUSTRIAL POLICY OF UTTAR PRADESH

A. Purpose of an Industrial Policy

Doing business is definitely riskier than earning bread in a job. It also calls for a lot of initiative, imagination, daring, hard work and lot more!

An entrepreneur is someone who relies on his own and knows he will be rewarded or punished depending upon his ability to satisfy his customers or not.

However enterprises have to work in a ecosystem which is greatly controlled by governments and their agencies. This perception vary from state to state affecting competitiveness of businesses in their states differently.

Through its Industrial Policy the government communicates its vision and strategies to realize it to the people in general, prospective & existing entrepreneurs/businesses-promoters and the administration

And hence is the relevance of an industrial policy of UP

While clause by clause comments on the policy are contained in another document attached with this note, some points of differences are discussed below.

B. The current status of industrialization in UP

We beg to disagree with the assessment of Government that UP is among top manufacturing destinations in India. IIA believes UP is a laggard among Indian states in terms of industrial development, be it of larger or MSME sector; nothing of note has been accomplished in past 15 years.

The data given in the draft policy itself point to a dismal picture of the state with a contribution of just 8.4% to the national economy with a population share of 16.5%. The state's first target has to be to reach at least the national average on per capita basis. That the largest no. of MSMEs reside in the state can be no satisfaction either. In fact IIA believes the figures are misleading. In terms of no. of modern industries run with power UP languishes many states. It is only some historical and famous traditional product clusters that bring some saving grace to the state like brassware, locks, sarees, carpets, etc

The best thing will be to benchmark the processes in UP and time taken in setting up new units with those in Gujarat, Maharashtra, Karnataka etc. Once the reasons for gaps and inferior performance on the common scale are identified, action plan for corrective measures can be put in place.

The present scenario according us is more like:

Government machinery is not at all responsive to the challenges faced by MSMEs. Things move really slow making doing Business in the State tough in spite of talks about “ease of doing business”.

No system for registering complaints exists in any department of the state government. No where to go to seek redress of grievances; Fixing of accountability of government personnel for their acts of omission and commission hardly happens dissuading affected persons from coming forward with their complaints.

The Government attitudes have been lukewarm towards economic activities. No CM in the past 15 years has chaired an Udyog Bandhu- supposedly the highest forum to listen to the unresolved grievances! Naturally the institution has lost its purpose at the state and the districts. Udyog Bandhu – the institution supposed to resolve obstacles in the way of setting up new enterprises and in running of the existing ones is defunct at State, Division & District levels.

The governance in the state is definitely an issue. The government or the administration hardly interact with the civil society of entrepreneurs represented by their associations. The red tape is long and the decision making suffers as a result. In the few cases in which decisions are taken, these are not implemented. There is little sensitivity to the fact that the business in today’s fast moving pace cannot afford to be waiting indefinitely. Even when committees and groups of senior officers are convinced, it is seen that decisions are not taken or implemented.

Government Orders do not have sanctity and are flouted with impunity. Several industrial policy provisions and G.O.s are confined to the files and not practiced.

Websites of most departments do not carry even minimum information nor are updated routinely

Many state departments which are vital for industries such as Electricity, Labour, Pollution Control, UPSIDC are unfriendly to the beneficiaries; In fact entrepreneurs feel harassed and victimized.

State government entities are least concerned with interests of state units while procuring goods and services. Restrictive and impractical conditions are imposed in their Tenders by various Government Departments/Undertakings against interest of MSME’s, violating provisions of procurement policy of the State.

Instead of a positive preference, the state MSMEs often find themselves adversely affected in government and SPSU procurements

Land is not available for setting up the industries especially to MSMEs.

So is the case with the Pollution Control department. It is not so much focused on improving the environment and letting industry grow, as on self serving.

Electricity Tariff in U.P is higher than in many states in the country. The Corporation, Transco and Discoms need quantum improvement in governance and management with strict accountability of officers. This department has enormous bearing on agriculture, industry, commerce and general public

As a result of the climate described above, there is little enthusiasm left for new investment from within or outside UP

The government of the day has to fix its priorities right and usher in policies and programs to give major thrust to enlarge employment, move workers/youth from farms to factories and reduce growing pressure of youth on agriculture.

Taking cue from the Industrial policy of the Go U.P (under preparation), we pose some questions to us both in order to identify what is a miss in UP.

- Are the Existing units in the state prospering ?
- Are New units being set up in good no's ?
- Are UP units competitive vis a vis those in other states ?
- What factors prevent UP units to grow the way units do in some other states ?
- Is the ecosystem unfriendly? If so, in what respect? What do we understand by an ecosystem or what is it made of?
 - a. is cost of manufacturing goods in UP higher – if yes, why?
 - b. is doing sales difficult for UP units
- What agencies need to be specially addressed to quickly improve the ecosystem: Labour, Taxation depts, UPSIDC, Power, Pollution Control ?

c. Economic advantages- U.P

While the state may suffer from some weaknesses, it offers many basic and long term benefits too to prospective investors such as :

- Its large and young population is a guarantee of a growing consumer market
- Its agro based resources are precious for industries in the said field
- Network of centuries old town though needing upgrade can be host to industries throughout the state
- Basically cosmopolitical and welcoming character of its people is an assurance of long term social stability

D. Proposed Vision, Mission & Strategies for Industrial Policy of Uttar Pradesh

IIA would like to envision the state, as a result of the policies, somewhat as under:

- An attractive destination for various investments including in industries
- Raise capex levels to promote innovation and modernisation
- Growing population of healthy and prosperous enterprise, with preponderance of modern, technology driven industries
- Wide geographical dispersal of economic entities
- Growing job opportunities reducing pressure on farms
- First class infra of connectivity, power, dedicated land bank
- Fast growing GSD

Mission

- Create conducive ecosystem,
- Improve ease of doing business
- Ensure Enterprises in the state enjoy competitiveness
- Ensure state units are healthy and entrepreneurs are happy

Strategies/operative objectives

- Keep stakeholders at centre stage of policy making,
- Constant interaction with stake holders/trade bodies
- Industry friendly competent and accountable departmental officers
- Quick resolution of grievances- appeals/petitions be disposed off fairly and speedily – encouraging a culture of challenging orders
- Corruption & hassle free administration
- Time bound implementation of decisions - at enterprise and policy level
- High level of transparency through intensive use of IT in the government processes
- Expand and improve infra – industrial and social
- Revamping of Power and UPSIDC- policies and procedures
- Quality power on demand at competitive prices
- Public procurement- a policy of Make in UP to give an edge to state units
- Exit and rehabilitation policy
- Announce rules for Conversion of lease to freehold plots in Industrial Areas/Estates of the Government and its agencies
- Plug & play, multi storied ready to use set ups
- Development of private industrial areas
- Availability of raw land and plots in industrial parks/ estates is crucial and urgent.

- UPSIDC inventory should be on website and known to prospective entrepreneurs.
- The development plan to be successful need to be demand led. Further as development of infra long lead time, we strongly urge the planning of the above developments is plotted against clear time lines so that actual results start appearing on the ground in given time; also the plans may be widely circulated so that prospective entrepreneurs can make their own plans.
- Transportation and logistics are very important to manufacturing sector concept of multimodal logistics hub need to be implemented at the earliest as it can help make UP units competitive.
- Facilitate FIs to set shop to provide credit, risk capital,
- Promote export of manufactured goods

Incentives vs Environment

In the race to outcompete the others, most states will copy the maximum incentives that may be offered in any state. In the process the pull of incentives will stand neutralized to some extent. The differentiating factor in such a situation according to IIA will ultimately be the quality of business environment in a state.

The package of proposed incentives in the policy is by and large competitive with what is offered by other states and is attractive. At the same time to stress the importance of environment we have to observe as under:

- a. Subsidies and subventions no doubt attract prospects, but a good ecosystem conducive to growth is the bedrock for rapid industrialisation
- b. Health of existing industries in the state reflects the level of “ease of doing business” and responsiveness of the state government to industry issues
- c. Competitiveness is greatly affected by quantum of transaction costs specific to a geography which in turn is dependent on quality of working environment in a state.

While it is easy to offer giveaways, no doubt it is very difficult to create a conducive environment. This is the challenge that the Government should address, if UP has to catch up with the fast developing states.

It is said that in business, not to have a customer complaint is excellent. However if there is one, the customer can pardon you for the shortcoming, but not if your response to his complaint is poor.

The speed and quality of response to a complaint is the key to satisfaction of a customer, be it in business or in matters concerning a state. It is this that was totally missing in last fifteen years and is to be restored - with total commitment, if the policy is to prove transformational.

Coming to the package of incentives, it is not understood, how and why so many incentive are available to only such firms - in terms of investment or employment – that are bigger than the threshold prescribed; When the central objective of the policy is to

generate employment opportunities, we must say the fact that bulk of the employment generation is taking place in micro, small and medium sector and not in large corporate is not being sufficiently appreciated and too much emphasis is being placed on big investments and perhaps on the glamour associated with larger numbers. Moreover the investment required to create same no. of jobs is several times more than in MSME-

With so many financial commitments, let the state optimize it's financial resource by preferentially promoting MSME for creating larger no of jobs with given funds.

Ease of Doing Business

Ease of doing business is the most important differentiator among states. If a state is low on the index, it causes several problems which together dissuade future investment. The transaction cost increase in multifarious ways, the most common being delay and opportunities lost in interactions all around. Such an environment makes owners succumb to the pressures of the system which in turn feed the devil and worsens the working for businesses. Naturally it causes lots of frustrations and revulsion to do business in the state. For smaller business it is even worse as the entrepreneur himself loses the precious time in overcoming the road blocks to ease of doing business.

Ease of doing business- can no doubt be improved by rationalising rules and regulations as promised in the policy.

There is another aspect to it which is very real but difficult to handle- harassment in day to day dealings in almost every department, be it regulatory, tax collecting, input supplying or business generating.

The perception of the sufferers interacting with these agencies can change only if there is an effective mechanism to address complaints and dispose off these in a fair manner without undue delay. A mechanism is claimed by Udyog Bandhu (UB) to be in operation: but with no efficacy to talk of.

It is to reinforce the belief in the good intentions of this government that the hon'ble CM be advised to devote his time to a forum to catch the bull by its horns rather than to build a brand - "Make in UP"

Any good advertising & promotion expert will admit that a brand can be built only around a good product. It is therefore essential that such a product is first conceived and assiduously built before the launching of a brand.

Good Governance

Some of the departments are specially impactful for industries. Power is one such department. It needs deep structural reforms. To start the process the repeated directions of the UPERC can be picked up for implementation. One of the big IT/Power Co can be mandated to reengineer its processes and implement an ERP and wide ranging SCADA system within given time. The user groups' representation is a must for close scrutiny of progress of such a reform process.

We in IIA feel it is not easy to cleanse the system unless a strong political will is shown.

Simplification of procedures and time bound clearances may be good to a limited extent.

But what is required is to create a mechanism whereby acts of omission and commission surface for everyone to see and note and then stern action which prove real deterrent for others for future.

A single window clearance for providing approvals etc for new units will be of limited value unless change is brought about in functioning of all government departments and for all citizens.

IIA Feels the precious time of the CM be utilized for wider good of the state by using his presence for toning up the administrative machinery rather than chairing SIBP.

Electricity Tariff in U.P is higher than in many states in the country. The holding Corpn, Transco and Discoms need quantum improvement in governance and management with strict accountability of officers. This is one department that has enormous bearing on agriculture, industry, commerce and general public

Reforms in POWER is another extremely important subject for industries of the state – both as provider of the vital input and as a valuable customer to thousands of enterprises. The present dispensation to say the least, is in no good shape and warrants a big shakeup of the (government owned holding and other cos., so as to make them accountable for their performance and their assets to the public. These bodies have to be forced to adopt modern practices of management befitting a large corporation as theirs. The political setup has to also change its outlook towards this vital institution and let it work on commercial lines and ensure delivery in a cost effective manner.

Make in UP

on the lines of Make in India is a campaign long overdue for the state that is a laggard as far as industrial development is concerned. To give impetus to this program, an effective Public Procurement Policy for the government and government owned bodies needs to be drawn up and implemented properly giving 20% reservation to eligible state based units in all their purchases.

A state with minimal opportunities for trade of manufactured goods, such a policy will not only bring a lot of relief to struggling state units but also attract investment from other states.

E. Commendable thoughts in Draft Industrial policy of U.P

Accepting manufacturing as a very important component of industrial development- because of its potential to create jobs both skilled and unskilled and gradually raise levels of unskilled to skilled – is welcome. It is for this reason that the Gol has also set an ambitious target to increase its share in GDP from 16% to 25%. Also manufacturing spawns and supports services of all kinds.

The importance given to employment promotion in the policy shows sensitivity of the government to its most fundamental responsibility.

The promise to make existing industries more competitive is equally significant. If the “framework” can achieve this objective, IIA feels, the state will truly become the top investment destination; the fact of existing industries prospering and entrepreneurs being happy spreads like wild fire.

Going back to the new draft policy, It will be helpful if contours of the framework can be detailed. Is the roadmap different from framework? If so, in what respect? In 1.3.3- the reference point is not clear.

The policy rightly talks of leveraging the strengths and tackling the weaknesses in the state. It would be useful to list these for the purpose of strategy formulation.

F. MSME- a promise of growth

Here again the current status claimed in the draft policy is no where near the facts on the ground. Micro and Small Enterprises in the State need help & guidance rather than inspections.

Laws related to MSMEs should be simple and pragmatic so that these are understood properly by the MSE Entrepreneurs and followed properly.

MSMEs in the state have little consciousness of the prospects in export. Besides the export of handicraft is minuscule compared to its potential. Innovative merchant exports can be incentivized to help create market linkages, designs etc.

Finance and its cost is no doubt important to MSMEs. The state government with the assistance of industrial associations can work as a bridge in helping MSMEs of different sizes and types to access a variety of credit from different sources. Risk capital for innovative ideas is available from diverse sources but not for routine run of the mill manufacturing projects.

Reforming and restarting UPFC or a new DFI is the need of the hour to extend much needed support specially to new entrepreneurs who are unable to access bank credit without prior successful track record.

Meeting the requirement for plots or built up shed is important to attract MSMEs.

With scores of clusters working for ages, cluster development is another priority area. SPV concept may be pushed to encourage such clusters, strengthen their infra and support systems + create channels for marketing and sale of their product to fetch better prices.

Encouraging MSME upgrade their technology, quality energy efficiency etc. are also welcome steps. The process of accessing these assistances need to be greatly simplified for the intended benefits to flow to the deserving without much hassles.

So is the case with the Pollution Control department; it should work for a balance approach to improve environment and let industry grow instead of being self serving both as a body and for its employees.

