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What constrains business? The role of the ‘Single Window’ in Gujarat, India

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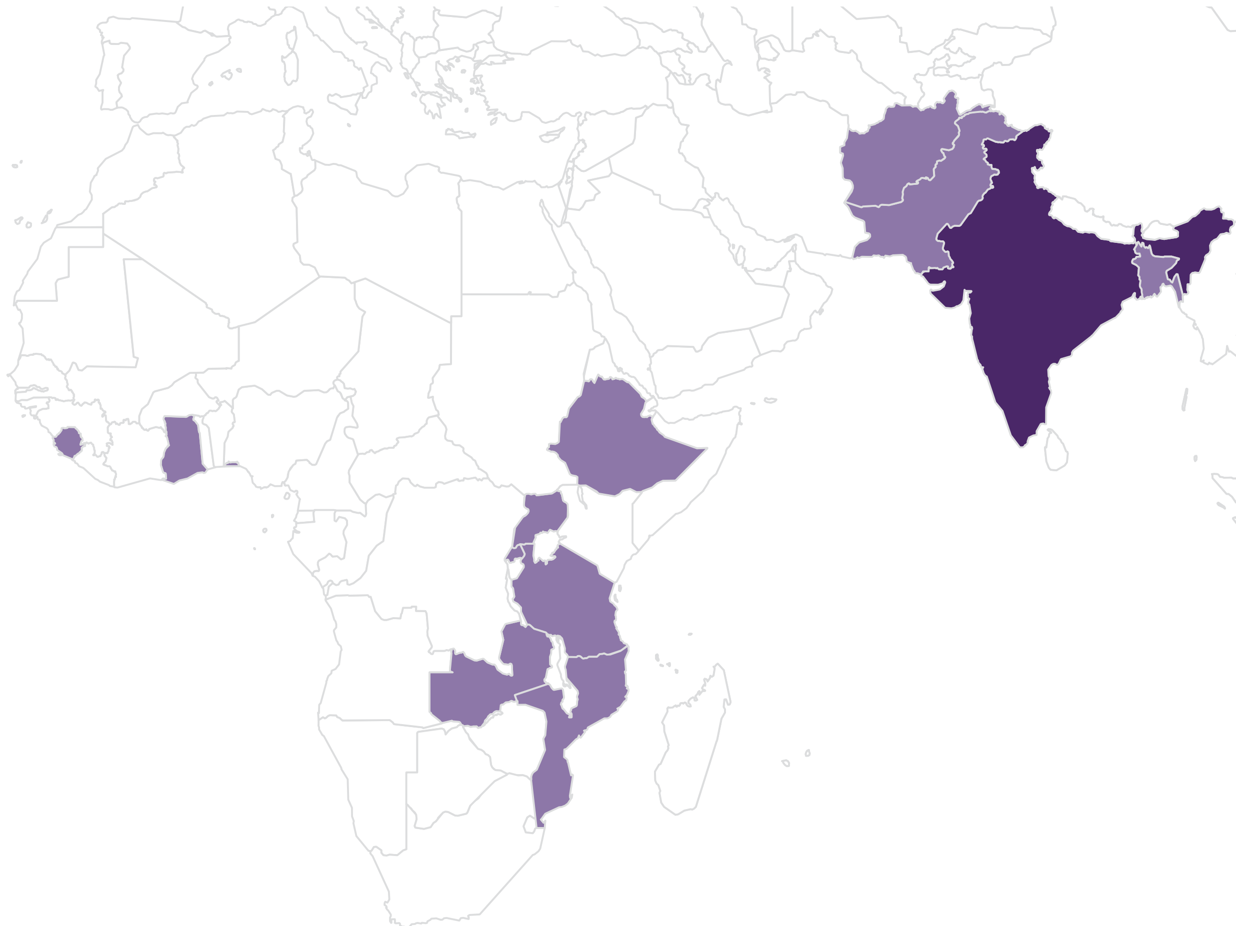

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Investment climate of the states of India

The investment climate of a region reflects the location specific factors that provide opportunities and incentives for firms to invest, create jobs, and expand. A good investment climate removes unjustified costs, risks, and barriers to competition and encourages firms to invest and undertake productivity improvements that can benefit workers and consumers as well. Firm investment decisions are affected by their own capabilities and strategies and by the assessment they make of the costs, risks, and barriers to competition associated with the opportunities in a location. Governments have decisive influence over many aspects of the factors that shape the (a) costs, (b) risks, and (c) barriers to competition in a location – see Table 1. The costs of producing and distributing goods have an important implication for the range of investment opportunities that may be profitable. The costs that arise due to government policies and behaviours may be direct such as taxation or result from the role government plays in providing public goods and infrastructure or in mitigating market failures. The costs associated with crime, corruption and regulatory burdens affect the incentives for firms to invest (Table 1). Investments are also risky and governments can play an enabling role in helping firms cope with risks such as those associated with the security of their property rights. Policy uncertainty, macroeconomic instability and unpredictability in the interpretation of regulations in terms of a gap between announced policies and their implementation also increases the risks that firms are faced with. Finally governments also affect firm decisions through their regulation of the entry and exit of firms and their responses to anticompetitive behaviour.

Table 1: Government policies and behaviours that affect the opportunities and incentives for firms to invest.

Costs	Corruption Taxes Regulatory burdens and red tape Infrastructure and finance costs Labour market regulation
Risks	Policy predictability and credibility Macroeconomic stability Rights to property Contract enforcement Expropriation
Barriers to competition	Regulatory barriers to entry and exit Competition law and policy Functioning finance markets Infrastructure

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A good source of data on investment climate are the World Bank Investment Climate Surveys (ICS) conducted in 2003 and 2006 based on face-to-face interviews of a representative sample of entrepreneurs (more than 3700 in 2006) in both manufacturing and retail establishments in 16 Indian states. The Manufacturing ICS in 2003 covered 1,827 firms across 11 industries – garments, textiles, leather goods, pharmaceuticals, consumer electronics, white goods, machinery, auto parts, metal products, chemicals and plastics, and food processing. The 2003 ICS was conducted in 40 cities in 12 states – Andhra Pradesh, Delhi, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Punjab, Tamil Nadu, Uttar Pradesh, and West Bengal. The ICS of 2006 covered the same cities and sectors whilst expanding the sample to include more than a dozen additional cities from the four states of Bihar, Jharkhand, Orissa, and Rajasthan (Ferrari and Dhingra, 2009)[1]. In the ICS forty six variables that describe the business environment in 16 states have been identified. These variables are grouped into three categories – infrastructure, inputs and institutions (Table 2).

Table 2: Variables used in construction of Investment Climate Index – Infrastructure.

Cost	Perception
1. Hours of power outage last year	1. Perception of electricity
2. Hours of telephone outage last year	2. Perception on telecom
3. Hours of sales lost in transit	3. Perception on transport
4. Hours of sales lost due to power outages	4. Perception on access to land
5. Days of inventories kept for main input (proxy for quality of transportation)	

Variables used in construction of Investment Climate Index – Inputs.

Cost	Perception
1. Excess Labour	1. Share of short term finance obtained by banks
2. Cost of finance: value of collateral required to obtain a loan	2. Share of long term finance obtained by banks
3. Proximity of raw materials (share of inputs bought by domestic sources)	3. Short term finance represented by trade finance
4. Proximity to domestic consumers	4. Duration of loan
5. Share of firms using new technology	5. Perception on access to finance
6. Trade credit – share of sales sold on credit	6. Perception on labour regulations
7. Trade credit – share of inputs bought on credit	7. Perception on customs
	8. Perception on availability of skills

[1] Ferrari, A., and I.S. Dhingra (2009)- *"India's Investment Climate – Voices of Indian Business"*, The World Bank, Washington D.C.

Variables used in construction of Investment Climate Index – Institutions.

Cost	Perception
1. Law & Order – security cost	1. Perception of law & order – crime
2. Law & Order – losses due to theft	2. Perception of corruption
3. Manager time spent dealing with regulations	3. Perception on licensing & permits
4. Days spent with officials to deal with regulations	4. Quality of administration – consistent interpretation of rules
5. Tax evasion (% of sales not declared)	5. Perception of tax administration – rates
6. Days to obtain a telephone connection	6. Perception of tax administration – administration
7. Days to obtain an electric connection	7. Perception of functioning of judicial system
8. Days to obtain a construction permit	
9. Bribes to "get things done"	
10. Share of firms reporting officials request gifts	
11. Share of firms reporting gifts requested to obtain power connection	
12. Share of firms reporting gifts requested to obtain a telephone connection	
13. Share of firms reporting gifts requested to obtain a construction permit	
14. Share of firms reporting gifts requested to obtain a main operating license	
15. Average time to reach a court judgement (weeks)	

Within the three categories of infrastructure, inputs, and institutions, two dimensions are distinguished – objective values (cost) and subjective indicators (perceptions). As a consequence of this classification the 46 variables are grouped in six sets or sub-indexes that represent the backbone of the investment climate index. The six sub-indexes are then further aggregated into three sub-indexes, one for each category – infrastructure, inputs, and institutions[2]. These three sub-indexes are then combined into the IC index (ICI). The methodology of the IC Index is based on achieving two main objectives. First, the index prioritizes among indicators. Although all 46 variables are important to an investor, not all are equally important in the characterization of the IC of a state. Though access to credit and telephone connections are both of consequence to the business environment, investors will value improved access to credit differently than improved telephone connectivity. Second, the index does not allow for a constant balance among indicators which implies that progress in the access to finance component of the IC will not have the same impact on the overall ranking to an equivalent improvement in access to telephone connections. These two objectives of the IC index are achieved through the use of weights by principal component analysis and geometric aggregation[3].

[2] If the IC index was estimated directly using all 46 variables, irrespective of their numbers within each category, we would without realising it give more weight to the institutions category as the number of variables within this category is higher.

[3] The method of arriving at the index is explained in Iarossi, G. (2009) – *"The Investment Climate in 16 Indian States"*, The World Bank, Policy Research Working Papers 4817, Washington D.C.

The ICI ranking of states is depicted in Figure 1. The five states with the best investment climate are Karnataka, Kerala, Gujarat, Andhra Pradesh and Haryana. The worst investment climate is in Bihar, Uttar Pradesh and Rajasthan. As the estimation of the weights used in the construction of the IC index is not based on a theoretical model, the reliability of the index as a predictor of a good investment climate can be tested by correlating it with other performance indicators. Using the share of private investment in SDP as a performance indicator for instance, the IC index shows a clear and significant association with this performance indicator – Figure 2. This indicates that the IC index is a reliable indicator of the investment climate in India[4] in that states with a better investment climate are associated with higher private investment.

Figure 1: ICI Ranking of Business Climate in 16 Indian States

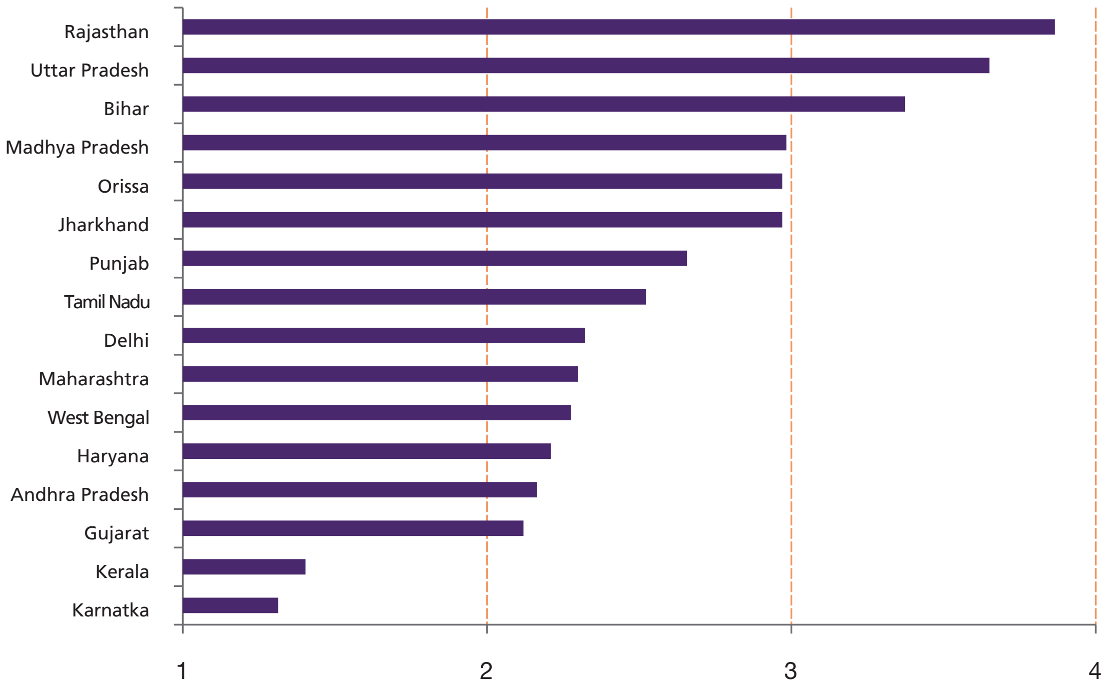
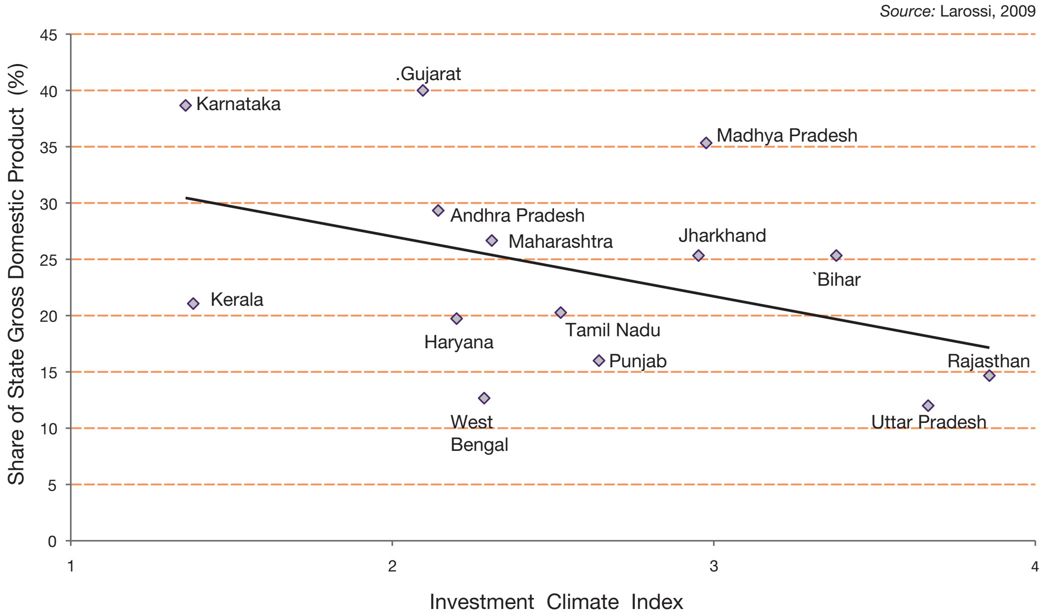


Figure 2: Private domestic Investment (implemented) as share of SDP and ICI, 2005

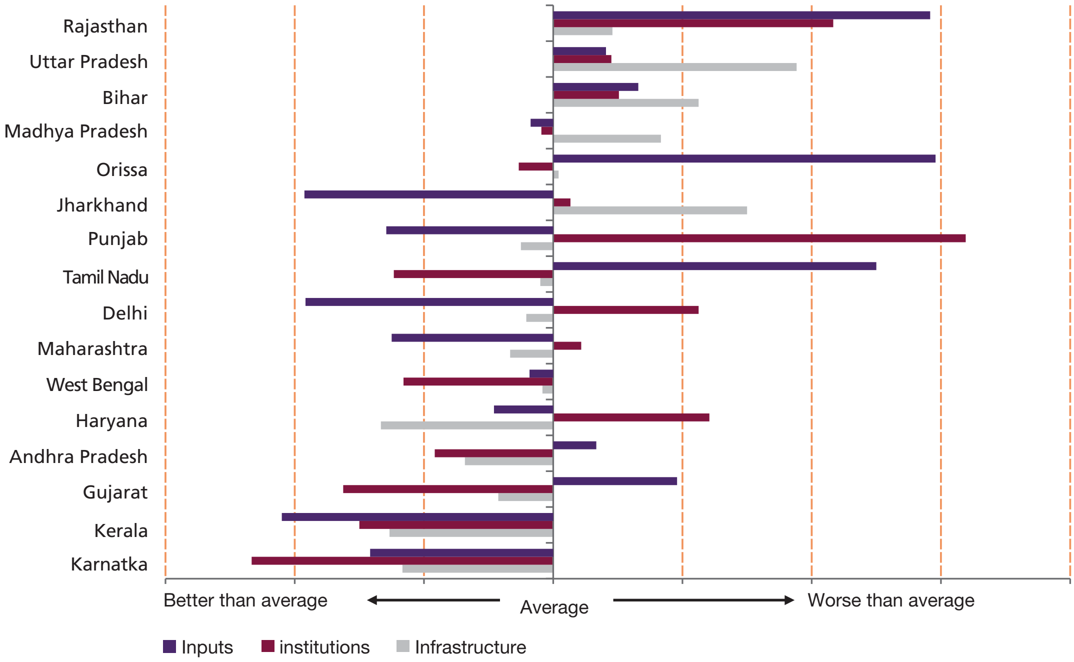
Source: Larossi, 2009



4 An alternative performance indicator, the growth rate of the State GDP also indicates a significant association between the IC index and growth.

Figure 3: Value of Infrastructure, Institutions, and Input variables in construction of ICI by state (standardised)

Source: Larossi, 2009 and ICS



The ranking of Kerala in the top 5 states is somewhat a surprise. It turns out that Kerala consistently scores better than average on most objective and perception indicators (Ferrari and Dhingra, 2009, Chapter 7). Kerala performs very well on all three categories of indicators – infrastructure, institutions, and inputs. (Figure 3). There is also a high relative overlap between the objective and perception measures. Only in the case of transport, an infrastructure indicator, are the objective and perception measures in contradiction. This seeming contradiction arises from the fact that whereas 11 percent of firms in the rest of India have their own transport, in Kerala 40 percent of firms have their own transport. Firms in Kerala as they rely on their transport thus perceive transport to be less of a problem (Figure 4).

Figure 4: Value of Infrastructure Perception variable used in construction of ICI by state (standardised)

Source: Larossi, 2009 and ICS

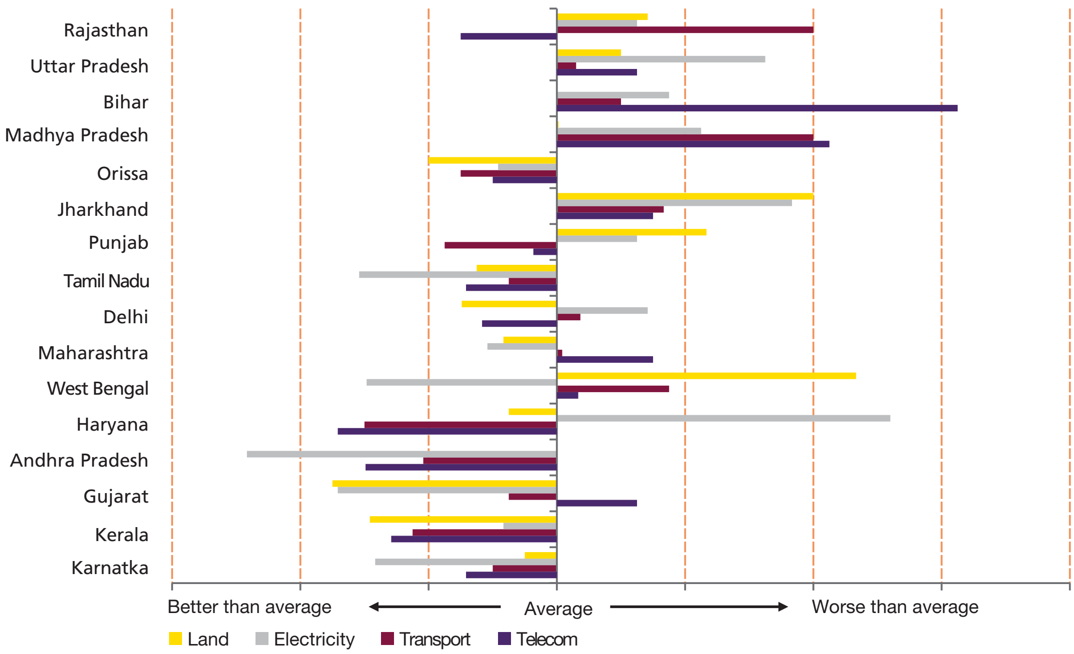


Figure 5: Value of Infrastructure cost variables in the ICI by state (standardised)

Source: Larossi, 2009 and ICS

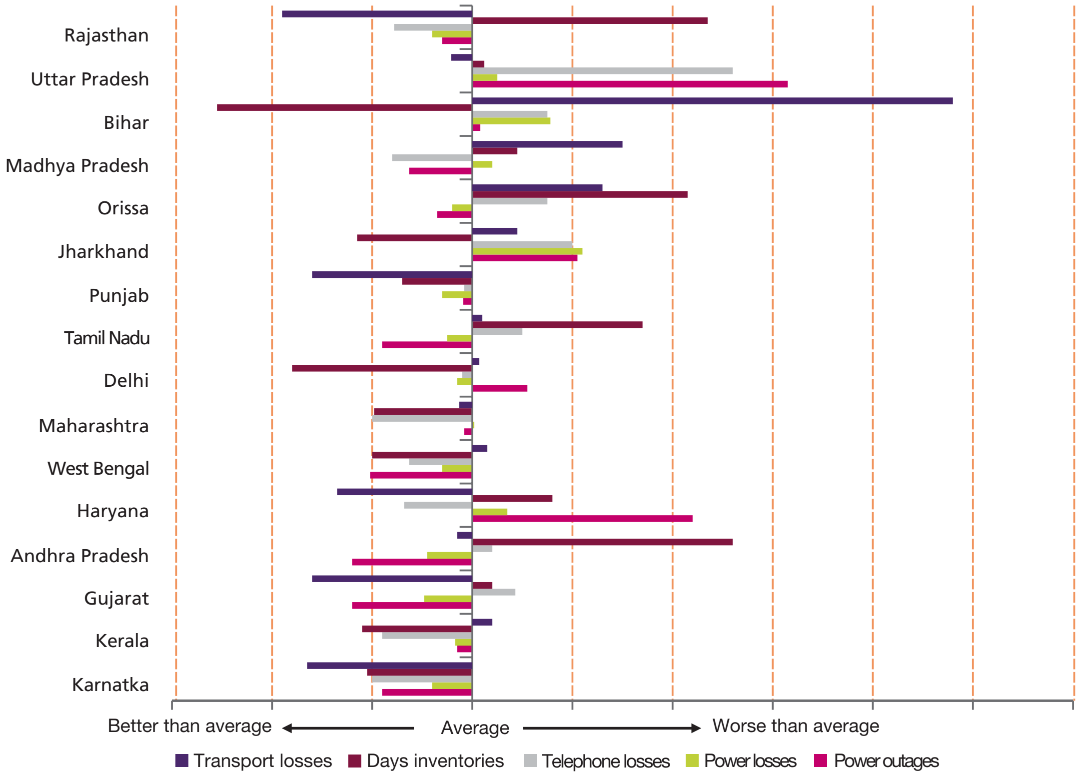
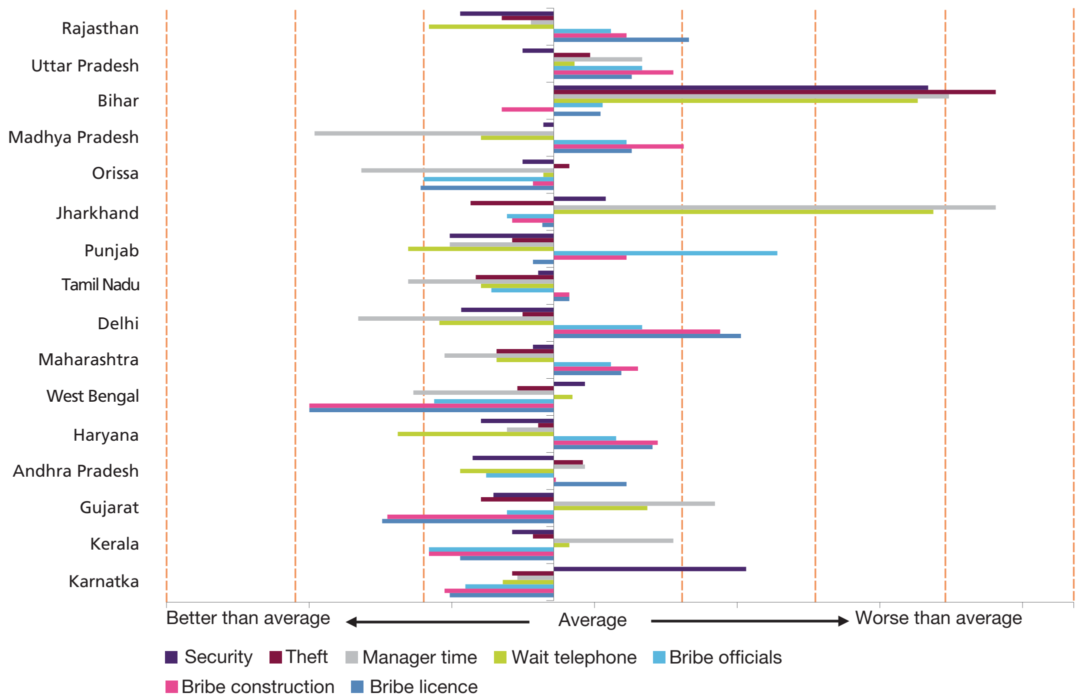


Figure 6: Value of most important institution cost variables in construction of ICI by state (standardised)

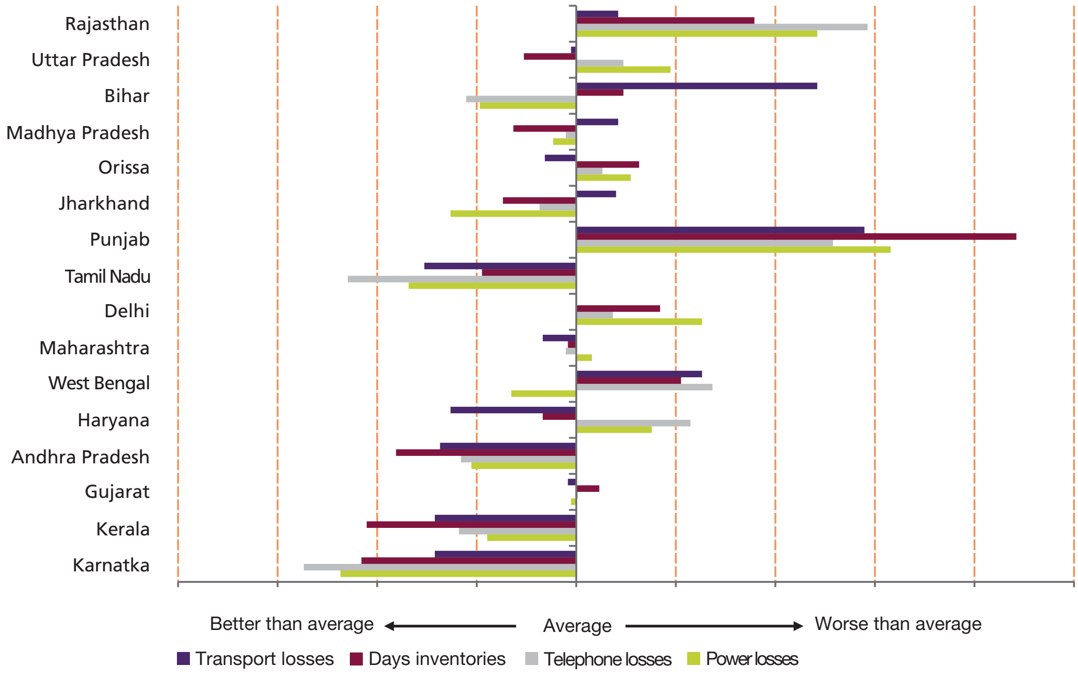
Source: Larossi, 2009 and ICS



In terms of the objective data, however, firms in Kerala suffer losses due to transport costs that are three times higher than for other firms in India (Figure 5). This may be due to the high costs of loading and unloading due to sight payments and the higher frequency of bandhs in the state. In the case of the institution indicators such as corruption and crime again Kerala performs much better than average on both objective and perception measures (figures 6 and 7 respectively). Hence, the data reveals that firms in Kerala have less grievances about limitations and restrictions on investment opportunities than in other states and this places it as second in the ranking of the IC index.

Figure 7: Value of most important institution Perception variables in construction of ICI by state (standardised)

Source: Larossi, 2009 and ICS



Again, West Bengal has the relatively high rank of sixth position (around the fortieth percentile in the ordinal of 16 states ranking), and this is due to good performance on the objective indicators of the investment climate. These indicators reveal a relatively lower incidence of power interruption, (Figure 5) corruption, and government disservices (Figure 6) than in other states. In Bengal law and order related security costs and the days it takes to obtain a telephone connection are the only objective institution measures where the state performs worse in terms of these indicators than the average for all states. In fact, Karnataka which has the first rank in the IC index is about six times worse than West Bengal on the indicators of law and order related security costs (and Bihar which has the 14th rank is twelve times worse). West Bengal (ranked sixth) also performs relatively better than Gujarat (ranked third) on the indicator of the days it takes to obtain a telephone connection with Gujarat being five times worse on this indicator. In terms of the infrastructure indicator reliability of power (hours of power outages) West Bengal has the third best performance indicator (after Gujarat and Andhra Pradesh (see Figure 5)) whereas in terms of the institution indicator of cost of corruption (Figure 6) West Bengal is the best performing state. These good ratings on the objective indicators compensate for its relative lower performance on perception indicators such as access to land, crime, access to finance and transport.

The worst performing Indian states in the IC index are Bihar (rank 14 of 16 states), Uttar Pradesh, and Rajasthan. Though all three states perform poorly on all indicators, Bihar and U.P. perform worse mainly in infrastructure than Rajasthan and less so in institutions and inputs (Figure 3). Rajasthan has a better performance on the infrastructure front but fares worse in its performance on institutions and inputs (about four times worse than Bihar on both counts). In terms of infrastructure the main bottleneck in Bihar is transportation and telecommunications whereas in U.P. it is the reliability of power (Figure 5). Rajasthan by contrast does well on power losses (it is better than the average state performance) and on losses attributable to transport bottlenecks (it is actually the best performing state) – see Figure 5 – but it fairs poorly in the perception on corruption and tax administration (Figure 7), in the perception on labour regulations and customs (Figure 8), and the objective input cost measure of access to technology and proximity to domestic customers - not unsurprisingly as it is a desert state (Figure 9).

The IC sub-indexes of infrastructure and institutions explain most of the variation of the 46 variables in the IC index. Infrastructure and institutions are the variables in which the best and worst performing states differ the most (Ferrari and Dhingra, 2009, Chapter 7). Power turns out to be the most important infrastructure constraint followed by transport. Amongst the institutional constraints the biggest constraining factors in the business environment to investments are corruption, tax regulations, tax administration, and security (theft). These point out to the main areas that policy makers need to focus on with the intention of increasing investment in their states.

Figure 8: Value of Input Perceptions variables in construction of ICI by state (standardised)

Source: Larossi, 2009 and ICS

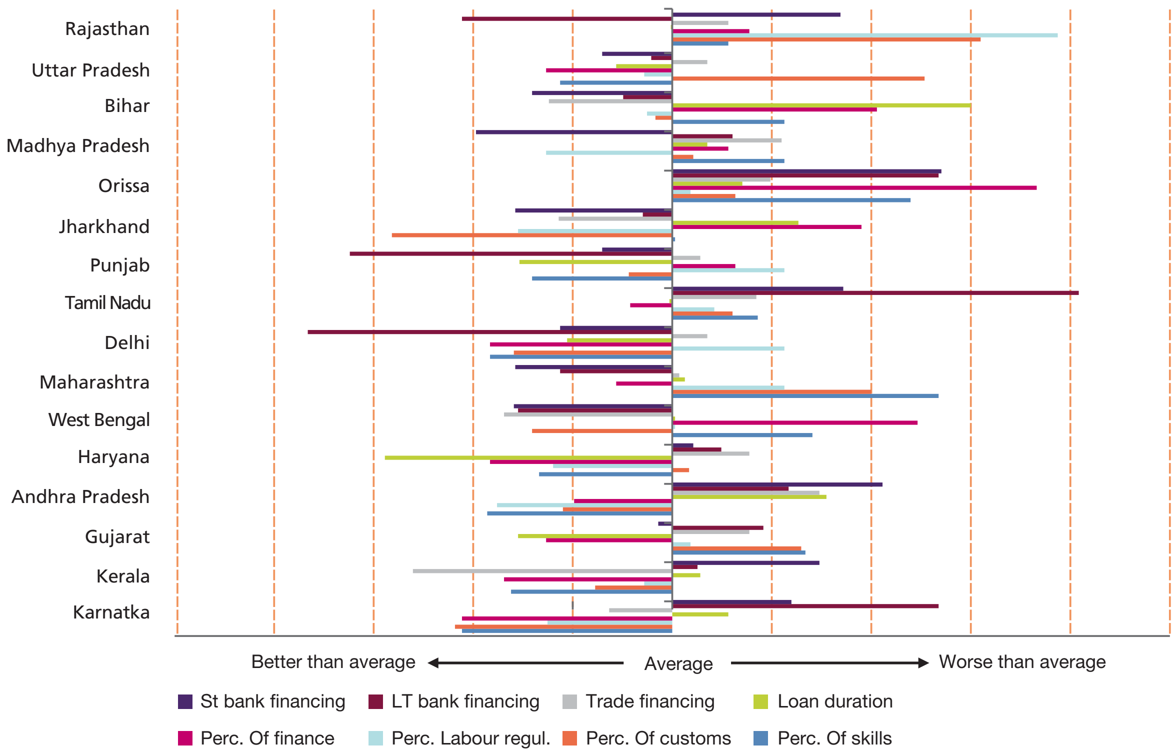


Figure 9: Value of most important Input Cost variables in construction of ICI by state (standardised)

Source: Larossi, 2009 and ICS

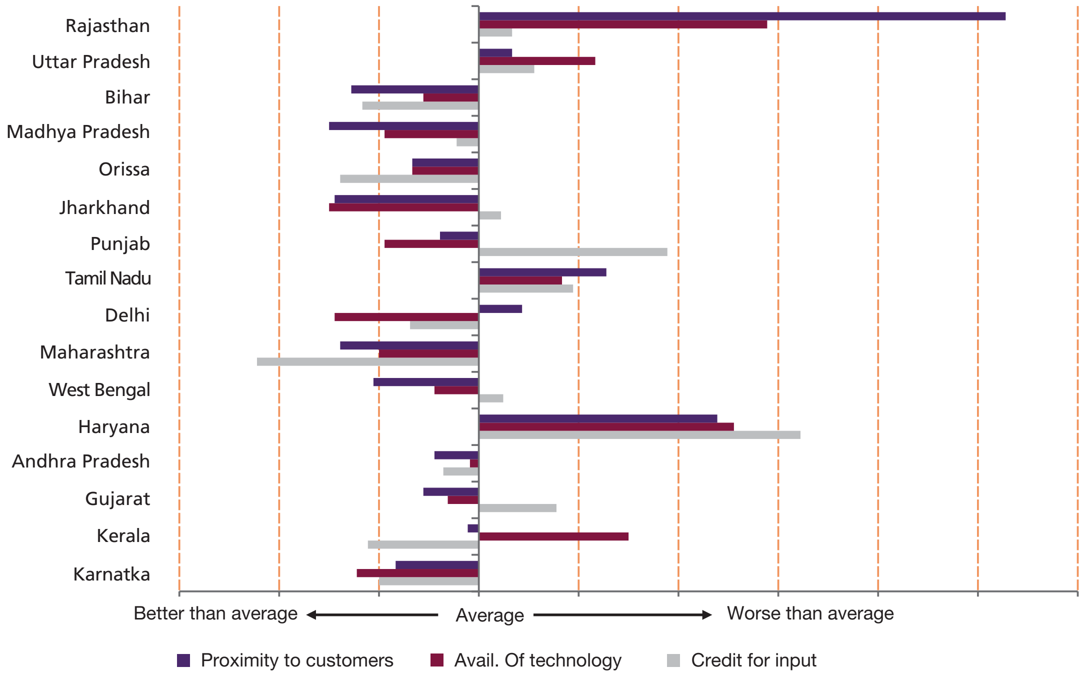
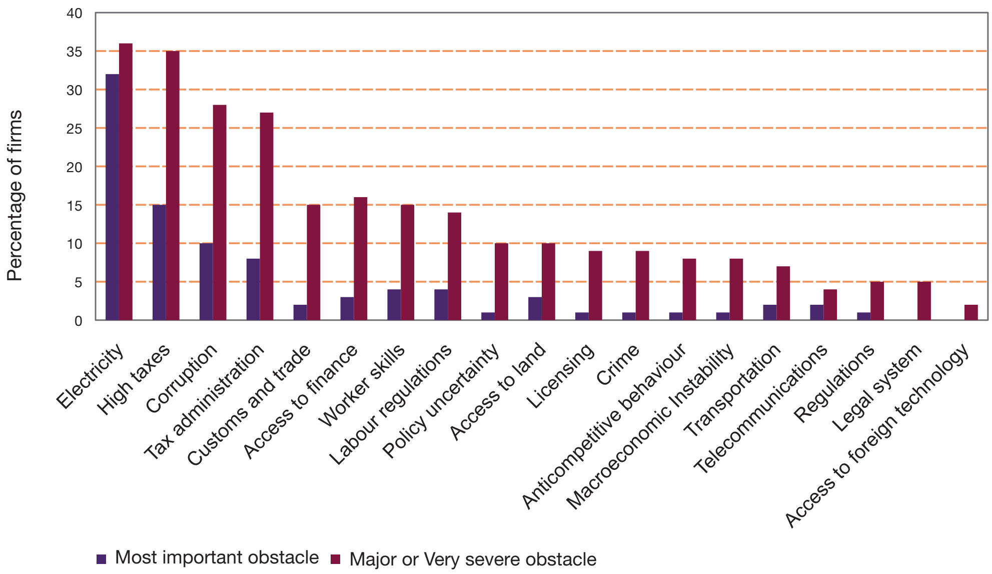


Figure 10: Manufacturing Firms perception of Investment Climate Variables as Most Important or as Major or Very Severe obstacle, 2006

Source: Ferrari and Dhingra, 2009

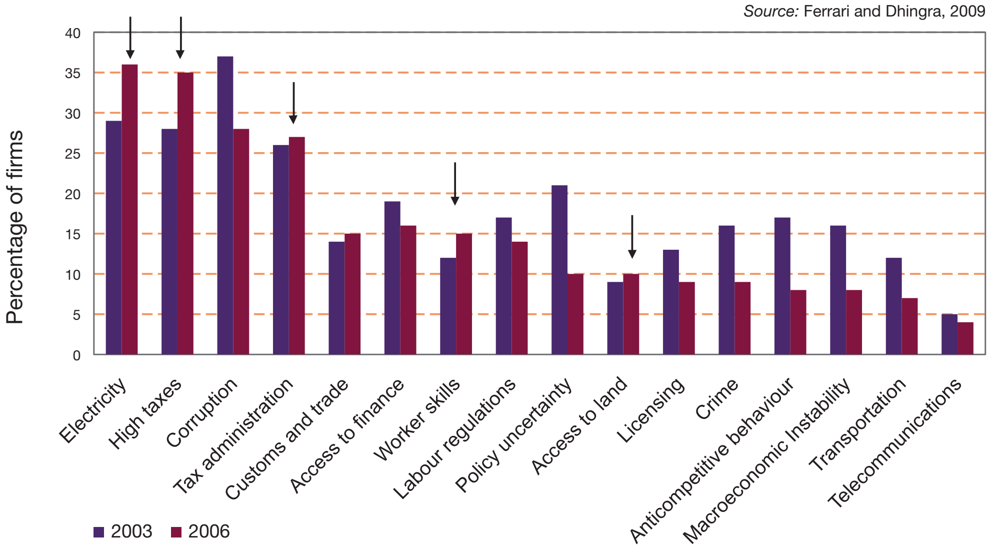


The IC survey of 2006 of manufacturing firms (numbering 2,300 firms) identified electricity, tax rates, tax administration, and corruption as the biggest obstacles (Figure 10). When required to identify the most important obstacle or a major or very severe obstacle to growth, 68 percent of managers identified electricity, 50 percent high taxes, 35 percent tax administration, and 38 percent corruption. On average, firms reported having to deal with power outages 122 times a year, and the median firm reported losing 5 percent of its sales revenue due to this (Ferrari and Dhingra, 2009, Chapter 3). More than half of enterprises rely on a backup energy source. Firms also report high tax rates and an inefficient tax administration as a key obstacle to growth. The Doing Business 2009 indicators show that taxes are high in India in an international context with

India ranked 169 out of 181 economies on the ease of paying taxes. An average entrepreneur pays 68.4 percent of company profits to comply with all tax requirements[5]- much larger than the 37 percent South Asia average and the 9 percent figure for China or 11 percent for Brazil. With regard to corruption, an average manufacturing firm paid 4.9 percent of total sales in bribes. Managers of manufacturing firms on average spent 12.6 percent of their work week dealing with government officials. Gifts or informal payments were reported by firms as required for electrical connections (39 percent), water connection (27 percent), construction related permits (68 percent), for an operating license (55 percent), and inspections by tax inspectors (54 percent), labour officials (56 percent), fire and building safety officials (48 percent), sanitation and epidemiology officials (54 percent), and police officials (59 percent) (Ferrari and Dhingra, 2009, Chapter 3).

Figure 11: Proportion of Manufacturing Firms reporting each obstacle as Major or Severe, 2003 and 2006

Source: Ferrari and Dhingra, 2009



In the 2006 IC survey firms reported less frequent cases of concern about most variables being major or severe problems than in the 2003 survey (Figure 11). In this period firms indicate improvements in access to finance and telecommunications, and they were less concerned with corruption and crime. However, firm perceptions have worsened with respect to electricity, tax rates, and workforce skills. Electricity was rated a major or severe constraint by 36 percent of respondents in 2006 – up from 29 percent in 2003. Similarly in 2006, 35 percent of respondents reported high taxes as an obstacle to growth – up from 28 percent in 2003. The Figure 11 also indicates that skill shortages are becoming more serious with 24 percent of firms reporting the unavailability of required skills in the market and 34 percent indicating that finding an adequately skilled employee is a lengthy process.

There are large differences across states with respect to the investment climate variables that firms report as an obstacle. To see these differences the states can be grouped into three categories – low income states, middle income states, and high income states[6]. Firms in low income states are more likely to identify obstacles such as the power situation and less likely to view corruption, workers skills, taxes, and access to land as a constraint than the national average (Figure 12). For firms in medium income states it was more probable that they would complain about issues such as access to land and finance, labour regulations, and worker skills. In high income states major areas of concern for business were high taxes, tax administration, and corruption.

[5] Taxes here are inclusive of labour contributions paid by an employer to a pension or insurance fund and exclude value added taxes that do not affect accounting profits.

[6] The low income states are Bihar, Jharkhand, Madhya Pradesh, Orissa, Rajasthan, and Uttar Pradesh. The medium income states are Andhra Pradesh, Karnataka, Kerala, Tamil Nadu and West Bengal. High income states are Delhi, Gujarat, Haryana,

Figure 12: Deviation from National Average of percentage of Firms reporting each obstacle as Major or Very Severe in 2006

Source: Ferrari and Dhingra, 2009

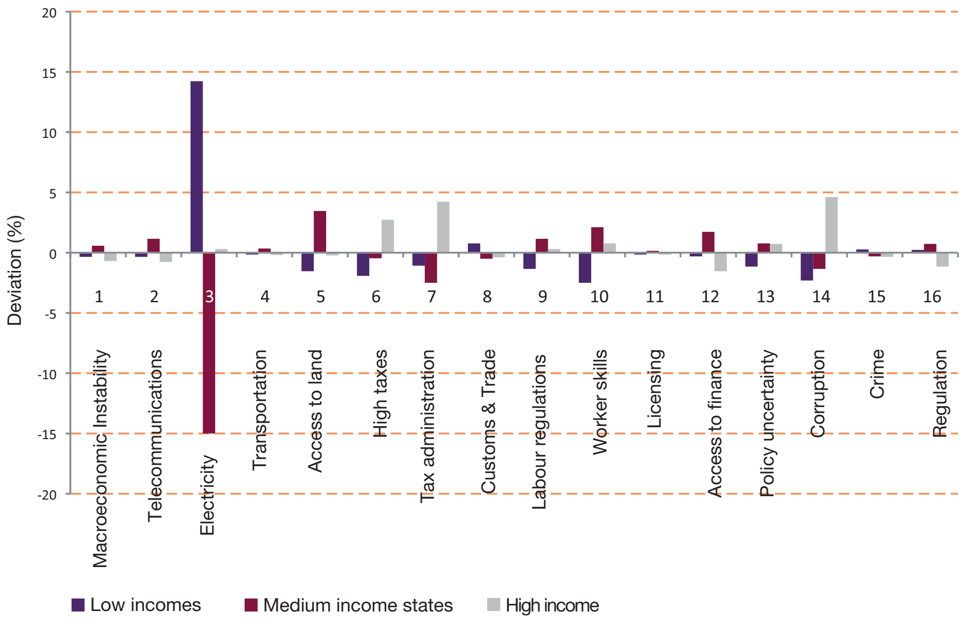
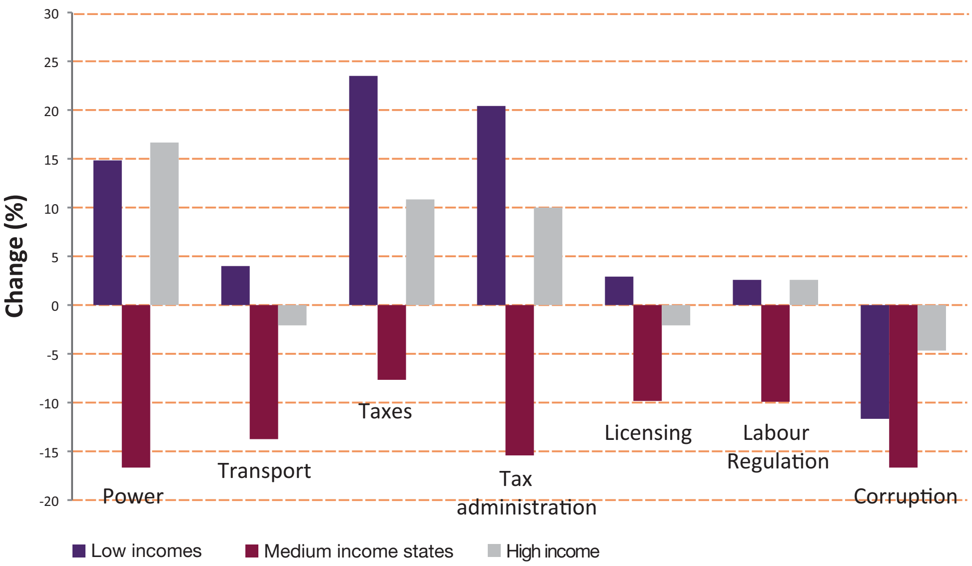


Figure 13: Change in the percentage of Firms identifying factor as a Major or Very Severe Obstacle between 2003 and 2006

Source: Ferrari and Dhingra, 2009



In a comparison of the 2003 and 2006 surveys it is revealed that medium income states have witnessed the largest improvements in IC variables (Figure 13). All states have benefited from a reduction in corruption. Firms in low income states reported a worsening of all the investment climate variables between 2003 and 2006 except for corruption. Similarly, firms in high income states reported a worsening of investment climate variables such as power, taxes, tax administration, and labour regulation, and a slight improvement in transport and licensing procedures between 2003 and 2006. Figure 13 reveals that middle income states have been swifter in their policy initiatives to improve the IC than low and high income states[7].

[7] For instance, middle income states have invested twice as much as low income states in the road sector during 2000 to 2005.

What the IC Index states about Gujarat and Bihar

In Table 3, we compare the ranks of Gujarat and Bihar across various investment climate variables.

Table 3: Rank of Gujarat and Bihar in IC variables
(higher rank indicates a good performance relative to other states)

		Gujarat	Bihar
Infrastructure sub-index		5	14
I.	Infrastructure cost variables		
	1.Hours of power outages	1	12
	2.Percent of sales lost due to power outages	1	15
	3.Hours of telephone outages	11	13
	4.Days of inventories kept for main input	10	1
	5.Percent of sales lost in transit	3	16
II.	Infrastructure Perception variables		
	6.Perception on telecom	12	16
	7.Perception on transport	7	12
	8.Perception on electricity	2	12
	9.Perception on access to land	1	9
Institutions Sub-index		2	12
III.	Institution Cost variables		
	10.Share of firms reporting gifts requested to obtain operating license	2	9
	11.Share of firms reporting gifts requested to obtain construction permit	2	5
	12.Share of firms reporting officials requested gifts	8	9
	13.Days to obtain a telephone connections	14	15
	14.Manager time spent dealing with regulations	14	15
	15.Law & order : losses due to theft	3	16
	16.Law and order: security cost	6	16
IV.	Institutions perception variables		
	17.Perception of tax administration	9	5
	18.Perception of tax rates	9	5
	19.Perception of corruption	10	11
	20.Perception of law and order: crime	8	15
Inputs Sub-index		13	12
V.	21.Trade credit : share of inputs bought on credit	13	3
	22.Share of firms using new technology	10	8
	23.Proximity to domestic customers	8	4
VI	Input perception variables		
	24.Perception on availability of skills	13	11
	25.Perception on customs	13	8
	26.Perception on labour regulations	11	8
	27.Perception on access to finance	5	14
	28.Duration of loan	2	16
	29.Short term finance represented by trade finance	11	3
	30.Share of long term finance obtained by banks	12	6
	31.Share of short term finance obtained by banks	9	5

Gujarat has an overall ranking in the IC Index of 3 and Bihar of 14 amongst the 16 states. Table 3 shows that Gujarat has a rank of 5 on the Infrastructure sub-index in contrast to Bihar's rank of 14 and Gujarat fares much better with a rank of 2 on the Institutions sub-index (behind Karnataka) whilst Bihar moves up two steps to the 12th position (above Delhi (13), Haryana (14), Rajasthan (15), and Punjab (16)). It is with regard to the Inputs sub-index that Bihar holds its ground with the 12th position but Gujarat slides down to the 13th position, just above Tamil Nadu (14), Rajasthan (15), and Orissa (16). Bihar does better than Gujarat on all input measures of investment constraints except for two instances for which Gujarati business is know to be quick at – perception on access to finance and on the duration of a loan. Significantly, Gujarat (rank 10) is akin to Bihar (rank 11) in the institutional variable of the perception on corruption. Bihar's business perception on the institution of tax administration and tax rates are better than Gujarat's by a fairly wide margin. It is the large prevalence of costs incurred due to law and order, theft, security, and crime in Bihar along with a somewhat higher prevalence of bribes related to licenses and construction permits that reduces its attractiveness as an investment destination from the point of regulatory institutions. Of course, Bihar's most significant constraints are in infrastructure – power outages and sales losses stemming from this, telephone and transport losses.

Evidence from the Doing Business in India 2009 Survey

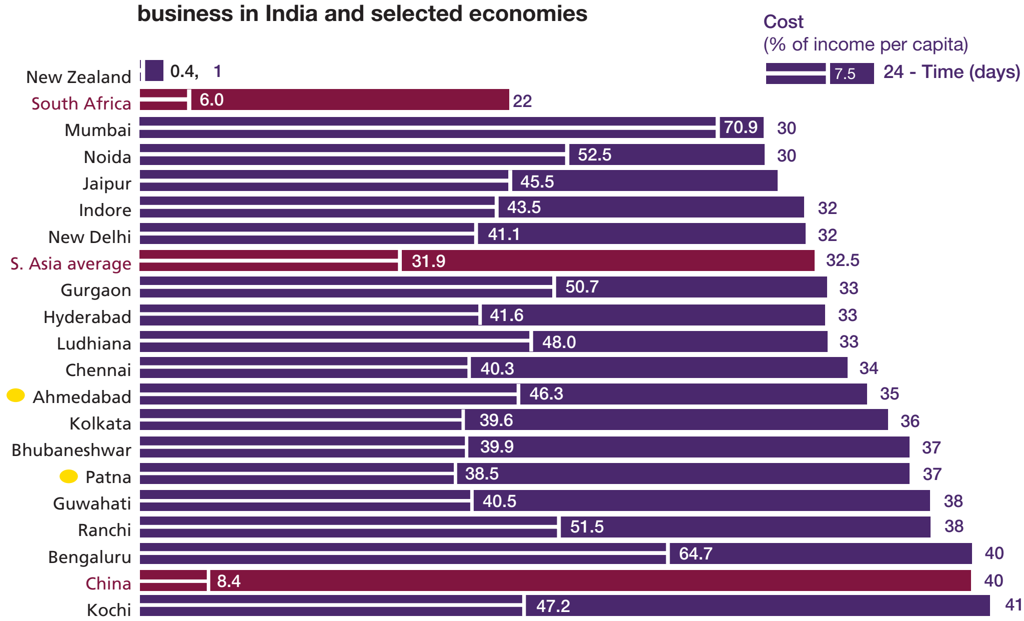
As a supplement to the IC surveys data we also consider the World Bank's Doing Business in India 2009 data. Doing Business studies business regulations from the perspective of a small to medium sized domestic firm and ranks 17 cities in India on their performance on each of seven topics – starting a business, construction permits, registering property, paying taxes, trading across borders, enforcing contracts, and closing a business. Doing Business indicators at subnational level focus only on the regulatory environment and its conduciveness for business and do not take account of other important factors such as infrastructure, macroeconomic conditions, workforce skills, or security.

Starting a Business

Starting a business is the first contact between a new entrepreneur and government regulators. In the world, New Zealand is the top performer with only 1 procedure for obtaining permits, notifications, and inspections that enable an enterprise to operate, 1 day to complete the procedure, and at a cost of 0.4 percent of income per capita. In India starting a business takes on average 12 procedures and 34 days, and costs 47 percent of income per capita and India is ranked 166 out of 183 economies on this indicator (China is ranked 167). Post registration requirements are the main reason behind the high number of procedures to open a business with an entrepreneur having to visit up to five different agencies – Permanent A/c No.(PAN), tax deduction and collection a/c no. (TAN), Shops and Establishment Act, profession tax, and value addition tax (VAT) – to register for fee and tax collections. Local procedures add up to just a quarter of the procedures to start a business with 8 out of 12 procedures on average per city required by national regulations. Some cities have fewer procedures – in New Delhi and Patna, an entrepreneur does not have to register under the Shops and Establishment Act or for the profession tax. In Hyderabad and Bhubaneshwar registration for both value added tax and profession tax is done jointly at the Commercial Tax Office. The time and cost to start a business in India is depicted in Figure 14.

Patna is ranked second on the ease of starting a business (Table 4) – a simple average of city rankings on the number of procedures, the associated time and cost and paid-in minimum capital (as % of gross state income per capita) required at the start of the business. Patna is highly ranked not only because of fewer procedures but also because entrepreneurs spend less than 40 percent of income per capita (as in Kolkata and Bhubaneshwar) to open a business. Even though Ahmedabad ranks a low 14 it is one of seven states that have introduced administrative, legal, and technological reforms (Table 5). Entrepreneurs in Ahmedabad and Delhi for instance can pay stamp duty on company documents electronically – a fast and convenient way to pay

Figure 14: Starting a business: Time and cost to start a business in India and selected economies



Source: Doing Business database

stamp duty. Tax payers in Ahmedabad (and also in Mumbai and N. Delhi) can apply online for a VAT registration certificate. The Gujarat State Tax on Profession, Trades, Calling and Employment Act has been amended in April 2008 so that registration and collection of the profession tax is decentralized to the civic centres in the Ahmedabad Municipal Corporation, reducing the registration time to 3 days.

Table 4: Ease of starting a business

Rank	City/State
1	New Delhi (Delhi)
2	Patna (Bihar)
3	Jaipur (Rajasthan)
4	Hyderabad (Andhra Pradesh)
5	Bhubaneshwar (Orissa)
6	Noida (Uttar Pradesh)
7	Ludhiana (Punjab)
8	Indore (Madhya Pradesh)
9	Gurgaon (Haryana)
10	Chennai (Tamil Nadu)
11	Kolkata (West Bengal)
12	Mumbai (Maharashtra)
13	Guwahati (Assam)
14	Ahmedabad (Gujarat)
15	Ranchi (Jharkhand)
16	Kochi (Kerala)
17	Bengaluru (Karnataka)

Source: Doing Business in India, 2009.

Table 5: Business Start up reforms, 2006 – 2009

	Electronic Application for name approval & company	Use of electronic signatures (online certification)	Electronic payment of stamp duty on company documents	Online application for VAT registration	Reduction of stamp duty on incorporation documents	Single access point for VAT & profession tax registration	Administrative reform at the profession tax office
Ahmedabad	▲	▲	●	●			●
Bengaluru	▲	▲					
Bhubaneshwar	▲	▲				●	
Chennai	▲	▲					
Gurgaon	▲	▲					
Guwahati	▲	▲					
Hyderabad	▲	▲				●	
Indore	▲	▲					
Jaipur	▲	▲					
Kochi	▲	▲					
Kolkata	▲	▲					
Ludhiana	▲	▲					
Mumbai	▲	▲		●			
New Delhi	▲	▲	●	●			
Noida	▲	▲					
Patna	▲	▲			●		
Ranchi	▲	▲			●		

▲ National level ● Local level

There are many reforms undertaken in some states that can be emulated by others. For instance, Andhra Pradesh and Orissa have consolidated the registration for the value added tax and profession tax at the same office. Instead of the five different agencies a single access point for all tax registrations say at the registrar of companies can speed up the process. Though entrepreneurs can file online (Table 5) documents are still required to be submitted in material form with the registrar of companies before an incorporation certificate can be introduced. It is worth making the incorporation process fully electronic so as to reduce the time to incorporation and simplify the work of the registrar.

Dealing with Construction Permits

The second indicator of doing business that is measured is dealing with construction permits. In India obtaining construction related approvals and utility connections require on average 20 procedures that take 158 days and cost 772 percent of income per capita. India is ranked a low 174 out of 183 economies on this indicator. There are wide variations in the number of procedures, time and cost across locations (Table 6).

Patna ranks 9 in the ease of dealing with construction permits and Ahmedabad is fourth. It is relatively easier to build and connect to utilities in Bengaluru, Gurgaon, and Chennai and most difficult in Kolkata and Mumbai. The main source of local difference is in the time needed to obtain zoning permits, building permits, and utility connections (Figure 15). The time to obtain a building plan approval in Patna is 105 days – more than four times that in Bengaluru (25 days). Some cities have undertaken computerization of their building permit and utility connection procedures. To step up pre construction zoning clearances for instance Bhubaneshwar has computerized maps allowing the approved layout to be obtained on the spot at the Geo Information System counter which has shortened the pre construction approval process from 50 days to 1 day.

Table 6: Ease of dealing with Construction permits				
Rank	City/State	Procedures	Time (calendar days)	Cost (% of income per year)
1	Bengaluru (Karnataka)	15	97	1,159
2	Gurgaon (Haryana)	19	110	298
3	Chennai (Tamil Nadu)	15	143	832
4	Ahmedabad (Gujarat)	15	144	746
5	Hyderabad (Andhra Pradesh)	16	80	1,314
6	New Delhi (Delhi)	19	144	256
7	Ludhiana (Punjab)	17	143	623
8	Bhubaneshwar (Orissa)	18	149	295
9	Noida (Uttar Pradesh)	19	139	696
10	Patna (Bihar)	19	185	204
11	Ranchi (Jharkhand)	19	170	226
12	Guwahati (Assam)	16	179	353
13	Indore (Madhya Pradesh)	21	163	205
14	Jaipur (Rajasthan)	19	151	415
15	Kochi (Kerala)	22	224	234
16	Kolkata (West Bengal)	27	258	2,550
17	Mumbai (Maharashtra)	37	200	2,718

Source: Doing Business in India, 2009.

In Ahmedabad and Chennai builders can submit their plans electronically for a scrutiny on building rules and zoning plans. In Ahmedabad applicants can also calculate building permit fees online. Builders can track their application online in Ahmedabad, Bengaluru, Chennai, and Hyderabad. The cities that have been reforming their construction permit process are depicted in Table 7.

Construction activity requires visits to various authorities such as town-planning departments, sewerage and water works, state electricity distribution companies, pollution boards, fire departments, etc. States with good practices such as Gujarat have created a checklist of such diversified requirements with a step-by-step guide along with a list of required documents and with a listing of offices' addresses and contact details. This is a useful first step that empowers applicants with information about the permit approval process and initiates demands for the timely disposal of applications with no side payments. Second, cities such as Bengaluru, Chennai, Gurgaon, Hyderabad and N. Delhi have opened single service windows that centralize applications and forward them to relevant authorities so as to minimize the number of visits and save time. A useful third step is to transfer the single access service window into a one stop agency that processes applications internally and that has decision making powers by virtue of having representatives of various approval agencies at a centralized location (World Bank, 2009, p.22).

Figure 15: Building permit approvals and Utility connections

Source: Doing Business database

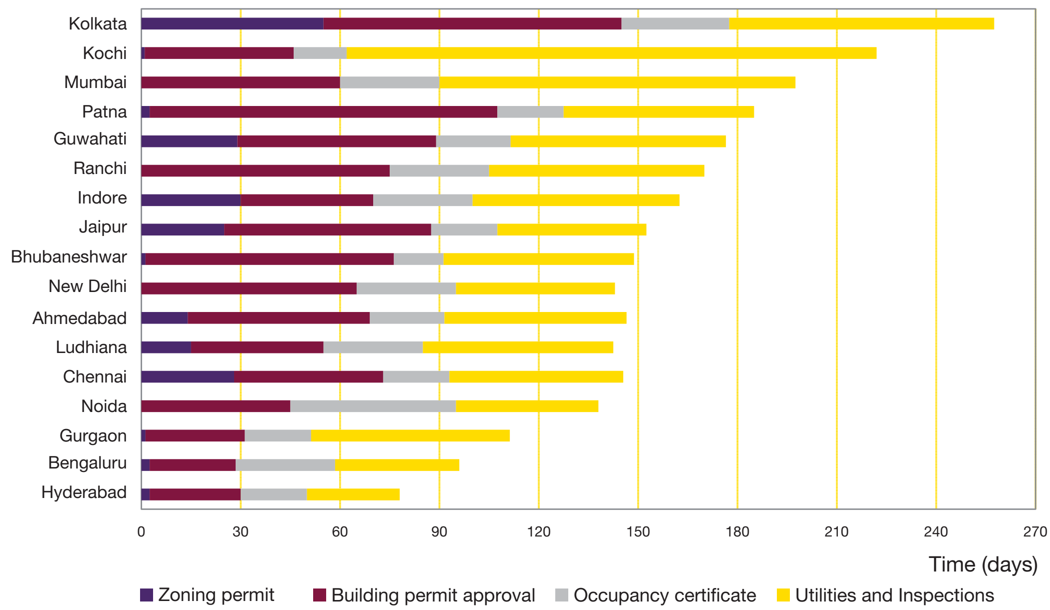


Table 7: Fourteen of 17 cities reforming construction permit process, 2006 – 2009

	Digitilised zoning plants	Computerised building permit process	Improved handling of applications
Ahmedabad	●	●	●
Bengaluru	●	●	●
Bhubaneshwar	●	●	
Chennai	●		●
Gurgaon		●	●
Guwahati		●	
Hyderabad	●	●	●
Indore		●	●
Jaipur		●	●
Kochi			
Kolkata		●	●
Ludhiana			
Mumbai			
New Delhi	●	●	●
Noida			●
Patna			●
Ranchi			●

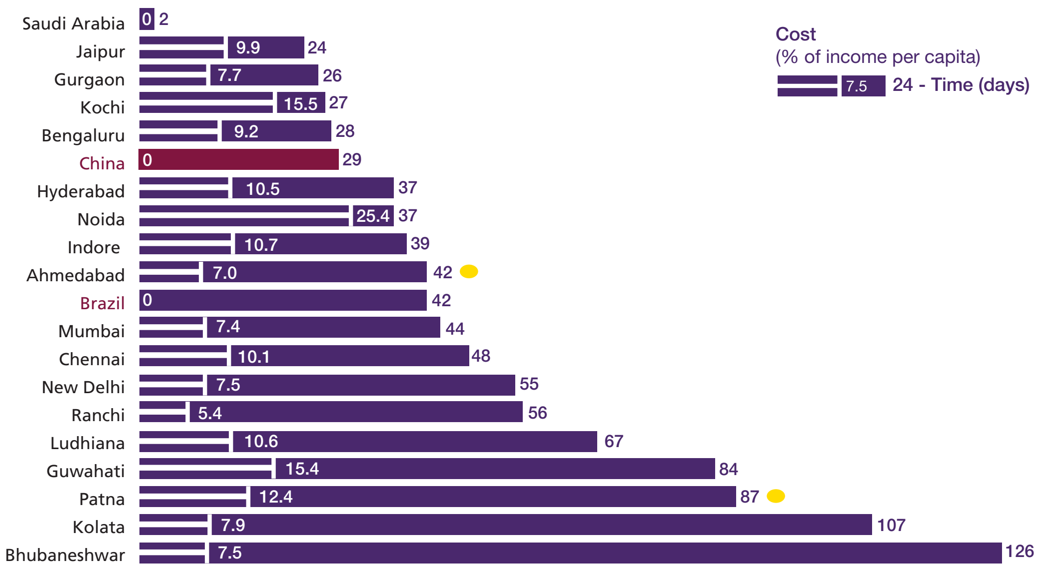
Registering property

With regard to registering property India ranks 92 and on average an entrepreneur would spend 55 days and 10.6 percent of the property value and have to complete 5 procedures to register the property under his name. All states have the same procedures – searching for encumbrances, drafting a sale deed, registering the deed at the Sub-registrar's office, and transferring the property title at the Circle Revenue Office. However, in Ahmedbad it takes 42 days and 7 percent of the property value to register property which is easier than in Patna where it takes more than twice that time or 87 days and 12.4 per cent of the property value to do so. The ranking of cities on the ease of registering property is given in Table 8 and the time and cost to register property in various cities is depicted in Figure 16.

Table 8: Ease of registering property	
Rank	City/State
1	Gurgaon (Haryana)
2	Ahmedabad (Gujarat)
3	Jaipur (Rajasthan)
4	Bengaluru (Karnataka)
5	Mumbai (Maharashtra)
6	Ranchi (Jharkhand)
7	Kochi (Kerala)
8	New Delhi (Delhi)
9	Hyderabad (Andhra Pradesh)
10	Indore (Madhya Pradesh)
11	Ludhiana (Punjab)
12	Noida (Uttar Pradesh)
13	Kolkata (West Bengal)
14	Guwahati (Assam)
15	Patna (Bihar)
16	Chennai (Tamil Nadu)
17	Bhubaneshwar (Orissa)

Source: Doing Business in India, 2009.

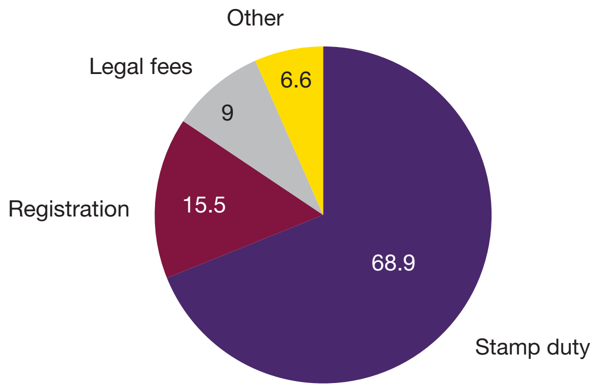
Figure 16: Registering property: Time and cost vary significantly across states



Source: Doing Business database

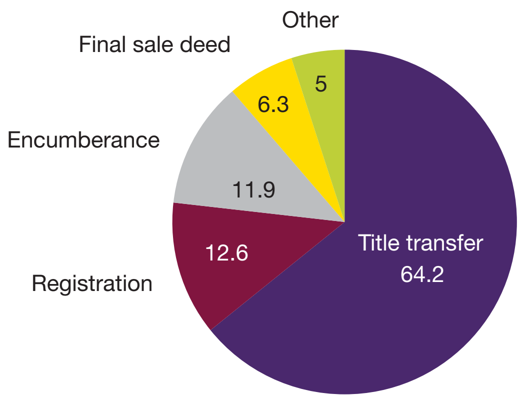
Registering property is costly in India compared to zero per cent in China and Brazil and 0.2 per cent of the property value in Russia. Most of the cost variations in cities across India are explained by differences in stamp duty rates, registration costs for the final sale deed, and lawyers' fees. Stamp duty accounts on average for 69 per cent of all costs incurred (Figure 17).

Figure 17: Share of total cost to complete a property transfer, 17 - city average (%)



Source: Doing Business in India, 2009

Figure 18: Share of total time to complete a property transfer, 17 - city average (%)



Source: Doing Business in India, 2009

It is also time consuming in India to register property because of the time spent at two offices – Sub-registrar's office that verifies the property is free of dispute and registers the sale deed and the Circle Revenue Office that transfers the property title. The time spent in these two offices accounts for 89 per cent of the total time spent on registering property (Figure 18). To reduce registration time and the efficiency of these two offices governments would require to computerize land records for sure. Better computerization in Jaipur for instance made it easier to search for encumbrances, register the sale deed, as well as for the transfer office to check the validity of the application and reduced the time on these activities from 28 days to 15. Apart from digitalization, staff training and performance management improve the efficiency of the office and reduce time as Gurgaon which is India's top performer for registering property found

Table 9: Cities reformed procedures & cost to register property, 2006 – 2009

	Reduced stamp duty	Improved land record computerisation	Reduced administrative fees	Improved administrative efficiency
Ahmedabad	●			
Bengaluru				
Bhubaneshwar	●	●	●	
Chennai				
Gurgaon				
Guwahati				
Hyderabad				
Indore				
Jaipur		●		●
Kochi				
Kolkata				
Ludhiana				
Mumbai				
New Delhi	●	●		
Noida	●			
Patna		●		
Ranchi		●		

when Haryana Urban Development Authority hired a consulting company for training employees. The states that have computerized land records and eased procedures for entrepreneurs are depicted in Table 9. Finally, statutory limits that cap the time within which offices can register deeds and transfer property titles reduce the time taken effectively.

Paying Taxes

India again fares poorly on the ease of paying taxes with a rank of 171 amongst 183 economies. Entrepreneurs on average spend 278 hours and 68.4 per cent of company profits on 65 different payments[8] to comply with all tax requirements. It is easier to comply with tax requirements in Punjab (ranked 1) and Rajasthan (second rank) than in Bihar (ranked 15) or Tamil Nadu (17th rank) – Table 10.

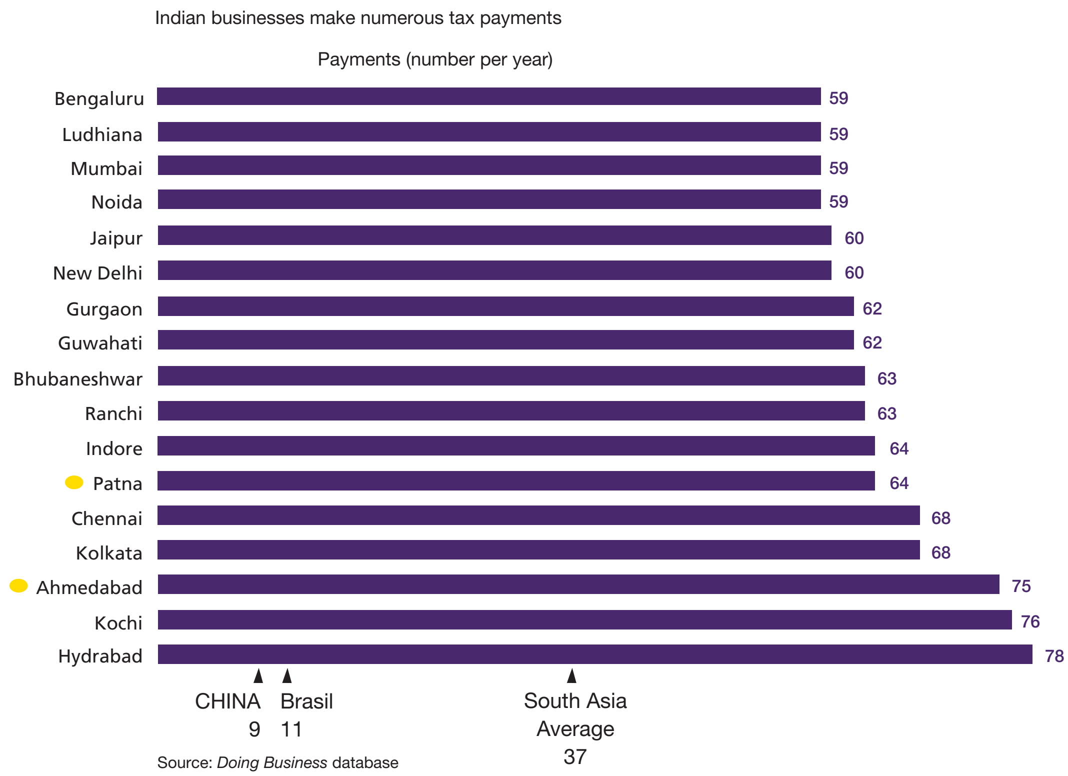
There are numerous tax payments in India varying from 59 in Punjab to 78 in Andhra Pradesh. Bihar with 64 different payments is around the national average whereas Gujarat fares worse with 75 different payments (Figure 19). Labour taxes and the central sales tax are relatively stable across the various states. The South Asia average is 37 payments and the OECD average is 13 payments. It is variations in the effective corporate income tax rate and state/ municipal tax rates that therefore account for discrepancies across locations. Though the statutory base corporate tax rate is the same across the country (30%), differences in deductions cause the effective profit tax rate to vary from 21.6 per cent to 24.1 per cent. Differences are also considerable in many state imposed taxes such as the state VAT, vehicle tax, property taxes, profession tax, infrastructure development tax, and state/municipal business taxes. Bihar and Gujarat state level taxes have approximately the same share of 4.2 per cent of profits (Figure 20), and are ranked 12 and 13 in terms of the local tax burden they impose on entrepreneurs. Noida in U.P. and Gurgaon in Haryana impose the least tax burden whereas Chennai and Bangalore impose the worst[9].

8 The South Asia average is 37 payments and the OECD average is 13 payments.
9 State level taxes are 5.9 percent of profits in Chennai and 7 percent in Bengaluru. They are 0.7 percent in Noida.

Table 10: Ease of paying taxes	
Rank	City/State
1	Ludhiana (Punjab)
2	Jaipur (Rajasthan)
3	Noida (Uttar Pradesh)
4	Mumbai (Maharashtra)
5	Ranchi (Jharkhand)
6	Guwahati (Assam)
7	Gurgaon (Haryana)
8	New Delhi (Delhi)
9	Bhubaneshwar (Orissa)
10	Indore (Madhya Pradesh)
11	Ahmedabad (Gujarat)
12	Bengaluru (Karnataka)
13	Hyderabad (Andhra Pradesh)
14	Kochi (Kerala)
15	Patna (Bihar)
16	Kolkata (West Bengal)
17	Chennai (Tamil Nadu)

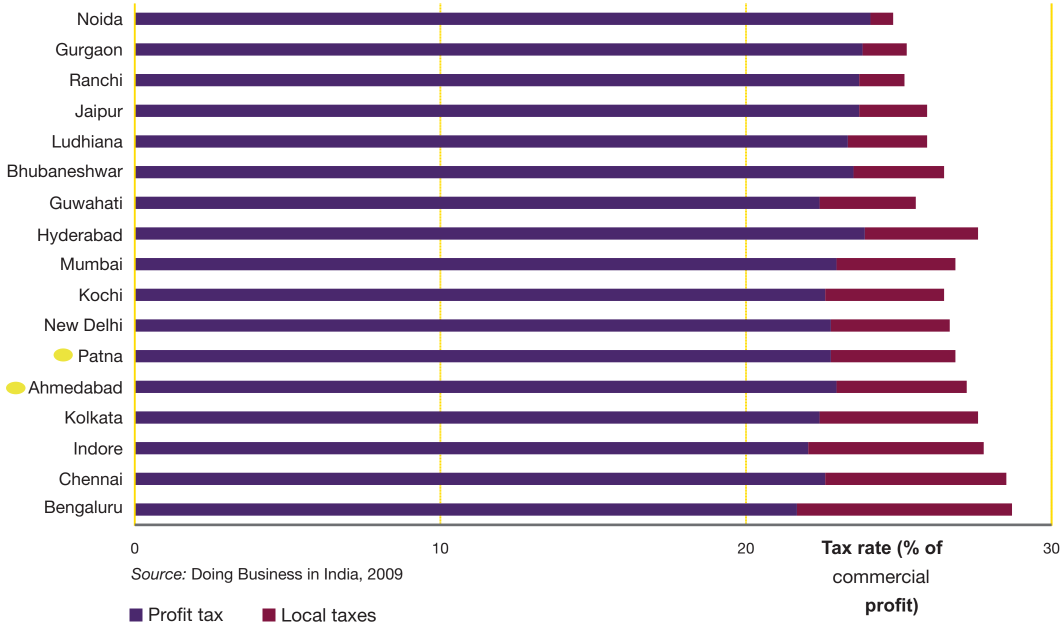
Source: Doing Business in India, 2009.

Figure 19: Paying taxes - Indian businesses make numerous tax payments



Source: *Doing Business* database

Figure 20: Variation in local taxes

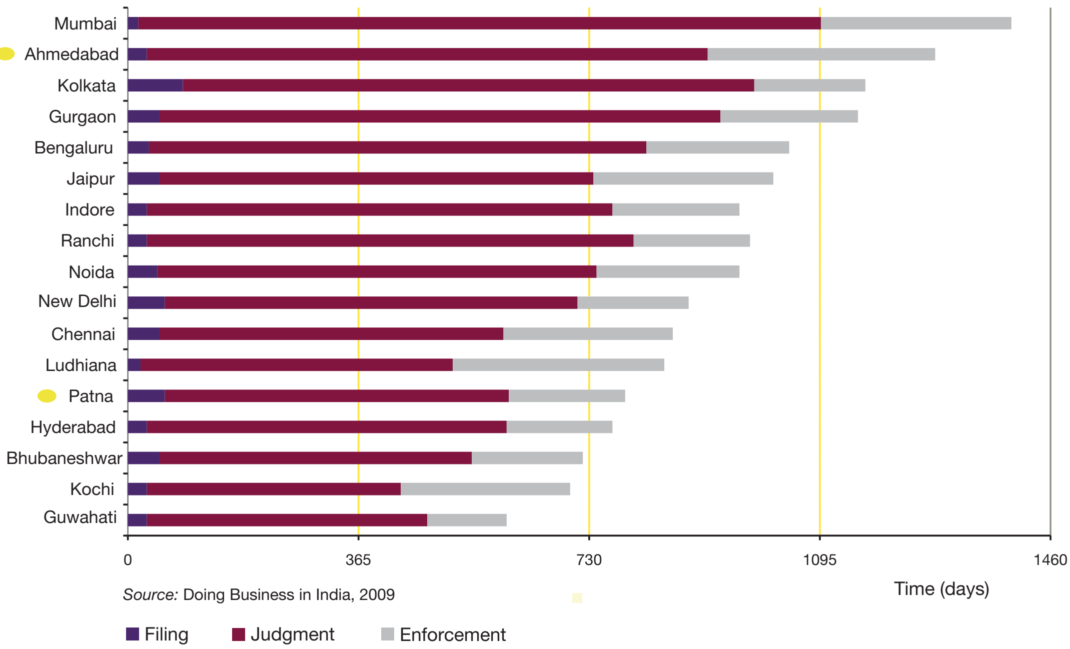


Source: Doing Business in India, 2009

Table 11: Ease of enforcing contracts	
Rank	City/State
1	Hyderabad (Andhra Pradesh)
2	Guwahati (Assam)
3	Patna (Bihar)
4	Ludhiana (Punjab)
5	Bhubaneshwar (Orissa)
6	Kochi (Kerala)
7	Jaipur (Rajasthan)
8	Jaipur (Rajasthan)
9	Noida (Uttar Pradesh)
10	Indore (Madhya Pradesh)
11	Ranchi (Jharkhand)
12	New Delhi (Delhi)
13	Kolkata (West Bengal)
14	Gurgaon (Haryana)
15	Bengaluru (Karnataka)
16	Ahmedabad (Gujarat)
17	Mumbai (Maharashtra)

Source: Doing Business in India, 2009.

Figure 21: Length of delays in the judgment phase across India



Source: Doing Business in India, 2009

Enforcing contracts

Enforcing contracts involving the time, cost and number of procedures involved from the moment a lawsuit is filed until actual payment, is where India ranks 182 out of 183 economies with

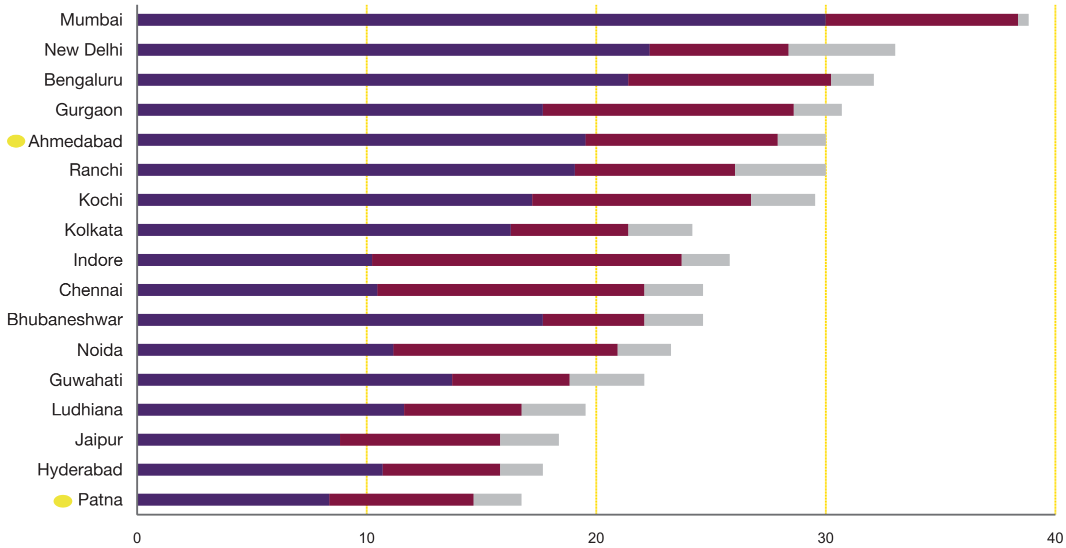
Afghanistan the worst placed in this regard. In India resolving a commercial dispute through a court takes on average 1,053 days with court costs and attorney fees amounting to 39.6 per cent of the value of the claim. It is easier to enforce a contract in Bihar (ranked third after Andhra Pradesh and Assam) than in Gujarat or Maharashtra (ranked 16 and 17 respectively) – see Table 11.

The shortest time needed to enforce a contract is Assam (600 days) followed by Kerala (705 days). In Bihar, it takes 792 days (fifth position) and in Gujarat it takes 2/3rds longer or 1,295 days (rank 16) - see Figure 21. This reflects to some extent the differences in volume and the backlog of court cases across states. Bihar's number of judges per million population may be higher than the India figure of 14 and the number of cases handled per judge much lower than the all India average of 4,000.

Contract enforcement costs are the least in Bihar at 16.9 per cent of the value of the claim and the most in Karnataka (32.5 per cent of claim value), New Delhi (34 per cent) and Maharashtra (39.5 per cent) – see Figure 22. The main difference in court costs is the different ad valorem fees based on the value of the claim deposited at the time of filing the suit. On average 6 per cent of the value of the claim is the ad valorem fee, attorney fees are on average 16 per cent of the value of the claim, and enforcement costs are 2.6 per cent of the value of the claim. Reform of the judicial system is a long process.

Since 2008 the Supreme Court has allowed for electronic filing of cases. To address backlogs and delays court data need to be computerized along with support functions such as case tracking, document management, deadline reminders, and automatic scheduling of hearings. Promotion criteria for judges such as in Indore, where each judge at a district and high court is given a mark for each disposed case which is taken into consideration for promotion. Finally, alternative dispute resolution mechanisms such as arbitration and mediation procedures need to be considered as options to reduce caseloads.

Figure 22: Cost to enforce a commercial contract across India (% of claim)



Source: Doing Business in India, 2009

■ Attorney fees ■ Court fees ■ Enforcement fees

Closing a Business

Finally, the ease of closing a business is important for inspiring confidence in creditors that they will be able to collect on their loans. India ranks 142 out of 183 countries on this measure. The insolvency process takes on average 7.9 years in India, it costs 8.6 per cent of the estate value of an insolvent firm, and the recovery rate is 13.7 per cent of the amount of money of the claimant owed by the bankrupt firm. South Asian countries have a higher recovery rate of 20.4 per cent and in OECD economies it is 68.6 per cent. Again, variations exist across states in India in the speed and cost of the insolvency process. It is easier to complete bankruptcy procedures in Andhra Pradesh (rank 1) and Punjab (rank 2) and more difficult in Uttar Pradesh (rank 16) and West Bengal (rank 17). Gujarat ranks fourth on the ease of closing a business and Bihar fifteenth – Table 12.

The time it takes to close a business at 6.8 years is the least in Gujarat whereas in Bihar it takes 9.3 years which makes it the sixteenth rank (second worst rank) on this count. Closing a business involving attorney fees, newspaper publication costs, liquidator's fees, and preservation costs amounts to 7 per cent of the estate value in Gujarat and it is 43 per cent higher or 10 per cent of the estate value in Bihar. Also, the recovery rate in Bihar at 12 per cent (rank 15) is less than 15 per cent in Gujarat (rank 4). Bankruptcy laws in India are national and the regulatory framework has improved over the last decade with the introduction of Debt Recovery Tribunals and the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI) in 2002 which have improved recovery rates.

Table 12: Ease of closing a business	
Rank	City/State
1	Hyderabad (Andhra Pradesh)
2	Ludhiana (Punjab)
3	Mumbai (Maharashtra)
4	Ahmedabad (Gujarat)
5	Bhubaneshwar (Orissa)
6	Gurgaon (Haryana)
7	New Delhi (Delhi)
8	Bengaluru (Karnataka)
9	Indore (Madhya Pradesh)
10	Chennai (Tamil Nadu)
11	Kochi (Kerala)
12	Guwahati (Assam)
13	Ranchi (Jharkhand)
14	Jaipur (Rajasthan)
15	Patna (Bihar)
16	Noida (Uttar Pradesh)
17	Kolkata (West Bengal)

Source: Doing Business in India, 2009.

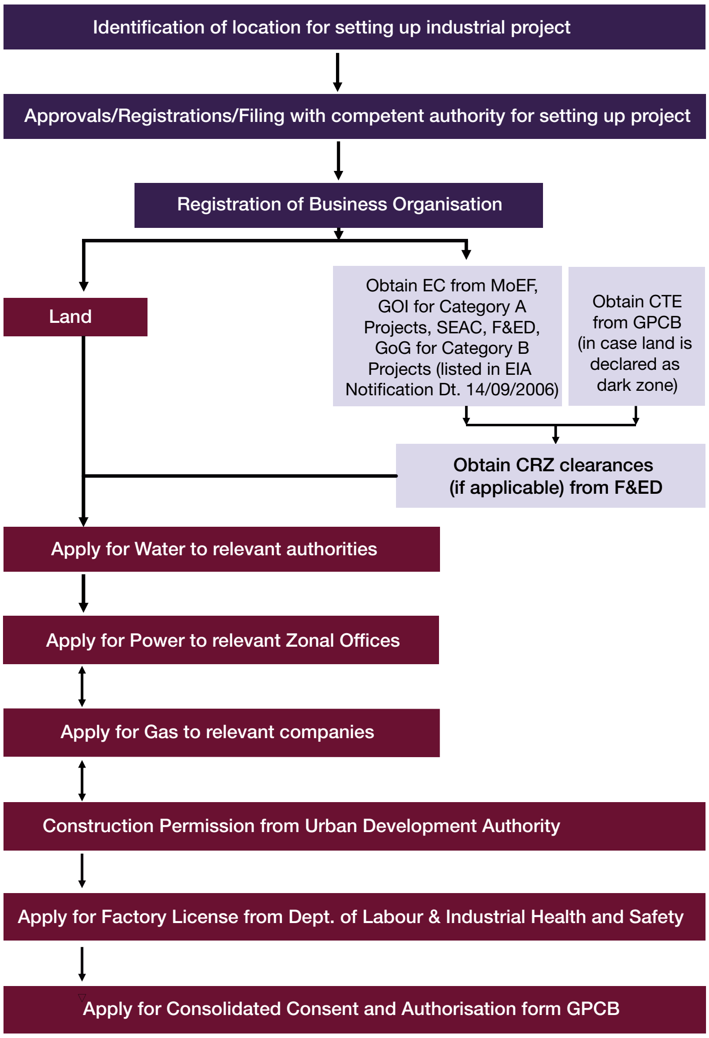
The Roadmap for Setting up Industry in Gujarat

The steps required to be undertaken by an investor who is considering the possibility of setting up an industrial unit in Gujarat is depicted in Figure 23. The first step is the identification of a location within Gujarat for setting up an industrial unit. As of now an investor can approach the Industrial Extension Bureau (iNDEXTb) of the Government of Gujarat[10] and request for inputs on possible locations. iNDEXTb provides counseling to prospective entrepreneurs on suitable locations according to the type of industry into which entry is being sought. iNDEXTb is soon to open an Investment Portal on which will be a Geo-Information System (G.I.S.) counter with maps indicating details of the type of land, ownership pattern, etc. The maps are tagged with criteria such as identifying areas where further expansion of certain industries are not to be allowed due to limits on the carrying capacity of the environment. Potential investors can enter search criteria listing parameters that define their project requirements such as the availability of a certain size of land, power and water requirements, etc. and the map will indicate locations that meet these criteria[11]. iNDEXTb also provides escort services whereby they accompany entrepreneurs who are interested in visiting and inspecting certain locations. These services are provided without charging a fee.

Having identified a location, approvals have to be taken from the Government of Gujarat or Government of India depending on the nature of the industry or the scale of investment. The authority that grants approvals for various types of projects is shown in Table 13 in the Appendix.

[10] We discuss the role of iNDEXTb and its functioning in greater detail a bit later.
[11] This software has been developed by iNDEXTb and the author was given a demonstration of how it works. The launch of this product is awaiting clearance from the Minister of Industries.

Figure 23: Roadmap for setting up Industry in Gujarat



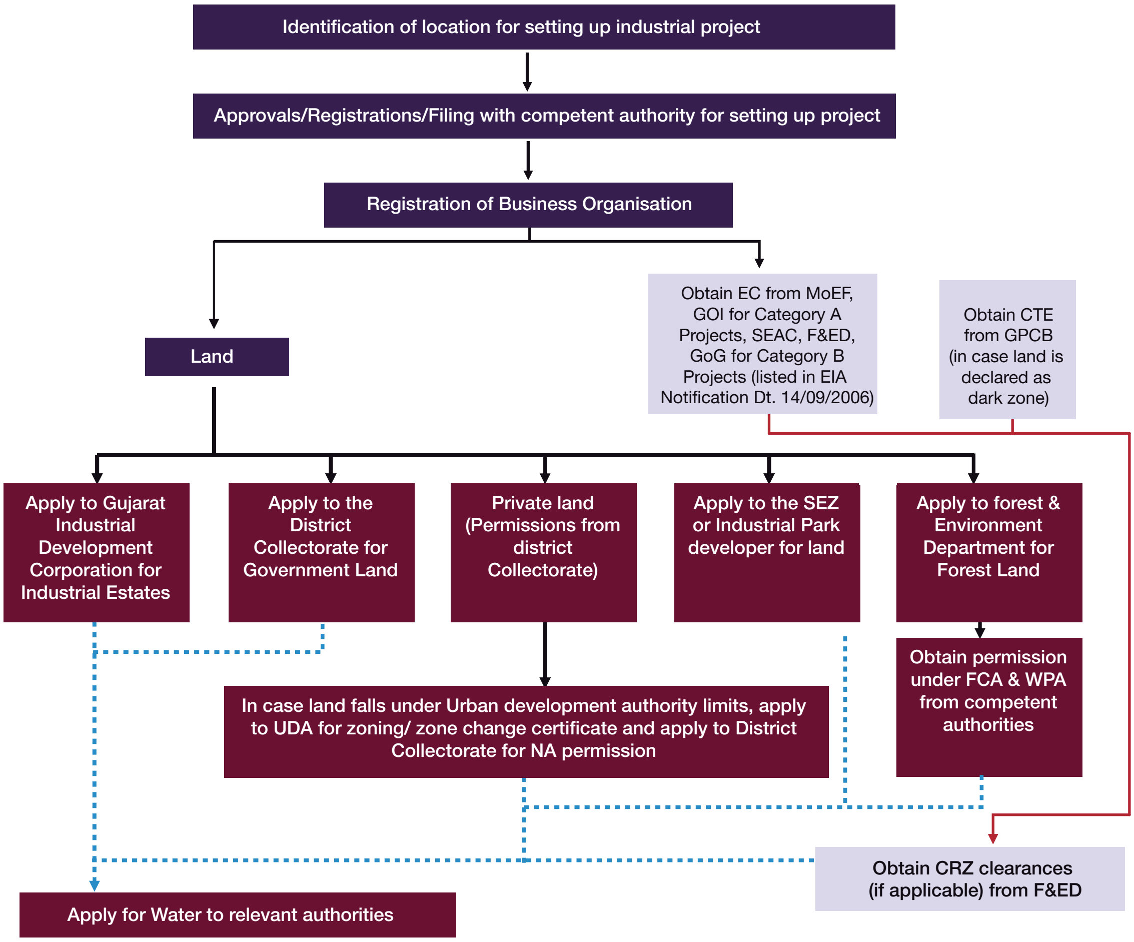
After being granted approval for setting up a project, entrepreneurs have to register with a concerned authority. The details of such entities that register businesses are given in Table 14 in the Appendix.

The next step is the acquisition of land – Figure 24. An investor can purchase land through various options such as –

- Government land
- Private land
- Land in the Gujarat Industrial Development Corporation (GIDC) Estate
- Forest land
- Land in Special Economic Zone or Industrial Park

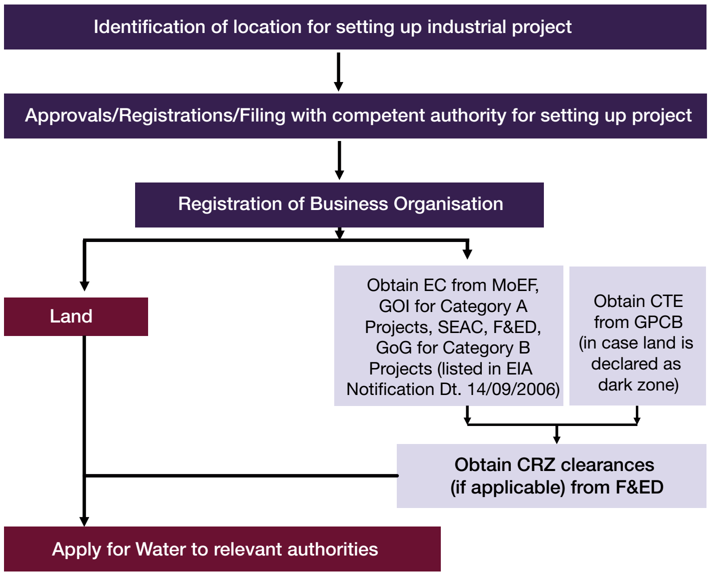
The procedure for acquiring land and the associated approvals is depicted in Table 15 in the Appendix.

Figure 24: Aquisition of Land



A project that is covered under the Schedule of Environment Impact Assessment Notification requires environment clearance. The process involved is depicted in Figure 25 and Table 16 in the Appendix.

Figure 25: Environmental Clearances

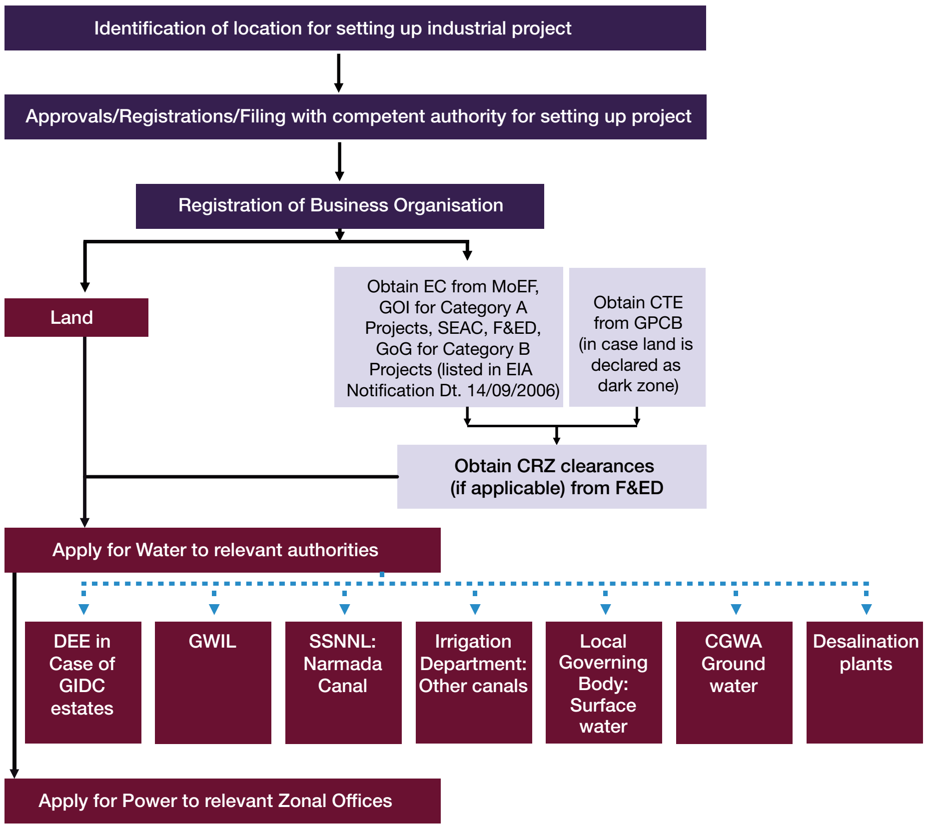


In order to avail of water supply for industrial purposes the following departments of the state government are to be contacted (Figure 26) –

- For water within Gujarat Industrial Development Corporation Estate, the office of the Deputy Executive Engineer
- For drawing water from the pipeline of Gujarat Water Infrastructure Ltd. (GWIL)
- For a unit located near the Narmada Canal, the Sardar Sarovar Narmada Nigam Ltd.
- For canals and rivers and reservoirs other than the Narmada Canal, the Irrigation Department
- For drawing surface water, local governing bodies such as Nagar Palika, Municipality, Municipal Corporation.
- For ground water, the Central Ground Water Authority. If the area falls under the dark zone, over exploited area or saline area, the investor has to apply to the Superintendent (Gujarat), Water Resources Development Corporation[12].
- An enterprise can also install a desalination plant to fulfill its water requirements.

[12] The list of dark zones, over exploited or saline areas across 57 talukas is given at http://www.gwrdc.gujarat.gov.in/gwremaps.html

Figure 26: Agencies for Water Supply for Industrial Purposes



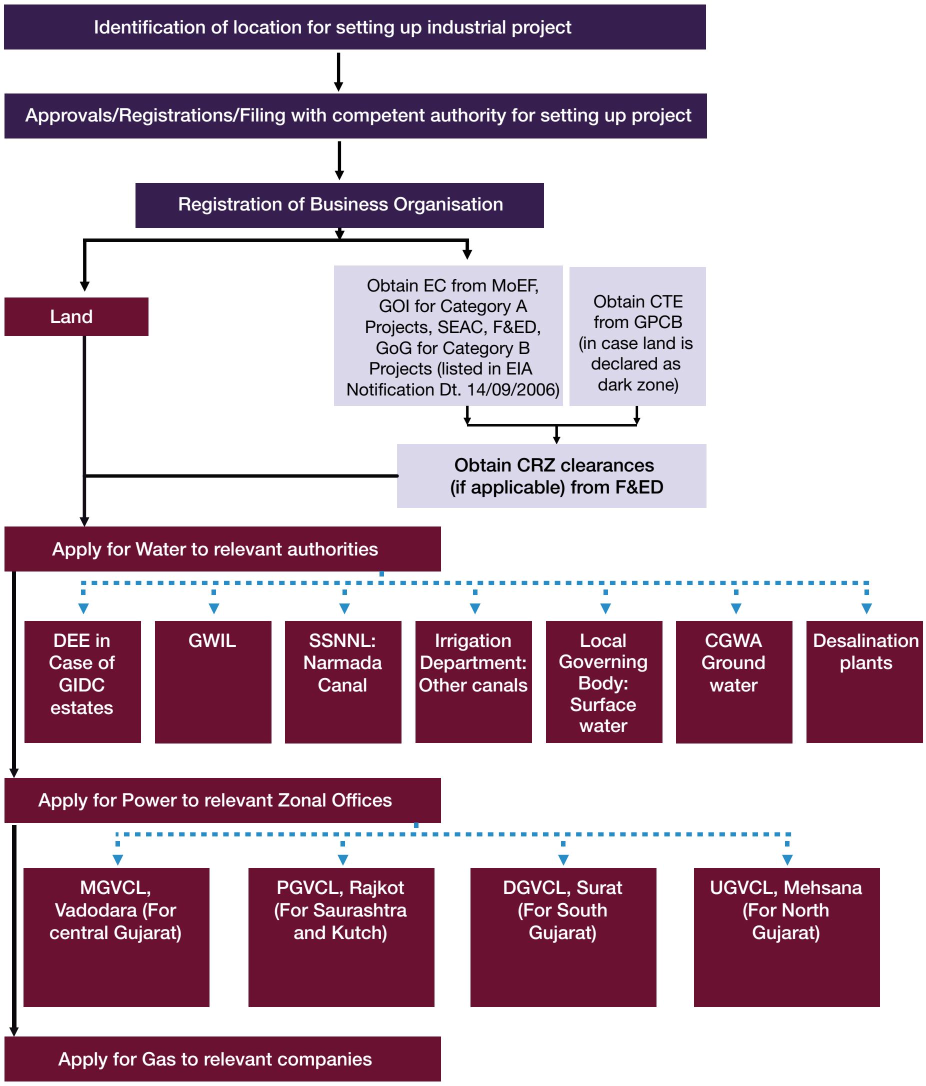
The next step for an entrepreneur is to obtain power (Figure 27). There are four zonal offices that are to be contacted for this purpose depending on the area of supply.

- Madhya Gujarat Vij Company Ltd.
- Paschim Gujarat Vij Company Ltd.
- Dakshin Gujarat Vij Company Ltd.
- Uttar Gujarat Vij Company Ltd.

The details of the application form, procedures involved, and timeliness are on the websites or available at their offices. A company can also establish a generating station for captive power without obtaining a license if it complies with the technical standards relating to connectivity with the grid[13].

[13] This is as per the Indian Electricity Act 2003. The details for open access is available at www.getcogujarat.com

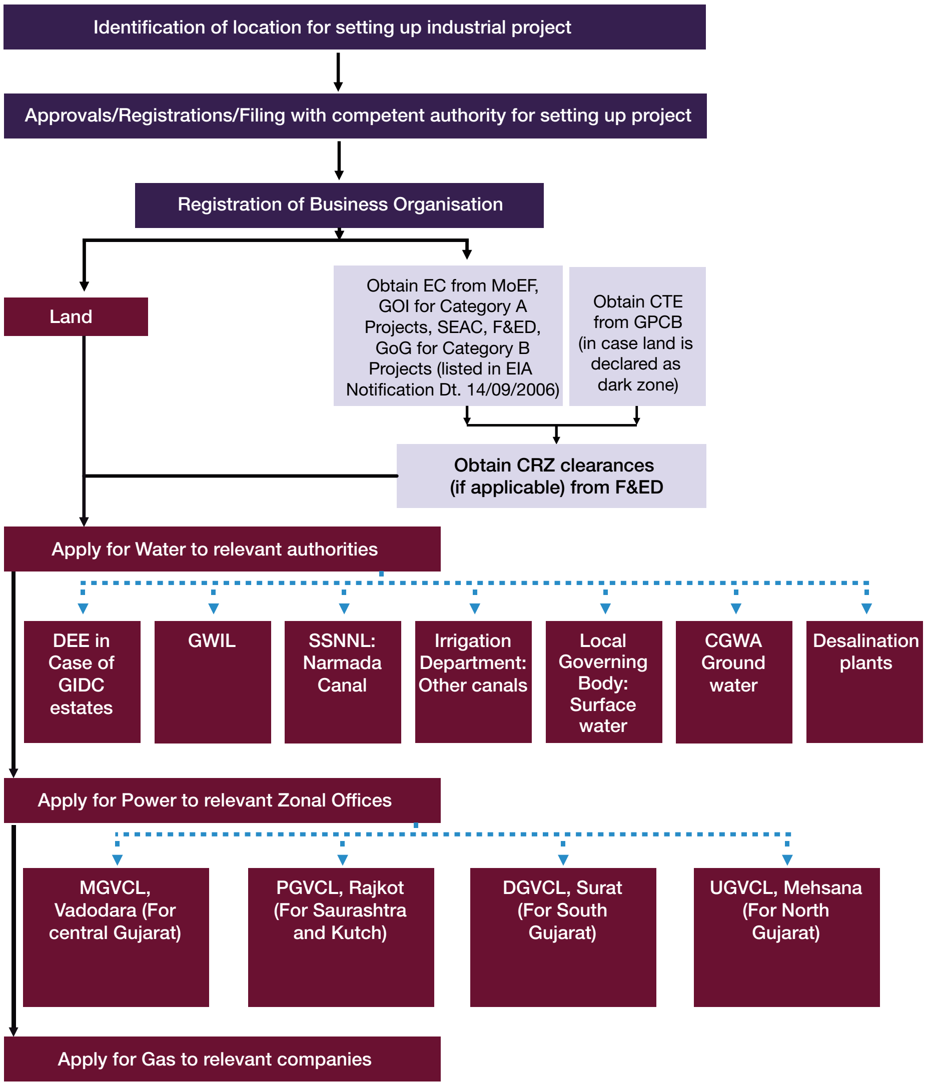
Figure 27: Applications for Power



For gas the entrepreneur has to apply to various gas distributors (Figure 29), depending on the district where the project is located. For instance, in Ahmedabad and Vadodara it is Adani Energy Ltd., in Anand it is Charotar Gas Sahakari Mandali Ltd., in Bharuch, Mehsana and Sabarkantha, it is GAIL (India) Ltd., in Surat, Gujarat Gas Co. Ltd. and in all other districts, Gujarat State Petroleum Corporation (GSPC) is the relevant authority. For gas requirements above 50,000 scmd, the relevant authorities are GAIL (India) Ltd. and GSPC[14]. The Blueprint for Infrastructure in Gujarat 2020 (BIG 2020) aims to make gas a preferred fuel across the industrial and urban landscape of Gujarat. Gujarat is the second largest gas producing region in the country and accounts for 32 per cent of gas consumption in India, with per capita gas consumption being 10 times the national average.

[14] The format for application is described at www.gspcgroup.com

Figure 27: Applications for Power



After identifying the piece of land for putting up a project the entrepreneur has to check whether it is part of an industrial zone or other than industrial zone (agriculture, residential zone etc.). In the latter case a zone change is required to make it into non-agricultural land to the Urban Development Authority.

The Director, Industrial Safety and Health then approves plans for premises, equipment and process layout and registers the factory by granting the license. A new entrepreneur has to also fulfill procedural formalities under various labour laws[15], has to register for VAT under the VAT Act, 2003, and register under the Central Sales Tax Act, 1956.

Finally, before the commencement of commercial production Consolidated Consent and Authorisation (CC&A) is required from the Gujarat Pollution Control Board[16].

[15] These include Minimum Wages Act, 1949, Contract Labour (R&A) Act, 1970, Payment of Gratuity Act, 1972, Payment of Bonus Act, 1965, Interstate Migrant Workers Act, 1979, etc.

[16] The forms for this are on the website http://www.gpcb.gov.in/app_form.asp

Single Window Clearance System in Gujarat

Firms have to receive approvals from different agencies of the government – to register a business, register for taxes, for health and safety clearances, etc. This suggests that it would assist firms a lot if the government provided a checklist of the various requirements indicating the steps that should be undertaken, the required documentation and the various offices associated with processing the documents along with their contact details. Such a step by step guide can save valuable time involved in understanding and preparing the groundwork to successfully complete the procedures required in order to be able to do business. The World Bank for instance, documents the creation of a step-by-step guide by the municipal authorities in Latvia (Riga) in 2001. This simple listing of required documents along with a flowchart depicting which offices are required to be visited cut two months off the process besides empowering the business entities to insist on enforcement of time limits in making approvals (World Bank, 2009).

As a next step, a government can open a single access point that centralizes applications and forwards them to the relevant authorities. This is in the nature of assistance to investors that by minimizing the initial point of contact makes procedures accessible to an entrepreneur and saves time as well. Finally, a government can transform the single access window into a one-stop establishment that processes applications internally. Such a one-stop establishment would be a single agency that grants licenses and approvals and thereby enables a firm to begin its operations. The setup in Gujarat is not a one-stop establishment but is restricted to a single service window for clearances.

The single access window in Gujarat is the Industrial Extension Bureau (iNDEXTb) that was set up as early as 1978 as a single point of contact for an entrepreneur wishing to set up an industrial venture in Gujarat. It has three major roles –

- Identifying investment opportunities & information provision – iNDEXTb identifies new investment opportunities, prepares project profiles, status reports on different industry groups, and prepares potentiality surveys.
- Marketing and Investment promotion – The Bureau in fact is the marketing arm of the Government of Gujarat and organizes investment promotion campaigns in India and abroad, as well as joint publicity campaigns on behalf of the State Industries Administration.
- Assistance to entrepreneurs – It offers counseling assistance for undertaking investment decisions, assists in the understanding of the formalities required to be undertaken in order to implement a project, and coordinates with chambers of commerce and industry as well as various government departments as a way to monitor the implementation of industrial approvals.

The iNDEXTb has a governing body whose Chairman is the Industries Commissioner of Gujarat. The other members of the governing body initially included the Managing Directors of all the promotional organizations – Gujarat Industrial Development Corporation (GIDC), Gujarat Industrial Investment Corporation Ltd. (GIIC), Gujarat State Financial Corporation (GSFC) and Gujarat Small Industries Corporation Ltd. (GSIC). Later the MDs of other facilitatory and regulatory bodies set up to promote investments were also included as members of the board – Gujarat Maritime Board (GMB), Gujarat Mineral Development Corporation Ltd. (GMDC), Gujarat Agro Industries Corporation Ltd. (GAIC), Gujarat State Petroleum Corporation Ltd. (GSPC), Tourism Corporation of Gujarat Ltd. (TCGL), Gujarat Mineral Development Corporation Ltd. (GMDC), Gujarat Power Corporation Ltd. (GPCL), and Gujarat Infrastructure Development Board (GIDB). Finally, there are private industry members which include renowned industrialists and Presidents of the representative bodies of industries. The Chief Executive is the MD of iNDEXTb who is also the Member Secretary of the Governing Body. The budget of iNDEXTb is met from contributory shares by all the promotional organizations that are on its board.

iNDEXTb, which has a staff of about 60, is organized along four divisions –

- International Business Division – dealing with activities related to projects involving NRI investment and FDI, the promotion of exports, handling foreign delegations and publicity campaigns, and processing statistical information on industrial approvals by Government of India for location in Gujarat.
- Investment Promotion Division – dealing with domestic projects from within the country and other than Gujarat, promotional campaigns within India, make proposals on policies for industrial development that sustain Gujarat's competitive advantage, and reviewing labour as well as law and order issues so as to reduce the incidence of industrial sickness.
- Project and Technology Division – dealing with project inquiries from within Gujarat, preparing industry status reports and area potentiality surveys, monitoring the industrial situation and operating an Industrial Data Bank, submitting proposals for technology upgradation, maintaining international product quality standards, and improving the skills of the workforce.
- Computer Centre – which provides turnkey solutions from identification of customer needs to feasibility studies, design and development, and the development and implementation of customized software packages as well as corporate training. This centre also provides IT related services to government departments, state corporations, banks, and local bodies.

The Early Years and Growth of iNDTEXTb -

iNDEXTb came up in response to the need for diversification of industry in Gujarat. When Gujarat became a state and lost Bombay to Maharashtra it found that with less than one acre per capita of agricultural land the growth path going forward was to promote industrialization. However, industry was concentrated mainly in the four cities of Ahmedabad, Vadodara, Surat, and Rajkot, and textiles was the predominant industry. To promote diversification and to overcome regional imbalances various promotional agencies were set up. The Gujarat Industrial Development Corporation (GIDC) for instance was set up in 1961 to acquire land and provide infrastructure facilities for small and medium enterprises and it promoted about 180 industrial estates. The Gujarat State Financial Corporation (GSFC) was promoted in 1964 as banks were not financing new entrepreneurs. The Gujarat Industrial Investment Corporation Ltd. (GIIC) was set up in 1968 to finance medium and large industries with projects larger than ` 3 million. Both GSFC and GIIC were refinanced by IDBI. By the early 1970s GIIC was given a second mandate of financing projects in the joint sector[17] and it promoted approximately 60 projects partnering industrial houses such as Mafatlal, Godrej, Dalmia, Munjal, Birlas, Apollo Tyres, etc. By 1976 to kickstart the pace of industrial development new industrial centres were set up in places like Vapi, Waghodia, Savli, Ankleshwar, Halol and Kalol. At that time the leadership of the state began to ask itself that whilst helping locals why it could not associate NRIs in the process of development. A team led by the Industries Secretary was deputed to go abroad to various countries including the USA, UK and Germany and to meet NRIs. Many NRIs who were keen on returning to India mentioned red tape as a primary obstacle that was holding them back from returning.

Based on this feedback a division within the GIDC called the International Division was set up to facilitate NRIs. Originally, NRIs went to specific promotional agencies such as GSFC, GIIC, etc. with queries and each would provide information that was limited to their functional domains. The International Division kept information on various aspects of regulations, finance, taxation,

[17] The joint sector is where the state partners with a private promoter. The chairman of the company is a nominee of the government and MD a representative of the private promoter, who had a share of less than 25% of the capital but through the MD had control over the day to day management. The public and the government hold majority shares.

etc. regarding business operations and so was better placed to facilitate the NRIs and respond to their various queries. NRIs usually visited for a short period of less than a month and the International Division would assist them by providing information, getting applications filled, and arranging meetings with various authorities. The International Division would follow up on the applications and keep the NRIs informed about the status of these after they returned abroad. Only after being informed by the International Division that all clearances had been obtained would an NRI return to Gujarat and begin the execution of a project.

Within a year of the International Division being set up the thinking in government changed to increasing the focusing of this activity. A decision was taken to set up a separate entity that would undertake such promotional work and its scope was broadened to include industrialists from within the country as well and from outside of Gujarat. iNDEXTb was set up on 29th June 1978 and the Marketing officer of the GIDC International Division, Jay Narayan Vyas, was appointed as the founding Chief Executive. Jay Narayan Vyas stayed with iNDEXTb till late 1989 when he left to join politics. Today he is the Minister of Health & Family Welfare, Tourism, and Non Resident Gujarati Division in the Government of Gujarat. His role in putting Gujarat in the forefront of the industrial map of India is widely acknowledged. The Government of India recognized iNDEXTb as a Model Development Organization and other states decided to launch similar organizations with Udyog Bandhu in U.P. and ANRICH in Andhra Pradesh being examples.

The strength of iNDEXTb has remained marketing, promotion through publicity, counseling and facilitating entrepreneurs. After Jay Narayan Vyas left, for a year, nobody was appointed to head iNDEXTb. Subsequently, middle level IAS officers have been appointed and the typical tenure has been two years with little effort on visioning and consolidation. After 1991 new recruitment at iNDEXTb was put on hold. From its transformational beginnings it has veered towards a procedural organization that is clearly oriented to the activity of promoting and marketing industrial activity in the state but the relationship between its outputs and the outcomes of its activities is unclear[18].

By 1997 the office of iNDEXTb was shifted from Ahmedabad to Gandhinagar – from the site of industry to the site of government. It gradually also lost its autonomy[19]. In its striving to establish the image of the state as a favoured industrial destination for entrepreneurs for instance it allowed its operational officers to fly on work and to stay in upper end hotels so as to signal its business orientation and differentiate it from the other departments of government. Gradually such benefits were removed. From serving entrepreneurs and industry iNDEXTb slowly reoriented itself post liberalization to serving government[20]. By the latter half of the decade beginning in 2000 the Gujarat government had begun to use private sector business advisory firms as knowledge partners such as Ernst & Young and Price Waterhouse Coopers (PWC). PWC is the knowledge partner for organizing Vibrant Gujarat 2011, an investor summit of the Government of Gujarat, with the aim of promoting and bringing business to the state.

Assessing iNDEXTb –

The effectiveness of an agency such as iNDEXTb arises not from the mandate given to it but through its political clout. An organization like iNDEXTb is effective when it receives support from senior levels of government and such a government makes the pulling in of investment a principal part of its development strategy. Only then will it transpire that when the officers of the promotional agency approach authorities (for say processing applications) on behalf of investors will it be viewed as requiring an urgent response to the request and to giving it precedence.

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[18] Transformational organizational bureaucracies are strongly aware of the importance of their organizational outcomes and induce their members to change their attitudes and behaviour and so transcend their own self interest for the sake of the organization. The leader of the organization by being a role model builds employee confidence and pride in the institution, and finally, the employees of the organization are encouraged to challenge standard organizational practices. This is distinct from standard transactional bureaucracies that are based on individual gain and the exchange of rewards for effort. See Burns, James M. (1978) – “Leadership”, New York, Harper & Row.

[19] These are articulations of some of the former and current employees of iNDEXTb.

[20] iNDEXTb website states that it is the “marketing arm of the Government of Gujarat”.

iNDEXTb has not been able to transform itself from a single access point for applications to a one stop establishment that processes applications which is a significant shortcoming. iNDEXTb simply forwards applications to concerned departments and it is left to the entrepreneurs to follow up with them. It does escort investors to these regulatory bodies and interfaces for them but stops short of actually obtaining the permissions. It has occasionally requested a department to revisit a decision about an application. However, a lot of its work is promotional as it reaches out to entrepreneurs as the face of the state. In the process it provides information about market potential and even plays a counseling role in suggesting investment avenues to entrepreneurs on the basis of their backgrounds and interests.

Part of the reason for its lack of transformation and its limited effectiveness as pointed out earlier stems from its low clout with an appointed MD of a rank below that of a Secretary to government. Another part of the reason lies in the different orientation of a single window agency and that of other departments of government. A bureaucrat in a regulatory role that involves the granting of approvals and licenses understands his work as involving the processes of checking to make certain that rules are being followed and thereby regulating investment. The bureaucrat in such a role sees his responsibility as requiring him to plan to achieve certain conditions that an investment must meet as laid down by policy and his primary concern does not involve making it easier for an investor to set up a business. In short, a functionary in a regulatory body has the mindset of controlling and regulating investment.

In sharp contrast a single window clearance agency that promotes investment has a client and service driven perspective towards investors. As the single window agency prods the administrators in regulatory departments to apply the procedures applicable under their jurisdiction with a concern for the compliance costs that entrepreneurs face it begins to be viewed as suggestions for improvement being made by those unqualified to understand how the regulatory department functions. It gets trickier if suggestions for change are viewed as trespassing in their operational domain. The worst is when the single window agency that is attempting to reform the investor entry process begins to be seen as a super agency with unnecessary authority and power as it seeks to wield control and rationalize the process of investment approvals. As the government departments that oversee the various approval procedures become progressively sensitive and fear the reining in of their authority they seek to clip the wings of the single window agency. An investment promoting single window agency then reduces to a coordinating agency for investors whilst various approval granting departments retain their existing mandates and charge over their regulatory jurisdictions.

iNDEXTb could not mature into a one stop establishment that coordinates the paperwork required for approvals and obtain all the approvals required by an investor because it did not acquire the political clout required for such a set up, and the requisite mandate to move in that direction as well because there was no planned mechanism by which it could provide departments that sanctioned approvals with suggestions that were not seen as intrusive.

Organizations for investment promotion such as iNDEXTb can actively improve the perception of prospective investors regarding the investment climate in a region through promotional campaigns that attract investors. At the same time, however, there is a requirement that attention be devoted to the real state of affairs or the objective component of the investment climate in a region. Good campaigns promoting an investment destination translate into interested investors who will find out quickly if administrative procedures present a significant obstacle to setting up their projects. Unmet expectations of this kind resulting from delays or unnecessary costs imposed by approval agencies result in a dramatic decline in investment image and tarnish the investor friendly message being propagated by the investment promotion agency. A correlate of an investment promotion agency then is the commitment of financial outlays and organizational effort towards improving the real state of affairs. By being the interfacing agency with the investor the investment promotion agency is best placed to understand and identify the inadequacies in the operation of a region's investment approval practices and to suggest ways to remove these shortcomings. By combining the policy objectives of the region with a thorough understanding of the processes that a potential investor is subjected to the investment promotion agency is well placed to suggest operational mechanisms that simultaneously meet investor intentions that they plan to achieve as well as government objectives. With strong political support such suggestions can be implemented and serve to reinforce the attractiveness of the investment region.

Without political clout iNDEXTb has been unable to transform into a one-stop establishment that processes applications internally. Such a one-stop establishment would require the approval granting bodies to delegate their representatives to iNDEXTb and provide them with decision power to actually grant approvals. An application in such a case is no longer transferred to the pertinent authority that grants approvals but is processed at the investment promotion agency itself. Investors then have to interact with far fewer agencies whilst executing the compliance related processes for getting their projects approved. ASSOCHAM's President Dr. Swati Piramal has pointed out in a strategy document for Gujarat that one third of investment proposals in Gujarat were in the implementation stage while two third of the projects were on paper[21]. She indicated that a single window system (or a one-stop establishment) is required for timely execution of projects and that such a strategy would have a multiplier effect on the economy and that it is essential to concentrate on that beyond a focus on attracting investment to the region.

The success of an investment promotion agency depends on its ability to meet the information needs of potential investors and make facilitation a priority. This requires them to be in terms of business culture like a private sector culture and so it is advantageous if the staff is a mix of those with public and those with private sector marketing and industry experience so that they drive the message of a proficiency of skills that private investors can directly relate to. It also requires that since recruitment is of those who have a background in the private sector the salaries resemble to some extent those that are offered in the private sector.

An appropriate work culture in an investment promotion agency also is fostered if there is operational freedom given to achieve the mandate of the agency. This is better advanced by setting up the agency outside of a ministry rather than as a subunit of a ministry. This is because a typical ministry has several mandates to carry out. For example, the Industries Commissionerate is simultaneously bothered about mining, tourism, export promotion, micro, small and medium enterprises development, SEZs, Special Investment Regions etc. This type of structure restricts the autonomy of an investment promotion agency to carefully plan and to achieve its important goals independently of those of other subunits.

On all these counts of staff with private sector experience, salaries and work cultures close to that in the private sector, and operational freedom, iNDTEXb is wanting. Its strengths, however, have been its ability to develop a strong and sound bank of business information that is valuable to investors. It does this by active research that prepares profiles of priority sectors and investment sites and rapid dissemination of this to each member of the staff who has access to a computer and the internet. It also invites investor interest through its web site and builds familiarity and confidence with a potential investor by assigning a single individual to interact with him and to help him further his plans. Apart from this relationship management it builds knowledge on business by its interactions with business establishments and professional service providers such as legal and tax accounting services. iNDTEXb can improve the effectiveness of its facilitation by ceding to it prominence and clout by making it an autonomous body that reports directly to the Minister of Industry or the Chief Minister.

[21] www.gujaratglobal.com/beta, 2009-11-19 11:25:22

Conclusions

Governments have decisive influence over many aspects of the factors that shape the costs, risks, and barriers to competition in a location which influence investment and productivity improvements by firms that can benefit workers and consumers. The World Bank Investment Climate Surveys (ICS) conducted in 2003 and 2006 based on face-to-face interviews of a representative sample of entrepreneurs (more than 3700 in 2006) in both manufacturing and retail establishments in 16 Indian states is a source of data on investment climate. Forty-six variables are grouped in six sets or sub-indexes that represent the backbone of the investment climate index. The six sub-indexes are then further aggregated into three sub-indexes, one for each category – infrastructure, inputs, and institutions. The five states with the best investment climate are Karnataka, Kerala, Gujarat, Andhra Pradesh and Haryana. The worst investment climate is in Bihar, Uttar Pradesh and Rajasthan.

The IC sub-indexes of infrastructure and institutions explain most of the variation of the 46 variables in the IC index. Infrastructure and institutions are the variables in which the best and worst performing states differ the most. Power turns out to be the most important infrastructure constraint followed by transport. Amongst the institutional constraints the biggest constraining factors in the business environment to investments are corruption, tax regulations, tax administration, and security (theft). These point out to the main areas that policy makers need to focus on with the intention of increasing investment in their states.

The IC survey of 2006 of manufacturing firms identified electricity, tax rates, tax administration, and corruption as the biggest obstacles. When required to identify the most important obstacle or a major or very severe obstacle to growth, 68 percent of managers identified electricity, 50 percent high taxes, 35 percent tax administration, and 38 percent corruption. In the 2006 IC survey firms indicate improvements in access to finance and telecommunications, and they were less concerned with corruption and crime than they were in 2003. However, firm perceptions have worsened with respect to electricity, tax rates, and workforce skills. Electricity was rated a major or severe constraint by 36 percent of respondents in 2006 – up from 29 percent in 2003. Similarly in 2006, 35 percent of respondents reported high taxes as an obstacle to growth – up from 28 percent in 2003. Skill shortages are more serious in 2006 with 24 percent of firms reporting the unavailability of required skills in the market and 34 percent indicating that finding an adequately skilled employee is a lengthy process.

There are large differences across states with respect to the investment climate variables that firms report as an obstacle. To see these differences the states can be grouped into three categories – low income states, middle income states, and high income states. Firms in low income states such as Bihar are more likely to identify obstacles such as the power situation and less likely to view corruption, workers skills, taxes, and access to land as a constraint than the national average. Firms in high income states such as Gujarat are more concerned with high taxes, tax administration, and corruption.

Gujarat has an overall ranking in the IC Index of 3 and Bihar of 14 amongst the 16 states. Gujarat has a rank of 5 on the Infrastructure sub-index in contrast to Bihar's rank of 14 and Gujarat fares much better with a rank of 2 on the Institutions sub-index (behind Karnataka) whilst Bihar moves up two steps to the 12th position (above Delhi (13), Haryana (14), Rajasthan (15), and Punjab (16)). It is with regard to the Inputs sub-index that Bihar fares marginally better at the 12th position and with Gujarat in the 13th position. It is the large prevalence of costs incurred due to law and order, theft, security, and crime in Bihar along with a somewhat higher prevalence of bribes related to licenses and construction permits that reduces its attractiveness as an investment destination from the point of regulatory institutions. Of course, Bihar's most significant constraints are in infrastructure – power outages and sales losses stemming from this, telephone and transport losses.

The Doing Business 2009 survey of the World Bank studies business regulations from the perspective of a small to medium sized domestic firm and ranks 17 cities in India on their performance on each of seven topics – starting a business, construction permits, registering property, paying taxes, trading across borders, enforcing contracts, and closing a business. It is easiest to do business in Ludhiana (Punjab), followed by Hyderabad (Andhra Pradesh), Bhubaneshwar (Orissa), and Gurgaon (Haryana). Ahmedabad (Gujarat) is the fifth ranked city in the ease of doing business in India. By contrast Patna (Bihar) is ranked fourteenth with Kochi (Kerala) and Kolkata (West Bengal) taking the last positions in the rankings.

Patna (Bihar) has a high ranking in the ease of starting a business (ranked second) mainly because the index includes as a component the cost required to complete procedures as a per cent of income per capita. This cost is the lowest amongst all cities in Patna with Mumbai having the highest cost (and 85 per cent higher than in Patna). Bihar is also good in enforcing contracts which is the efficiency of the judicial system in resolving a commercial dispute. Contract enforcement costs are the least in Bihar at 16.9 per cent of the value of a claim and the most in Karnataka (32.5 per cent of claim value). Apart from these two indicators Bihar fares relatively quite poorly compared to other states in terms of dealing with construction permits, registering property, ease of paying taxes, and closing a business. Gujarat is exactly the opposite of Bihar as it is not an easy place for starting a business (ranked 14 out of 17 states) or to enforce contracts (rank 16) with the longest time taken in the courts involving costs equivalent to 31 per cent of the value of the claim. However, in Gujarat it is easy to do business in terms of dealing with construction permits, registering property, and closing a business and it is a median state in terms of its ease of paying taxes.

It is of assistance to firms if the government provides a checklist of the various requirements for setting up business indicating the steps that should be undertaken, the required documentation, and the various offices associated with processing the documents along with their contact details. Such a step by step guide can save valuable time involved in understanding and preparing the groundwork to successfully complete the procedures required in order to be able to do business. Gujarat has such a well laid out system of procedures for identifying locations for setting up industry, for registering the business, for obtaining land, water, power, gas, construction permissions, factory and other licenses.

Gujarat also has a single access window known as the Industrial Extension Bureau (iNDEXTb) that was set up as early as 1978 as a single point of contact for an entrepreneur wishing to set up an industrial venture in Gujarat. iNDEXTb has three major roles – identifying investment opporunities and information provision, marketing and investment provision, and assistance to entrepreneurs. It has a staff of sixty and its governing body includes the Managing Directors of all the promotional organizations of the state, and private industry members including those from representative bodies of industries. The strength of iNDEXTb has been marketing, promotion through publicity, counseling and facilitating entrepreneurs.

iNDEXTb provides assistance to investors by minimizing the initial point of contact and makes procedures accessible to an entrepreneur and saves time as well. It has been unable to transform the single access window into a one-stop establishment that processes applications internally and enables a firm to begin its operations. An application in a one-stop establishment is no longer transferred to the pertinent authority that grants approvals but is processed at the investment promotion agency itself. iNDEXTb simply forwards applications to concerned departments and it is left to the entrepreneurs to follow up with them. The reason for its lack of transformation and its limited effectiveness stems from its low clout due to limited support from senior levels of government and also due to the low salience attached to the MD of the organization who is of a rank below that of a Secretary to government.

Another part of the reason for iNDEXTb's inability to transform itself lies in the different orientation of a single window agency and that of other departments of government. A functionary in a regulatory body has the objective of controlling and regulating investment. In sharp contrast a single window clearance agency that promotes investment has a client and service driven perspective towards investors. Suggestions by the single window agency are not viewed by regulatory departments as being made by those versed enough in the functions of these departments, as possible trespassing into their domain, and as the exercise of unnecessary power, and other departments of government actively restrict its mandate to that of a coordinating agency for investors.

An investment promotion agency must make facilitation a priority. This requires it to be in terms of business culture like a private sector culture and so it is advantageous if the staff is a mix of those with public and those with private sector marketing and industry experience so that they drive the message of a proficiency of skills that private investors can directly relate to. It also requires that since recruitment is of those who have a background in the private sector the salaries resemble to some extent those that are offered in the private sector. This is not the case in iNDTEXb. An appropriate work culture in an investment promotion agency also is fostered if there is operational freedom given to achieve the mandate of the agency. This is better advanced by setting up the agency outside of a ministry rather than as a subunit of a ministry as iNDTEXb currently is. Such an organization best serves its purpose if it is autonomous and reports directly to the Minister of Industry or better still the Chief Minister of a state.

Over the last 32 years iNDTEXb has developed competence in knowledge management with active research and a computer centre that maintains a bank of business information. It has also fared well in relationship management in its interactions with investors through the response to investor queries, the assigning of a single individual to assist a potential investor, and its marketing and promotional activities. It is at a stage where its further professionalization in terms of increased private sector work cultures and greater operational freedom along with transforming it into a single stop establishment will see it play a better role in meeting investor expectations and promoting the state as an investment destination.

Appendix

Table 13: Authority for various approvals		
Procedure	Applicability	Authority
SSI Registration	Small scale units having investment upto US $ 1.2 mn.	District Industries Centre of the district where unit is to be located
Industrial Entrepreneur's Memorandum (IEM)	SMEs required to file EM Part-I for starting an industrial project. On completion of project, entrepreneur to file Entrepreneurs Memorandum (EM) Part - II	District Industries Centre/ Industries Commissionerate, Government of Gujarat.
Filing Industrial Entrepreneur's Memorandum (IEM)	Industries exceeding Investment of US$ 2.4 mn. (which are exempt from provisions of industrial licensing)	Secretariat for Industrial Assistance, Ministry of Commerce & Industry, GoI.
Letter of Intent (LOI)	Industries where licensing is required	Secretariat for Industrial Assistance, Ministry of Commerce & Industry, GoI.
Letter of Permission (LOP)	100% EOUs and SEZ units	For Automatic approval: The Development Commissioner, Kandla SEZ. For other industries: Secretariat for Industrial Assistance, Ministry of Commerce & Industry, GoI.

Table 14: Registration of Business Organizations

- **Sole Proprietorship** – No registration required
- **Partnership Firm** – Register at Registrar of Partnership Firms, Government of Gujarat, Vechan Vera Bhavan, Ashram Road, Ahmedabad 380 009.
- **Approvals from Registrar of Companies** – Company desiring to register as Private or Public Ltd. is required to approach Registrar of Companies, ROC Bhawan, Opp. Rupal Park, Nr. Ankur Bus Stand, Naranpura, Ahmedabad 380 013. Two steps are required -
    - **Registration of Name** – new business entity is to register name of company: Use Application Form 1A
    - **Upon registration,** company is to approach department with following application forms –

      Application Form -1 (For incorporation of co.)

      Application Form 32 (Particulars of appointment of Managing Director, Directors)

      Application Form 18 (Notice of situation of registered office)

      Memorandum and articles of association, address of registered or principal office & directors and secretary of a foreign company.

Table 15: Land acquisition procedures Government Land

Application can be made to Collector of respective district. Contact details of each district collector along with website of their respective collectorate is available at http://www.gujaratindia.com/government/collector.asp

Government land is under two categories –

- Waste land
- Gauchar land

- Land is allotted at market price preferably from Land Bank identified for industrial, agro and tourism usage
- Land is allotted on lease for industrial purposes at 15% of market price as annual rent. Market price is subject to review every five years.
- Land up to 2 hectares with value of < US$ .04 mn. is allotted by District Collector except in six cities – Ahmedabad, Vadodara, Surat, Rajkot, Jamnagar, Bhavnagar where power lies with Revenue Department.
- Gauchar land is allotted only if waste land is not available. Resolution from Gram Panchayat is necessary for the allotment of Gauchar land. 30% extra price is charged on the market price or company has to purchase and provide other land for the use of Gauchar in Gram Panchayat.

Private Land

Private land can be either Agricultural land or Non-agricultural land.

- In case land purchased is Agricultural land and to be used for setting up industries classified under bonafide industry, then provision of Section – 63/63-AA of Tenancy Act and Section 65/65-B of L.R.C are applicable.
- If land is for other than agricultural use in the development plan of the authority, approval of lay-out plan in the light of zone from competent authority is a must.
- In case land falls under Urban Development Authority limits, then before applying for NA permission, a Zoning Certificate (in case land falls in a zone other than industrial zone) is required.

Table 15 (continued)

Urban Development Authority	Permissions/Approvals
	1. Zoning/Zone change (in case applicable)
	2. Construction permission
	The application forms are available with the respective Urban Development Authority. Contact details of each UDA is available at http://www.udd.gujarat.gov.in/udd/uda.htm

Table 15 (continued) Land in Gujarat Industrial Development Corporation Estates -
GIDC industrial estates are equipped with essential infrastructure facilities

GIDC	Permissions/Approvals
	1. Construction Permission –
	2. Water connection –
	3. Drainage connection – – Application forms for these are available with Deputy Executive Engineer of concerned GIDC estate. Procedure and application form for purchase of land, water connection, drainage connection is available at http://www.gidc.gov.in/appliform.asp
	4. Power – Apply to respective authorities: see Section below
	5. Gas – Apply to respective authorities: Details below

Table 15 (continued) Approvals from Forest and Environment Department

Department of Environment and Forest	Permissions/Approvals
	For forest land to be used for non-forest activity, following permission are required –
	1. Forest Land possession. Approval under Forest Conservation Act-1, from Ministry of Forest & Environment. Application form available at http://www.gujaratforest.gov.in/e-citizen/under_fca.htm
	2. For land reserved for Wild Life Sanctuaries or National Park approval under Forest Conservation Act-2 from State Wild Life Board, National Wildlife Board and Supreme Court is required. Application form available at – http://www.gujaratforest.gov.in/e-citizen/under_fca.htm
	Other approvals –
	3. If investor needs land under Coastal Regulation Zone (CRZ) then clearances, and checklist for these is provided at Forest and Environment Department website of Government of Gujarat – http://gujenvfor.gswan.gov.in/guidelines.htm
	4. Procedure for Environmental Clearance under Environment Impact Assessment (EIA) notification. Procedure for clearane and public hearing can be obtained from the following website – http://gujenvfor.gswan.gov.in/guidelines.htm

Table 15 (continued) Special Economic Zone
SEZ is a specifically delineated, duty free enclave and shall be deemed to be a foreign territory for the purpose of trade operations and duties and tariffs.

Benefits

- World class infrastructure standards and facilities in the form of power supply, transport hubs and communications
- Access to social infrastructure – residential, health care and educational
- Huge employment potential
- Potential for earning foreign exchange

Eligibility Criteria

- SEZ shall not be less than 1,000 hectares in size (except existing EPZs and product specific SEZs)
- SEZ and units therein will abide with local laws, rules and regulations
  For details on application procedures see
  http://ic.gujarat.gov.in/promo-sch/sez_scheme.html

Table 16: Environment Clearance -
A project covered under Schedule of EIA Notification 2006 is required to obtain environment clearance -

EIA report is to be submitted to –

- **Ministry of Environment & Forest** in case of projects covered under **Category A** along with Form 1 application for industrial projects and Form 1A for township and infrastructure projects
- **State Impact Assessment Committee** – Secretary, 8th Floor, Block no. 14, Sachivalaya, Gandhinagar – in case of **Category B** projects.

A public hearing of the EIA report is held, subsequent to which Environment Clearance is granted. Public hearing is carried out in consultation with GPCB.

Environment Clearance from Gujarat Pollution Control Board - Any project covered under Schedule of EIA Notification 2006 is required to obtain environmental clearance.

2. Any new industrial unit and unit with expansion proposal requires Consent to Establish (NOC) from Gujarat Pollution Control Board.

Consolidated Consent and Authorisation is also required from GPCB before commencing production.

Environment Clearance from Gujarat Pollution Control Board -
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2. Any new industrial unit and unit with expansion proposal requires Consent to Establish (NOC) from Gujarat Pollution Control Board.

Consolidated Consent and Authorisation is also required from GPCB before commencing production.

EIA is mandatory for 29 categories of development activities involving any investment of US$ 12.2 mn. and above GPCB has exempted around 100 industries in small scale and cottage sector from obtaining NOC.

List of exempted industries can be obtained from Regional Offices of GPCB.

About the International Growth Centre

The IGC offers independent advice on economic growth to governments of developing countries. Based at the London School of Economics and in partnership with Oxford University, the IGC is initiated and funded by the UK Department for International Development (DFID).

The IGC has active country programmes in Bangladesh, Ethiopia, Ghana, India, Pakistan, Sierra Leone, Tanzania, Mozambique, Zambia and Rwanda and supports over seventy individual research projects on issues of governance, human capital, agriculture, infrastructure, trade, firm capability, state capacity, macroeconomics and political economy.

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