First Among States
BY JEFFREY D. SACHS & NIRUPAM BAJPAI

India’s most reform minded states? Andhra Pradesh, Gujarat, Maharashtra, Karnataka and Tamil Nadu share focus areas in their policies. Andhra has taken important steps to improve public finances and sector policies. It increased the cost of subsidized rice by 75 per cent and reduced per family allocations by 25 per cent. It also raised power tariffs by 20-60 per cent to non-farm consumers, and by 10-25 percent in the case of agricultural tariffs. Opposition forced the state to reduce these tariffs by 40 per cent. While significant, the revised average tariffs for farmers cover only nine per cent of production costs.

Other measures include tax increases, power sector reform and increases in irrigation charges. Institutional reforms included creating water user associations with operational and maintenance authority. Andhra also tried to contain the wage bill, reduce food subsidies, relax prohibition, privatize state owned enterprises, increase water and power rates and enhance revenue.

The aim is to achieve fiscal sustainability by changing the composition of public expenditure. That is, significantly reduce rice subsidies and the government’s payroll and correspondingly increase expenditure in social and infrastructure sectors like primary education and health, nutrition, irrigation and roads. Fiscal reforms are being matched by significant changes including restructuring the power sector, improving service delivery in primary education, primary health and nutrition, strengthening management of roads and irrigation, and accelerating user participation in the managing public irrigation. These reforms will put Andhra on a path of fast economic growth and social development.

Gujarat is also undertaking key policy reforms. One, reforming state owned enterprises through privatization, divestment, closure, merger and restructuring. The goal is to curtail the financial burden of state owned enterprises on the Gujarat’s budget and banks.

Two, fiscal reforms to reduce the state’s fiscal deficit, including tax and expenditure reforms. The key objective is supporting fiscal adjustment through design, implementing tax and expenditure restructuring, and upgrading the finance department’s way of functioning.

Three, getting private sector participation in the development of infrastructure in the state. Thus the Gujarat Industrial Investment Corporation, to promote infrastructure development, should appraise, arrange financing and supervise the implementation of infrastructure projects by the private sector, including in transport, port and power.

Four, develop a core investment programme to ensure sufficient funds flow into the social and physical sectors of the economy. In power, Gujarat is for tariff rationalization which is extremely essential for domestic private and foreign investments in the power sector.

Gujarat proposes to set up an independent statutory power tariff and regulatory commission. This will call for relevant data from power utility companies to fix the tariff. Revenue so generated should be adequate to sustain operations and also generate surpluses for proper plant and machinery maintenance. Utilities should run on commercial principles and earn adequate rate of
return on capital investment. However, the state government plans to subsidize tariff for agricultural and socially obligatory activities like drinking water and lighting for urban and rural poor.

Karnataka has been pursuing a progressive industrial policy and provides a package of incentives and concessions formulated with the 1991 reforms in mind. This policy has been in place for several years and attracted substantial investment. The government is focusing on upgrading industrial infrastructure in transport and communication links, water and power supply, effluent treatment and human resources.

Private sector initiative in infrastructure areas like power generation, express highways, industrial parks and townships, airports and ports is being encouraged. Karnataka is evolving suitable policies. Accelerated industrial development has increased demand pressures on key resources, land, power and water. The government is formulating a policy for conserving and optimally using these resources.

Karnataka has been the ideal location for high technology industries, particularly in the fields of electronics, telecommunications and informatics sectors. It wants to maintain its preeminence in these sectors. One way, is by upgrading the skills of and training in technical institutions. Private sector involvement is being encouraged. One push is to develop entrepreneurship in rural areas and among disadvantaged groups, including women. Since investment by the industry in research and development, quality upgrading, improvements in productivity and so on is far from adequate, Karnataka also wants investment in these activities.

The state is focusing on increasing the export of value added goods and services. Its share of India’s exports is four per cent. It is trying to increase exports substantially. Again, efforts towards improving productivity, research and development and, quality upgrading are being encouraged by the private sector.

In order to maximize entrepreneurship, Maharashtra launched a new industry, trade and commerce policy in 1995. The guiding principles were: integrate different sectoral development schemes into a cohesive plan for overall development and evolve a common and transparent framework of governance. The state has recognized that for any large developmental activity to succeed, participation of the private sector is imperative. It is only through private initiative that the necessary financial and technical resources can be mobilized.

Maharashtra is trying to empower people at all levels, replacing the traditional approach of dependency and centralized authority. The government has made an attempt to realign its role from that of a controller to a facilitator in the development process. The 1995 policy explicitly states an intention to change the mindset of Maharashtra’s people so they are not content with current levels of employment and entrepreneurship.

Maharashtra has been a significant beneficiary of foreign direct investment. Of FDI proposals totaling Rs 1291 billion cleared from August 1991 to August 1997, Maharashtra attracted Rs 155.98 billion, 12 per cent of the total. The state does well in total domestic industrial
investment. From August 1991 to October 1997, estimated domestic investment was Rs 7292 billion of which 23 per cent was in Maharashtra.

Tamil Nadu has followed a very liberal and pragmatic industrial policy. Its industrial climate is leading large numbers of foreign and domestic firms to locate production facilities in the state. The state has moved to third place in attracting FDI. From August 1991 to January 1997, FDI approvals in Tamil Nadu involved Rs 54.7 billion in 812 projects.

Tamil Nadu’s success so far is due to the government’s focus on strengthening industrial and social infrastructure. This includes measures to augment power generation, streamline transmission and distribution, improve road and rail networks, bring in advanced telecom facilities, open new minor ports and develop existing minor ports, and strengthen technical training.

The state has enhanced the single window clearance system by empowering chief executives of the industrial complexes, growth centres and public and private industrial estates to grant all clearances which an industry would require without seeking clearances from government departments. Also, with the 1997 Industrial Township Area Development Authority Act, the government has granted powers of single window clearance to an authority in case of every industrial township and industrial park. It has also permitted private industry to construct a factory without waiting for plan approval from the local body.

Buying private land for industrial projects was fraught with delays until the 1997 Acquisition of Land for Industrial Purposes Act was passed. This resulted in speedy and effective land acquisition for large projects. Rule abiding entrepreneurs have gained in this process.

Building on inherent advantages, reservoir of information technology skills, low cost of living, investor friendly public policies, better than average infrastructure, Tamil Nadu has multiplied efforts to attract FDI in infotech. In 1998, the state announced an industry friendly infotech policy and set up a state level task force to implement it. These efforts have paid off: software exports have gone from zero to $ 300 million in 1998.

Three factors have made Tamil Nadu a frontrunner: relatively better all round infrastructure than other states, a well established industrial culture and a fair degree of political stability.

*Jeffrey D. Sachs is director, Centre for International Development, Harvard University. N Bajpai is associate, Harvard Institute for International Development, US*