TAKSHASHILA
INSTITUTION

POLICY ADVISORY
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Helping Karnataka's industries reach new heights

Industrial policy recommendations for 2014[1]

PART 1: POLICY RECOMMENDATIONS

1. Solve land limitation problems by permitting multi-storey industrial estates

Karnataka can become a leader in India in vertical rise of industries and thereby reduce the pressure on land.

The draft 2014-19 industrial policy suggests a step in the right direction by recommending that the Floor Space Index (FSI) / Floor Area Ratio (FAR) for industrial units be increased from 1 to 3. Gujarat has realised that even 3.65 is insufficient and is targeting 4.13. From this experience we recommend raising the ration to higher levels than what has been proposed.

Going vertical ensures most efficient use of limited availability of land and circumvents the bottleneck of land acquisition. In 2009-14, the Karnataka government initiated action to acquire 1.15 lakh acres of land, but was able to notify only 31,000 acres of land, according to the draft industrial policy. Vertical growth of industries can address such a shortfall and be a cost-effective solution to this challenge.

Many land-deficient countries have adopted a "flatted factory model" where in units in multi-storeyed industrial estates are easily available on lease basis, facilitating a rapid setting up of small and medium-scale manufacturing. Industrial Estates in Karnataka will benefit from adopting this successful model.

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[1] This is a policy advisory by the Takshashila Institution, and is authored by Pavan Srinath, Nitin Pai, Narayan Ramachandran and Varsha Ramachandran. The Takshashila Institution is an independent think tank on strategic affairs and public policy contributing towards building the intellectual foundations of an India that has global interests.

It is important to note that permitting multi-storey industrial estates must be accompanied by appropriate safety measures, including maximum floor loading, fire safety, elevator safety and earthquake-resistance.

2. Prioritise the Scaling of Existing Industries

Facilitating the expansion of existing industries provides outcomes with incremental effort.

Karnataka can boost its industrial growth by prioritising the scale up of existing industries and industrial units rather than going after new investments alone. The effort required for upgrades, modernisation and expansion of existing industries is incremental. Scaling can be achieved at the lowest cost by adopting vertical growth and the provision of greater access to utilities to existing facilities. Instead of needing new lines of electricity, water, roads and other utilities, scaling on-site will only require higher volume access to the same.

Karnataka Udyog Mitra (KUM) can play a role in this, apart from its existing role in being the single point contact for new businesses wishing to set up in the state. Scaling will be the most efficient way to create both skilled employment in the state as well as boost industrial growth and output.

3. Improve Karnataka Udyog Mitra's investor outreach

Outside the State, Karnataka Udyog Mitra (KUM) currently has offices in New Delhi. It must open offices in major Indian cities starting with Mumbai and Chennai, and strengthen the office in New Delhi to (a) proactively attract investors and (b) follow-up with potential investors.

In future, the Government must consider sending KUM officials to Indian embassies/high commissions in key business hubs like Singapore, Seoul, Dubai, San Francisco, New York etc, to regularly update potential investors on developments in Karnataka.

4. Industrialise according to districts' comparative advantage

The current model of top-down industrial policy should be gradually modified to a bottom-up model wherein industrial development can take place according to unique strengths and resources available in individual districts/cities.

KUM should start conducting annual SWOT (Strengths, Weaknesses, Opportunities and Threats) analyses at the sub-district, district, and regional levels to discover local comparative advantages for individual industrial sectors. This can be conducted with the participation of local leaders, officials, industry owners, labour representatives and civil society members.

Such a method will allow industrial development to take place according to local capabilities, resources, infrastructure and environmental concerns.

5. Introduce regular progress reporting

KUM must assess how well investment clearances are converted to actual investments in the state on a six-monthly basis and report to the Cabinet.

Karnataka's state high level steering committee (SHLCC) cleared 484 projects worth over Rupees 6.7 Lakh Crores, with an employment potential for over 22.7 lakh people during the period 2009-10 to 2013-14. While investors and industries submit large proposals, they do not necessarily translate into real investments and employment in the state.

KUM can play a critical role here by tracking conversion of proposals into industries, prioritising them according to size and significance and reporting to the Chief Minister every six months to facilitate acceleration of industrial development and the realisation of outcomes that benefit the state.

6. Link Subsidies and Incentives to Outputs

KUM has a variety of targeted subsidies and for industries in the state, as well as fee waivers and discounts on land. While this targeting may be necessary to provide the right incentives to the right sectors, industry sizes and locations, ultimately it is the cumulative effect of all subsidies that impacts any individual beneficiary industry. It is important to ensure that the quantum of government subsidies remain a fraction of the overall investment made by the firm.

All funds disbursed by the government of Karnataka must be tied to commitments made by the recipients (in terms of capital invested and employment generated). Ideally, the subsidy must be paid upon achievement of targets.

To encourage entrepreneurship and give a boost to small and medium- enterprises, the Government could offer the combined applicable subsidies as a soft loan, to be secured against the disbursement of subsidies after achievement of the committed investment targets. The banks that manage the soft-loans will conduct their own due diligence checks and reduce the implementation burden on the government.

7. Incentivise Industrial Projects coming up on Private Lands

As land acquisition is a bottleneck to industrial growth, the state can incentivise projects that come up on private land and do not need extensive state intervention in land acquisition and land use conversion. In harmony with the previous recommendation, this incentive must be added to the total pool of subsidies and be linked to delivery of desired outputs.

8. Become a National Leader in Apprenticeships

Karnataka can become a national leader in apprenticeships, accelerate skilling and initiate the labour reforms process ahead of others.

Significant amendments to India's Apprenticeship Act (1961) are pending at the Union Government and are likely to be realised soon. Karnataka can lead by making the most of this opportunity by being an early adopted. KUM should also start a dialogue with Universities and ITIs in Karnataka based on the newest industries coming in so that these establishments are teaching relevant skills, thereby upgrading the entire labour supply chain that complements new industrial policy.

Further more, detailed in Takshashila Institution's policy brief on state-level labour reforms, Karnataka should make possible modification to labour regulations in order to create conditions for massive employment growth.

PART 2: QUESTIONS

1. In the previous Industrial Policy document, the State Government set a target of attracting Rs. 3 lakh crore in investment during the period 2009-14. The achievement in the same period, however, was that nearly Rs. 7 lakh crore of investments that were cleared by the SHLCC, according to the new draft policy. In light of this, what is the reasoning behind setting a target of only Rs. 6 lakh crore for the 2014-19 period? This is lower than what has been achieved so far.

2. The draft industrial policy document sought to increase Floor Area Ratio FAR limit for industries from 1 to 3. What plan and safety features have been envisaged for this commendable policy change?

3. Is KUM tracking the realisation of industrial sector targets? This includes job creation, industrial outputs, and realisation of investments.

4. How are the existing industries in Karnataka scaling up, and how does the Government of Karnataka help them in doing so?

5. What lessons can be learnt from the existing SEZs in terms of execution and implementation? What are the reasons for the concentration of SEZs in and around Bangalore, with few of them in other parts of the state?

6. How does Karnataka differentiate between an SEZ and an Industrial Corridor?