

## Business reforms: leaders and laggards

The second quarter of 2017 was an important one for India: it saw the country move to the cusp of the goods and services tax (GST), a landmark reform that has made India into a unified economic market. Amidst this and other major economic and political events, some of India's states continue to undertake reforms and enact policies that set them apart. Each quarter, the CSIS (Center for Strategic and International Studies) Wadhvani Chair in US-India Policy Studies highlights the latest positive business reforms from across India's 29 states (as well as Delhi and Puducherry). In the second quarter, several states showed positive movement across a few key sectors: power, education, governance capacity, innovation and manufacturing.

Unfortunately, reform initiatives are not evenly distributed. A few states—Karnataka, Telangana, Madhya Pradesh, Maharashtra, and Haryana—have enacted multiple reforms, while others never make an appearance. Inter-state divides are immense and will continue to grow unless all states enact forward-looking reforms.

### Powering Indian states

Increased power capacity and power sector reforms are imperative for states to provide adequate power while maintaining fiscal health. The task is clear: improve discom health and bring more energy into an expanding distribution network. One of the most direct measures is increasing tariffs and improving tariff collection.

Haryana decided to penalize neighbourhoods where power theft and non-payment of bills are most common by cutting power to those areas. Meanwhile, Maharashtra discontinued a special subsidy for agricultural consumers that might cause their bills to double in the coming year.

Discoms in Rajasthan and Madhya Pradesh are entering into agreements with private companies to take over the management of electricity distribution. Madhya Pradesh, Karnataka and Andhra Pradesh also increased their electricity tariffs while Bihar increased both tariffs and subsidies to consumers.

### The knowledge and innovation economy

States are unleashing new regulations and forming innovative partnerships to shape the education sector. In addition, to attract skills and drive economic growth, they are creating institutions to spur innovation. Telangana is a good example with its new Rural Technology Policy that sets a goal of establishing one technology centre in every district, with each centre capable of providing jobs to 2,500 people and training to over 10,000 rural youth.

Rajasthan is rolling out seven Livelihood Business Incubators across the state—each of which will receive a \$150,000 grant to provide skill development training. And Andhra Pradesh and Odisha have received assistance from the British Council and the Asian Development Bank, respectively, to improve skills and provide job training to nearly 300,000 youth.

Kerala, meanwhile, launched a \$140 million programme to help students from families earning below \$9,360 a year repay their loans, while Madhya Pradesh launched the Madhya Pradesh Venture Finance with \$15.4 million in capital. The firm will fund small- and medium-enterprise innovation.

Karnataka invested \$1.5 million to support agriculture innovation start-ups, including 26 in biotechnology, under its Idea to Proof of Concept Grant initiative. And Tripura inaugurated the

sixth and largest information technology hub in Agartala with incubation space for startups.

## **Governing in the states**

Implementing new policies and getting services to their tens of millions of citizens is no easy feat for India's states. They are creating new channels to reach out to their citizens and adopting policies to improve their decision-making capacity.

For instance, Madhya Pradesh approved the creation of the Chief Minister's Young Professionals for Development Programme, which will allow young professionals under the age of 35 to join government for two-year stints in order to bring in fresh ideas. Meanwhile, Telangana took the lead in terms of implementation of online portals to disseminate resources to citizens, including the use of direct benefit transfer payments to 5.5 million farmers for fertilizer subsidies, as well as a new digital payment app, T-Wallet, to send wages to participants in rural employment programmes and for remittance of scholarships.

## **Building in the states**

Smart, simple regulations and policies on land and manufacturing can help drive economic growth and improve the ease of doing business. In this context, eight states—Bihar, Chhattisgarh, Maharashtra, Jharkhand, Punjab, Rajasthan, Tamil Nadu, and Uttarakhand—passed their own versions of the Real Estate Regulation and Development Act, which came into effect on 1 May.

Telangana's new land transparency act came into effect, removing barriers to the state's exercise of eminent domain, while Maharashtra simplified the process for land transfer between government departments to expedite infrastructure projects.

As for manufacturing, Uttar Pradesh introduced a new industrial policy focusing on promoting industries in less-developed regions by simplifying the clearance process and offering strict approval timelines. And Haryana released a new textile policy that incentivizes firms to modernize existing plants and open new ones.

## **Leaders and laggards**

The second quarter revealed most of India's states making some positive reform in one of the five sectors outlined above. For the laggards, the states to watch are those striving to bring in investment and international talent, like Telangana, Madhya Pradesh, and Karnataka—or states like Haryana, which seeks to modernize a diverse economy involving agriculture, textiles, and services and could serve as an industrial gateway for north India. Their success comes from ensuring that they are undertaking reforms across multiple sectors at the same time.

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