WANTED : AN ENABLING INDUSTRIAL ENVIRONMENT IN KARNATAKA

Samuel Paul
Sheila Premkumar
Prasann Thatte

PUBLIC AFFAIRS CENTRE
BANGALORE

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Executive Summary

According to the Government of Karnataka, 104 large scale (Rs.50 crores or more in investment) industrial investment proposals for a total of over Rs.68,000 crores and 1014 medium scale projects (Rs. 3 to 50 crores) with a proposed investment of Rs. 9600 crores have come to the state during the eight year period 1991-98. These impressive numbers of projects are primarily manufacturing oriented, and, for the most part, are from the private sector. The software industry for which the state is known accounts only for a small share of the total projects.

These projects, however, are nothing more than proposals and plans until fully implemented. They will have an impact on the state only when they create goods, services and employment. To see whether this can happen, we should first assess the progress of these projects and the barriers that investors face when the progress is slow. An analysis of the projects from this perspective shows that:

Over 1100 large and medium scale industrial project proposals have come to Karnataka over the past eight years. However, only 8.7 per cent of these projects (measured by the value of investment) have been implemented. The record of large-scale proposals in terms of project completion is poorer. Only five per cent of the large-scale projects (judged by the volume of investment proposed) and 38 of the medium scale projects have been completed in the past eight-year period. Surprisingly, the value of completed investment
in the large-scale sector is about the same as that in the medium scale sector (i.e., Rs. 3400 crores).

Almost one out of five large projects and one out of eight medium projects have dropped out or cannot be traced. Over half the projects are in various stages of implementation. The impact of new investments on the state’s output and employment is small when project implementation moves slowly. This finding contradicts much that is said in the press about Karnataka’s status as a favoured investment destination.

Nearly 60 per cent of the completed projects (by way of actual investment) were located in the Bangalore area while projects from the rest of the state accounted for the rest. But projects from Bangalore were only 15 per cent of the large scale and 50 per cent of the medium scale investment proposals. One implication of this phenomenon is that projects nearer to the Capital move ahead faster than those located in distant regions. Lopsided industrial development is likely to result if this trend continues.

Though the state government had announced a package of industrial policies and incentives, it is clear from available data that the progress of large projects in Karnataka in the post-reform period (91-98) is extremely slow. Medium scale projects are only slightly better. It is important for the government to ascertain the underlying factors and to separate those for which investors are responsible from the factors caused by the government itself. It is clear that policy statements and incentive packages are not enough to step up industrial investment in the state.

Businessmen with project experience in Karnataka have identified several disabling factors that limit industrial
progress. At the top of the list is corruption that a majority of large-scale investors have identified as a pervasive barrier. Medium scale investors have also put corruption at the top along with lack of power. Corruption adds to the transaction costs of doing business in the state, delays the projects through protracted negotiations, and acts as an irritant. This is followed by other disabling factors like infrastructure problems and taxation, in that order. The only industries that have escaped corruption are those requiring little government assistance and those that can easily exit from the state such as the software industry.

Among the medium scale investors who had to deal with major promotional and regulatory agencies, a majority have rated the Karnataka Udyog Mitra as more responsive than the rest. In terms of corruption, KEB and KSPCB lead other agencies. Paperwork has been most cumbersome in SFIs and KIADB. Processing delays marked KEB and KIADB. Heavy paperwork, demands for bribe, and delayed processing of papers were the critical problems of the public agencies highlighted by a majority of investors. These findings are a warning that the reforms achieved at the central government level can be nullified by the barriers created at the state government level. The benefits of liberalisation will not accrue to the country unless state governments also embrace systematic reforms in their policies and decision-making systems.

Many businessmen think that senior state officials are on the whole accessible and helpful. But this is not matched by efficient and responsive action at middle and lower levels of the bureaucracy. The bureaucracy is poorly trained and lacks incentives to perform well.
Outmoded regulatory practices and systems that are used to extort bribes continue in the government. The "case by case" approach exacerbates the problem. The case by case approval of incentives given to large projects and the frequent visits investors have to make to agencies for various sanctions and clearances are fertile grounds for corruption, special favours and other abuses. Approvals should be made uniform and contingent on the fulfilment of specified and transparent conditions by investors. Negative lists of products, locations, etc., could be used to keep out unwanted industries and projects, an approach that is being adopted nationally.

Instead of competing with other states on taxation and incentives, the Government of Karnataka should improve its efficiency in functioning, transparency and speed in working with investors, reduce the scope of case by case clearances, and upgrade the quality and motivation of the bureaucracy. Such measures limit the opportunities and scope for official corruption. A forward looking, rule based and accountable government is a far sounder basis for attracting investments than short-term competitive incentives that can be easily undercut by others. These long-term reforms, however, require the support and commitment of the political leadership. In its absence, the state is likely to exhaust in a short period the goodwill and positive image it had built up over the past years.
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## References
Wanted: An Enabling Industrial Environment in Karnataka

Samuel Paul
Sheila Premkumar
Prasann Thatte

With state governments competing for new industrial investments, it is natural to ask whether the environment for large-scale industry and business, in Karnataka, is strong enough to attract and sustain new projects. Investment decisions are not made by entrepreneurs solely on the basis of financial incentives offered by governments, or by projected rates of return. An important factor entrepreneurs consider is the overall external environment in which they will operate. Political instability or oppressive regulations can repel investors even when potential returns appear high. Weak infrastructure or low quality and reliability of workforce increase cost of new ventures and entrepreneurs may hesitate with investments. Therefore investors compare and evaluate alternative locations for their projects.

I An Enabling Environment: The Key Dimensions

In this era of market oriented reforms, emphasis is placed on the state's role in creating an enabling environment for business and industry. The need for government to directly invest and manage certain strategic enterprises cannot be denied. But a government should also create and maintain

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1 Sheila Premkumar, Prasann Thatte and Rhea Chakrabarti provided research assistance for the project. The authors are grateful to the officials of Karnataka Government and the industrialists who provided useful information for the study. They also wish to thank Gallup MBA Ltd who conducted and analysed the field interviews with medium scale investors. Useful comments on an earlier draft of the paper were received from Mr's K Gopakumar, TR Satishchandran and G Thimmaiah. The views expressed in this paper, however, are those of the authors and do not in anyway reflect the views of Public Affairs Centre or of any other organization.
an environment that supports and facilitates investments by entrepreneurs. Whether a given environment will support the development and competitiveness of business in a state can be judged only by examining its several dimensions.

To begin with, government policies affecting industry are a major component of the environment. A good example is the set of policies that determine whether investors can easily enter and exit industries. Complex licensing and related regulatory systems make it difficult for new entrepreneurs to enter certain industries. Similarly, rigid labour policies and procedures increase operational costs. The rules and regulations arising out of these policies are another aspect of the environment. In India, both the central and state governments jointly determine whether these dimensions act in an enabling or disabling manner. Since 1991, economic reforms like de-licensing and deregulation of industries have to some extent reduced the role of central government. State governments, however, continue to determine the nature and complexity of the regulatory environment. Policies are implemented through extensive laws, rules and regulations, that in turn are administered by concerned public agencies and departments.

Secondly, even well designed policies may not achieve their stated purpose if improper rules and regulations prevent a speedy and effective implementation. Ambiguous rules and regulations, leaving a lot to the discretion of ministers and bureaucrats, are often exploited to harass potential investors. Ensuring well-specified rules and regulations, and transparency in their administration are important ways in which a government can contribute to an enabling business environment.
The provision of efficient infrastructure is the third dimension of an enabling environment. Investments in infrastructure such as roads, communications, power, water, etc., are unlikely to be undertaken by investors without state participation, or the state’s active support. Entrepreneurs will seldom invest in infrastructural services except in a marginal fashion (e.g., electricity production through generators). Through the provision of infrastructure (sometimes in collaboration with the private sector), governments can create an enabling environment for industry.

Finally, a government can create an environment that helps industry to raise its productivity and reduce its costs. A good education system, for example, is the foundation for sustaining a skilled and productive labour force. Efficient maintenance of law and order and credible dispute resolution mechanisms are factors that instil greater confidence in investors. If a project looks highly profitable, but the entrepreneur is unsure about the fairness and credibility of legal remedies available to settle disputes, he/she may hesitate to venture. Fair, responsive tax rates and tax administration encourage entrepreneurs to invest. Arbitrary, time-consuming decision-making at political and bureaucratic levels adds to costs and affect competitiveness. Respect for laws, transparency, and responsiveness to problems are factors that facilitate an enabling environment for industry.
II Karnataka’s Industrial Policy

In 1996 Government of Karnataka announced its new industrial policy and package of incentives for the period 1996-2001. The primary objective of the new policy is to accelerate Karnataka’s industrial development and project the state as a prominent player in the country’s industrial growth. The policy stresses on infrastructure development and encouragement of private participation in doing so; development of three potential growth centres at Dharwad, Raichur and Hassan (with a total capital outlay of Rs. 120 crores); thrust for the growth of export oriented industries; conservation and optimum utilisation of land, water and energy; increased use of non-conventional energy sources and generation; improvement in productivity, quality, and research and development; development of human resources and entrepreneurship; rejuvenation of environment and ecology; simplification of rules and regulation; and marketing assistance.

The new policy reclassified developed and developing areas, announced investment subsidy for small and tiny industries, and enhanced subsidies for other specified industries. It announced new incentives for installing equipment for the use of renewable resources for energy and captive generation, and sales tax concessions for selected industrial categories. Export tax concessions and incentive packages for mega projects were other incentives.

The new policy specifies the role of different state organisations in facilitating and supporting industrial development. Nodal agencies for different functions and a single window scheme for speedy clearances were announced. Concerned government agencies have made this policy available to the public as booklets.
Over the past decades, Karnataka has made significant advances in industrial development and diversification. In recent years, according to government reports, the state ranks high in industrial development, and leads as an investment destination. The country's premier software industries and many important public enterprises lodge in the state. Government of Karnataka has taken steps to attract new investment projects and to facilitate their establishment.

A forward-looking state or society cannot rest on its achievements. Success or pre-eminence in industrial development is not a guaranteed, permanent feature. In a competitive world, other state governments, or even other countries, may adopt strategies that could potentially undermine the pre-eminence of Karnataka. Failure to monitor such developments, or address problems faced by investors, could result in flight or a slowdown of new investments. If this trend sets in, the state's reputation may get eroded, and a reversal may become difficult.

III Objectives & Methodology of the Study

Karnataka's recent record of investment intentions and actual investments in the industry sector has been examined against this background. The report will show if, and how speedily, intentions get translated into production facilities on ground. Speedy implementation of a substantial proportion of projects is a credit to the state government and its agencies. Slow progress of projects reflects the existence of disabling factors. Apart from analysing available data, an attempt has also been made to draw upon the experience of investors in Karnataka with regard to the strengths and weaknesses of the state in attracting and supporting industry. The study does not minutely examine the problems faced by different industries
or investors. Instead, it focuses on the significant problems encountered through this feedback process, so that the state government might take corrective action.

The focus of the present study on industry sector, excluding the small scale units not registered with Karnataka Udyog Mitra (KUM) needs explanation. First, large and medium scale industrial projects account for most of the new investment proposals in the state. They are critical for transferring new technologies and skills, have the potential to tap large markets, and attract foreign investors. These projects are more sensitive to the existing business environment and to the government’s role in facilitating growth and performance. The small-scale sector has its own importance. The Public Affairs Centre has already published a separate study of the environment of small-scale industrial enterprises in Karnataka and two other states.

Two levels of analysis were attempted in this paper. The first consisted of analysing industrial project proposals with an investment of Rs. 3 crores and above in the state. It highlights important features of the projects that have been attracted to Karnataka. (Power and other infrastructural projects are not included among the 104 large projects. However, several such projects appear in the list of small and medium scale projects.) The available data was also used to identify and analyse the factors that might explain the progress in implementation of industrial projects. Data for this second level of analysis was obtained from interviews with senior executives associated with a selected sub-set of projects.

The state government’s Department of Industries and Commerce maintains a list of industrial projects that have sought clearances and assistance of various types from the Government of Karnataka. Our analysis is confined to two
sets of projects: The first set consists of 104 industrial projects with investments above Rs. 50 crores listed with the government’s Industries Department during the eight year period 1-4-1991 to 31-12-1998. The second set includes 1014 projects with investments in the range of Rs 3 - 50 crores covering the period 1.4.1991 to 31.3.1999. This set of projects is sufficiently large for purpose of analysis.

Project implementation experiences were gathered through discussions with the executives of business houses or companies engaged in manufacturing and service sectors. Entrepreneurs and senior executives who had recent experience of project implementation in Karnataka were interviewed in person with the aid of a questionnaire, and by telephone when personal interviews were not possible. Responses from 22 large-scale projects and 75 medium scale projects were obtained. In all, nearly 10 per cent of all projects were interviewed. Understandably, there was hesitation on the part of some to share their experiences with outsiders. The findings reported below are based on these responses and an analysis of data contained in the government list of projects.

The present study and its methodology suffer from a few drawbacks that need to be pointed out. Some of the data necessary for a comprehensive assessment of the progress of projects were not readily available from government and industry sources. Broad categories of projects were used that made it difficult to measure the time taken to go through different phases of project implementation. For instance, projects under implementation were lumped together under one category though they might have been at different stages. Also information on how many projects were foreign ventures, was not available from KSIDC or KUM. While interviewing however, information was
collected from the respondents on whether the project was an expansion of an existing company or a new venture. Lack of access to such information has made it difficult to fine-tune the assessment of these projects. More importantly, the reluctance of government and industry sources to share information makes the process of learning more difficult and will no doubt render the formulation of sound policies and corrective action an uphill task.

IV Analysis of the Projects: Emerging Patterns

Projects are not uniform entities. They vary in size, resources requirements, value, and complexity. One common denominator that captures these varying features is the magnitude of investment of the project. From an economic perspective, therefore, it helps to compare and analyse projects primarily in terms of size of investment involved.

The total investment proposed for the 104 large industrial projects was Rs. 68,787 crores, while the medium scale projects accounted for Rs. 9623 crores. These statistics have been widely publicised by the state government. While it is unrealistic to expect all projects to materialise, an analysis of the data will be useful in answering some questions:

- How many of the project proposals signify new projects as opposed to the expansion of existing companies in Karnataka?
- How many are private sector initiated projects?
- How do they vary in size of investment and type of industry?
- Are they concentrated in some locations?
- How significant is foreign investment in these projects?
- Most importantly, how many projects have actually been completed during the period under review?
To our knowledge, analysis of industrial projects along these lines has not been attempted by anyone for Karnataka. No published report gives answers to the questions raised above. Government data is available only on the total value of investment proposals that have come to the state. Some might argue that project proposals are mere investment intentions and hence do not merit such analysis. But the fact is that investment intentions can offer insights on the kinds of industries that are attracted to the state, their scale and scope, and other features. Whether these projects get implemented or drop out is also a matter of interest. Such information will be useful in the redesign of policies and of incentives. It is also a much-needed corrective to the government’s tendency to publicise the investment intentions with no reference to project completions and dropouts. The patterns emerging from an analysis of the large and medium scale projects on the government list from 1991-92 to 98-99 are highlighted below:

**Large Scale Projects**

- Of the 104 large-scale projects, 55 new ventures in Karnataka accounted for an investment of over Rs. 40,000 crores. Projects by way of **expansion of existing companies** were 49, amounting to an investment of over Rs. 28,800 crores.

- Most of the projects (100 out of 104) were initiated by the private sector and accounted for nearly Rs. 67,600 crores of investment. Of this amount, a total investment of Rs. 3500 crores (about 5%) seems to have been proposed for 16 projects that had foreign collaborators and investors. Available data did not permit us to work out the actual foreign investment involved. Foreign investment appears to be a minor
element in the totality of projects. Investment proposals from the public sector were also negligible in relative terms (Rs.1190 crores).

- 29 projects were located in and around Bangalore with an investment of about Rs. 9700 crores. Other locations in the state attracted proposals of nearly Rs. 59,100 crores.

As seen from the following table, large projects (investment of Rs. 1000 crores or more) accounted for nearly two thirds of the total value of all investment proposals. However, the number of such projects was only 17.
TABLE 1
PROJECTS BY SIZE OF INVESTMENT

<table>
<thead>
<tr>
<th>Investment Size Rs.(Crores)</th>
<th>No. of Projects</th>
<th>Value of Investment Rs.(Crores)</th>
<th>Employment Potential of the total</th>
<th>Investment as a per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>50-100</td>
<td>13</td>
<td>885</td>
<td>17436</td>
<td>1</td>
</tr>
<tr>
<td>100-500</td>
<td>62</td>
<td>15950</td>
<td>8634</td>
<td>23</td>
</tr>
<tr>
<td>500-1000</td>
<td>12</td>
<td>8095</td>
<td>97029</td>
<td>12</td>
</tr>
<tr>
<td>Above 1000</td>
<td>17</td>
<td>43857</td>
<td>52462</td>
<td>64</td>
</tr>
<tr>
<td>Total</td>
<td>104</td>
<td>68787</td>
<td>175561</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: All the tables are based on the government list for Large and Medium Industries from 1991-92 to 1998-99.

- Manufacturing dominates investment proposals that have come to the state. Steel and cement are major industries in terms of investment value. Though Bangalore is known as the software capital of India, the quantum of investment proposed for such projects is small (9%) in relative terms. Agriculture related projects are non-existent. (See Table 2)
<table>
<thead>
<tr>
<th>Type of Industry</th>
<th>No. of Projects</th>
<th>Value of Investment Rs. (Crores)</th>
<th>Investment as a per cent investment of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing (Steel &amp; Cement)</td>
<td>42</td>
<td>42307</td>
<td>62</td>
</tr>
<tr>
<td>Manufacturing (including consumer goods)</td>
<td>49</td>
<td>19120</td>
<td>28</td>
</tr>
<tr>
<td>Information Technology</td>
<td>11</td>
<td>6389</td>
<td>9</td>
</tr>
<tr>
<td>Services</td>
<td>2</td>
<td>971</td>
<td>1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>104</strong></td>
<td><strong>68787</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

- Of the 104 projects, only 16 (worth Rs. 3,400 crores) have been completed over a period of eight years. Though the number of projects completed in eight years amounts to 15 per cent of the total, as a share of the volume of investments, they account for only about five per cent. Two projects accounting for an investment of about Rs. 3400 crores have been abandoned; assessing reasons for their being dropped was not possible. Twenty-three projects with a proposed investment of nearly Rs. 14,400 crores (21 per cent of the total investment) are yet to obtain government clearances. Projects that have got clearances, and are under various stages of implementation, were 48 with a total investment of about Rs. 38,250 crores. No information is available for another 15 projects worth Rs. 9,300 crores. It is reasonable to assume that most of them are not being pursued.
TABLE 3
PROGRESS OF PROJECTS

<table>
<thead>
<tr>
<th>Stage</th>
<th>No. of Projects</th>
<th>Investment Rs. Crores</th>
<th>Investment as percent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implemented</td>
<td>16</td>
<td>3,400</td>
<td>5</td>
</tr>
<tr>
<td>Under Implementation</td>
<td>48</td>
<td>38,250</td>
<td>56</td>
</tr>
<tr>
<td>Clearance Awaited</td>
<td>23</td>
<td>14,400</td>
<td>21</td>
</tr>
<tr>
<td>Dropped</td>
<td>2</td>
<td>3,425</td>
<td>5</td>
</tr>
<tr>
<td>No Information</td>
<td>15</td>
<td>9,325</td>
<td>13</td>
</tr>
<tr>
<td>TOTAL</td>
<td>104</td>
<td>68,800</td>
<td>100</td>
</tr>
</tbody>
</table>

- Of the completed projects, cement and steel projects accounted for the smallest share of investment (about 12%). IT related investments amounted to about 35 per cent of the total. The rest of the completed investments were in other manufacturing industries. The heavy capital goods industries have made the least progress in implementation.

- As noted above, only projects worth about 14 per cent of the total investment proposals were planned to be in the Bangalore region. The bulk of the projects were expected to be located in other parts of the state.
It is a good sign that the pattern of plans for project location supports the development of different regions of the state, some of which are backward areas. But an analysis of completed projects given in Table 4 below points to a different outcome. Of the completed projects, over 60 per cent of the investments have taken place in the Bangalore region! There is perhaps no single factor that explains this phenomenon. It could be that investors pursue more seriously projects in Bangalore region; or more difficult projects are being planned for other regions of the state. One could also assume that investors manage to get things done faster when their projects are located around Bangalore. However, this phenomenon deserves to be probed further as it has important implications for the growth of industry in the state. If project implementation is more difficult in locations away from the capital, regional development will continue to remain an uphill task.
**TABLE 4**

**COMPLETED PROJECTS: DISTRIBUTION**

<table>
<thead>
<tr>
<th>Location</th>
<th>Investment Proposals (Rs. Crores)</th>
<th>Completed Projects (Rs. Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. %</td>
<td>No. %</td>
</tr>
<tr>
<td>Bangalore Region</td>
<td>9,735.50 (29 projects) 14</td>
<td>2,050.58 (8 projects) 60</td>
</tr>
<tr>
<td>Other Regions of the State</td>
<td>59,051.22 (75 projects) 86</td>
<td>1343.25 (8 projects) 40</td>
</tr>
<tr>
<td>Total</td>
<td>68,786.72 100</td>
<td>3393.83 100</td>
</tr>
</tbody>
</table>

Investment proposals that have come to Karnataka during 1991-98 show a dominance of very large projects, most of them in manufacturing industries. In relative terms, investment in the software industry is not substantial. This does not imply that software is an insignificant sector, but only that it is not as capital intensive as some other industries. Nearly half of the proposed investment is accounted for by companies already operating in the state (expansion projects). Most of the projects have been initiated by private sector, public sector proposals play a minor role. Nearly, 18 per cent of the proposed projects have dropped out or no information is available on them. The investment of completed projects amounts to Rs. 3,400 crores, most of which has occurred in the Bangalore area. As noted above, the completion rate is a modest five per cent.
Medium Scale Projects
Over 60 per cent of the medium scale projects were expansions and diversifications of existing enterprises. Only about 40 per cent represented new ventures. Almost all the investments were proposed by the private sector. In terms of numbers, medium scale projects are about ten times the number of the larger projects. But medium scale projects account for less than a sixth of the investments proposed for large-scale projects.

**TABLE 5**
PROJECTS BY SIZE OF INVESTMENT
(Rs. Crores)

<table>
<thead>
<tr>
<th>Investment Size Rs. (Crores)</th>
<th>No. of Projects</th>
<th>Value of Investment</th>
<th>Investment as a % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-3</td>
<td>315</td>
<td>491.2</td>
<td>5</td>
</tr>
<tr>
<td>3-10</td>
<td>393</td>
<td>2283.5</td>
<td>23.7</td>
</tr>
<tr>
<td>10-50</td>
<td>275</td>
<td>6848.5</td>
<td>71.3</td>
</tr>
<tr>
<td>Figure not available</td>
<td>31</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1014</td>
<td>9623.2</td>
<td>100</td>
</tr>
</tbody>
</table>

- Larger projects with investments of Rs.10 crores or more accounted for over 70 per cent of the total investment. Small projects with investments below Rs.3 crores amounted to only five per cent of the total. But the latter accounted for nearly 20 per cent in terms of employment potential.
TABLE 6
DISTRIBUTION OF EMPLOYMENT AMONG INVESTMENT CATEGORIES

<table>
<thead>
<tr>
<th>Investment Category (Rs. Crore)</th>
<th>No. of Projects</th>
<th>Employment Potential</th>
<th>Employment per Project</th>
<th>Employment as % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-3</td>
<td>315</td>
<td>34229</td>
<td>108.7</td>
<td>19.5</td>
</tr>
<tr>
<td>3-10</td>
<td>393</td>
<td>55077</td>
<td>140.1</td>
<td>31.4</td>
</tr>
<tr>
<td>10-50</td>
<td>275</td>
<td>82063</td>
<td>298.4</td>
<td>46.7</td>
</tr>
<tr>
<td>Figure not available</td>
<td>31</td>
<td>4241</td>
<td>136.8</td>
<td>2.4</td>
</tr>
<tr>
<td>Total</td>
<td>1014</td>
<td>175610</td>
<td>173.2</td>
<td>100</td>
</tr>
</tbody>
</table>

- In terms of types of industry, manufacturing accounted for 54 per cent of the total investment. This was followed by agro-processing and food industries (26%) and information technology (18%). Industrial goods and light manufacturing dominate the medium scale sector. Surprisingly, the employment potential of medium scale investment proposals is almost identical to that of large-scale projects, though in terms of investment the latter is seven times larger.
## TABLE 7

**PROJECTS BY TYPE OF INDUSTRY**

<table>
<thead>
<tr>
<th>Type of Industry</th>
<th>No. of Projects</th>
<th>Value of Investment (Rs. Crores)</th>
<th>Investment as a per cent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>639</td>
<td>5348.7</td>
<td>53.9</td>
</tr>
<tr>
<td>Agro-processing &amp; Food</td>
<td>203</td>
<td>2453.7</td>
<td>25.5</td>
</tr>
<tr>
<td>Information Technology</td>
<td>141</td>
<td>1767.6</td>
<td>18.4</td>
</tr>
<tr>
<td>Services and Others</td>
<td>31</td>
<td>221.6</td>
<td>2.2</td>
</tr>
<tr>
<td>Total</td>
<td>1014</td>
<td>9623.2</td>
<td>100</td>
</tr>
</tbody>
</table>

- Projects were evenly divided between Bangalore and the rest of Karnataka in numbers and investment. But when judged by completion of projects, 42 per cent of projects in Bangalore have been completed compared to only 27 per cent of projects in the rest of Karnataka. Here too, the observed pattern is similar to that found in completed large-scale projects.
TABLE 8

COMPLETED PROJECTS: REGIONAL DISTRIBUTION

<table>
<thead>
<tr>
<th>Region</th>
<th>No of Projects</th>
<th>Investment (Rs. Crores)</th>
<th>Percentage of Projects Completed</th>
<th>Investment Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Completed</td>
<td>Total Completed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bangalore</td>
<td>512</td>
<td>4802.7</td>
<td>2032.5</td>
<td>43.8</td>
</tr>
<tr>
<td>Rest of Karnataka</td>
<td>502</td>
<td>4820.5</td>
<td>1302.7</td>
<td>45</td>
</tr>
<tr>
<td>Total</td>
<td>1014</td>
<td>9623.2</td>
<td>3335.2</td>
<td>44.4</td>
</tr>
</tbody>
</table>

- One out of 8 medium scale projects got dropped along the way. Nearly 50 per cent are still under implementation. Only 34.65 per cent of the projects have been completed over the eight-year period under review. But the investment in completed projects is almost equal to that of projects of the large-scale sector!

TABLE 9

PROGRESS OF PROJECTS

<table>
<thead>
<tr>
<th>Stage of project</th>
<th>No. of Projects</th>
<th>Value of Investment</th>
<th>Investment as a Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dropped</td>
<td>134</td>
<td>1030.9</td>
<td>10.71</td>
</tr>
<tr>
<td>Implemented</td>
<td>450</td>
<td>3335.2</td>
<td>34.65</td>
</tr>
<tr>
<td>Under Implementation</td>
<td>430</td>
<td>5257</td>
<td>54.64</td>
</tr>
<tr>
<td>Total</td>
<td>1014</td>
<td>9623.2</td>
<td>100</td>
</tr>
</tbody>
</table>

Underlying Factors: Feedback from Large Scale Investors

There could be several reasons why only a small proportion of projects were completed and several proposed projects were abandoned by investors. When market prospects look
uncertain, or when financing becomes difficult, investors are likely to slow down new projects or even abandon them. The recent industrial recession may have negatively impacted some projects. But delayed project completion or project dropouts could also result from barriers investors encounter in dealing with the government and its agencies. For example, when government clearances are delayed or made difficult, or when the facilitation or incentives promised by government fail to materialise; investors may find it difficult to move their projects. Some may even reconsider whether the projects are worth pursuing.

In the interviews, investors in large-scale sector were asked to assess the disabling factors they encountered in Karnataka. They also indicated the relative importance they attach to different factors by rating them on a scale provided to them. Such ratings make the assessments by different people more comparable and render analysis and interpretation of the findings easier. Table 6 below identifies the disabling factors according to respondents and their ratings of these factors. Significantly, problems such as lack of finance or lack of financial incentives did not find a prominent place in the ranking of disabling factors.
TABLE 10
RANKING OF DISABLING FACTORS*

<table>
<thead>
<tr>
<th>Factor</th>
<th>Rating**</th>
<th>Intensity of dissatisfaction*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption</td>
<td>3.54</td>
<td>58 %</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>3.2</td>
<td>41 %</td>
</tr>
<tr>
<td>Taxation</td>
<td>3.03</td>
<td>33 %</td>
</tr>
<tr>
<td>Interface with Government</td>
<td>2.64</td>
<td>20 %</td>
</tr>
</tbody>
</table>

Respondents were asked to evaluate the above factors on a scale of 1-5 where 1 was the best and 5 the worst.

** Average of the scores of all respondents
* Proportion of respondents giving 4 or 5 to a factor on the scale

- Surprisingly, investors have identified corruption as the most disabling factor in Karnataka, a subject that has not attracted much public debate. However, in private, entrepreneurs admit that corruption is a serious barrier to progress. It adds to business transaction costs, and results in delays, harassment and misallocation of resources. The table above provides information on the intensity of dissatisfaction felt by investors about specific disabling factors. Thus nearly 60 per cent of the respondents have given a rating of between four and five (the worst) to the corruption factor. This shows that six out of ten respondents considered corruption as a serious disabling factor. Four out of ten have given a similar negative rating to the state of infrastructure. In
contrast, only three out of ten and two out of ten respondents respectively have felt intense dissatisfaction with taxation and government-investor interface.

- Taxation getting a lower rank as a problem does not imply that it is not a barrier. Only that in comparison to corruption and infrastructure, it is a less disabling factor. Often it is the differential taxation between competing states that matter to investors. In future, policy issues pertaining to taxation and incentives will assume less significance when uniformity is achieved across states. VAT, for example, is proposed to be applied on a uniform basis. There is evidence that the offer of differential incentives is not a major factor in attracting investments. Government-investor interface is also rated as a disabling factor. While access to senior officials is relatively easy, getting work done at lower levels continues to be a problem.

What are the factors in Karnataka that attract investors to Bangalore? The important reasons given by the respondents were: the availability of skilled technical manpower, network of research institutions, a reasonably good industrial relations record, pleasant climate in the Bangalore region, abundant natural resources, and a relatively congenial culture in major urban areas. This is clearly a Bangalore-centric view that probably may not find support among entrepreneurs from other regions of the state.

Investors balance the enabling and disabling factors in arriving at their locational decisions. Karnataka continues to attract new investments: Implying that the state’s positive features outweigh the disabling factors; or as some observers suggest, Karnataka is living off its past image. But past gains can be exhausted, and balance tilt in the opposite direction, if disabling factors progressively increase.
Feedback from Medium Scale Investors

Table 11 gives the overall ratings given to Karnataka regarding satisfaction levels with environment, relating to both Infrastructure and Non-Infrastructure factors. A sample of 75 entrepreneurs/managers who dealt with medium scale projects responded to the questions on the disabling and enabling factors in Karnataka’s industrial environment. Since these respondents were more forthcoming in their interviews than large scale investors, more detailed information is available on how the existing policies and systems of government are helping or hurting their projects.

Table 11 gives an overall assessment of the different environmental factors in Karnataka by nearly 75 firms that were interviewed. The column “per cent dissatisfied” refers to the proportion of respondents who gave a negative rating to those factors. The proportion that gave positive ratings are noted in the column “per cent satisfied”. In physical infrastructure, telecommunications is the only service with which a majority of medium scale investors are satisfied. The least satisfactory is power, water fares better than roads. Among other environmental factors, manpower availability gets a high satisfaction rating while all others are rated low. Corruption and power are ranked the lowest, a finding consistent with the assessment given by large-scale investors too. Medium scale projects are similar to their large-scale counterparts also in the ratings given to taxation and infrastructure. Whether large or small in size, it is significant that respondents from both groups of projects have given similar rankings to infrastructural and other environmental factors listed in the table below.
### TABLE 11

RATINGS GIVEN TO KARNATAKA: SATISFACTION WITH THE INDUSTRIAL ENVIRONMENT

<table>
<thead>
<tr>
<th>Environmental Factor</th>
<th>% Dissatisfied</th>
<th>% Satisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) Infrastructure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Roads</td>
<td>50.7</td>
<td>46.7</td>
</tr>
<tr>
<td>Water</td>
<td>44</td>
<td>46.7</td>
</tr>
<tr>
<td>Power</td>
<td>68</td>
<td>18.7</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>29.3</td>
<td>61.3</td>
</tr>
<tr>
<td>(B) Non-Infrastructure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>49.3</td>
<td>18.7</td>
</tr>
<tr>
<td>Interactions with Government</td>
<td>53.3</td>
<td>30.7</td>
</tr>
<tr>
<td>Corruption</td>
<td>65.3</td>
<td>6.7</td>
</tr>
<tr>
<td>Manpower Availability</td>
<td>21.3</td>
<td>72</td>
</tr>
</tbody>
</table>

More detailed responses obtained from medium scale projects give insights into the problems that investors face when they interact with important regulatory and service provider agencies. KIADB, for example, is responsible for acquisition of land and related amenities. KEB (now called the KPTCL) deals with electric supply. BWSSB is responsible for water supply in the Bangalore region. KSPCB is in charge of pollution control clearances. SFIs are the state financial institutions to provide financial support to projects. Of these public agencies, Karnataka Udyog Mitra (KUM), the single window agency, gets the best rating for its services. In terms of the paper work involved, processing time taken and staff behaviour, dissatisfaction with KUM was the lowest at seven per cent, five per cent and 16 per cent respectively. Other major agencies given in the table below fared poorly.
TABLE 12

INTERACTIONS WITH AGENCIES: % OF PROJECTS FACING PROBLEMS

<table>
<thead>
<tr>
<th></th>
<th>KIADB</th>
<th>KEB</th>
<th>BWSSB</th>
<th>KSPCB</th>
<th>SFIs**</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Projects that interacted with the Agency:</td>
<td>57</td>
<td>66</td>
<td>13</td>
<td>64</td>
<td>44</td>
</tr>
<tr>
<td>Problems faced:*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bribes were demanded</td>
<td>36.8</td>
<td>51.5</td>
<td>38.5</td>
<td>43.8</td>
<td>31.8</td>
</tr>
<tr>
<td>Processing Time</td>
<td>71.9</td>
<td>81.8</td>
<td>30.8</td>
<td>60.9</td>
<td>56.8</td>
</tr>
<tr>
<td>Amount of Paperwork Required</td>
<td>61.4</td>
<td>51.5</td>
<td>53.8</td>
<td>50</td>
<td>63.6</td>
</tr>
<tr>
<td>Staff Behaviour</td>
<td>28.1</td>
<td>28.8</td>
<td>30.8</td>
<td>23.4</td>
<td>20.5</td>
</tr>
<tr>
<td>More than 10 visits made</td>
<td>37.3</td>
<td>34.2</td>
<td>14.8</td>
<td>19.1</td>
<td>29.1</td>
</tr>
</tbody>
</table>

* Only the most common types of problems have been included in the above table

** State Financial Institutions

According to the respondents, the maximum hurdles were posed by KSPCB, KIADB and KEB (now KPTCL). Many projects encountered problems of corruption and had to make many visits to agencies when they dealt with the above agencies. In terms of demand for bribes, KEB and KSPCB are the leaders. In terms of heavy paper work, SFIs and KIADB fare worse than others do. Delays in processing are the most in KEB and KIADB. Numbers of visits were highest in KIADB and KEB. Investors visit public agencies numerous times. Ten or more visits being the normal practice for getting work done at any of the agencies. Frequent visits are a sign of agency inefficiency and callousness, and also a stimulus for corruption. Even without a detailed probe into the reasons for this practice, it is clear that lack of clear terms and conditions, non-transparency of procedures and decisions, and extraneous influences exist. Surprisingly, industrial policy was not raised as a hurdle by any of the respondents, confirming the earlier point that we should move beyond high sounding policy pronouncements to what happens on the ground.
V. Conclusions and Policy Implications

1. Low Completion Rate

It is not the size of investment proposals, but the magnitude of actual project investments that occur in the state that is important. Publicising the volume of proposals without indicating the number of completed projects presents a misleading picture of the situation. Our study finds that only 8.7 per cent of all large and medium scale projects (judged by the value of investment) have been fully completed over the past eight-year period. The record of completion of the large-scale project proposals is more dismal at five per cent over the period 1991-98. Without detailed information about every project, it is difficult to guess whether more projects could have been completed in a period of eight years.

A judgement on this subject can be made by assuming that project proposals are likely to be distributed evenly across the years. Therefore, proposals worth 50 per cent of the total would have been in the pipeline by the end of the fourth year (middle of the review period). These are the projects that had four to seven years for completion. If we work out the completion rate as a per cent of this sub-set of projects (with an investment of about Rs.34,000 crores), it would still be only 10 per cent. By any reckoning, this is an extremely low completion rate, clearly indicating that many projects are facing delays along the way. Though not to the same degree, this assessment would be true for medium scale projects too. If we assume three years as the average for their completion, about 60 per cent of this set should be operational at the end of eight years as opposed to the actual record of 34.65 per cent.
Whether Karnataka’s project completion rate is reasonable or not could have been judged more fairly if we had comparative data from other states for the same post-reform period. Unfortunately, neither the state nor central governments maintain the required data. From media reports we had gathered more or less comparable rates (for large scale projects) pertaining to Maharashtra and West Bengal. The estimates for Maharashtra and West Bengal are 30 per cent and 15 per cent respectively. Clearly, Karnataka’s project completion record is substantially below these two states.

An immediate concern is if the low completion rate is due to delays and barriers in getting government approvals and assistance. There is a clear case for tracking the time taken for projects to be completed and the reasons for delays, if any. The government should go back to entrepreneurs to find out whether the delays are due to problems in getting clearances or due to the investors’ own problems. The low completion rate is also a warning about the risks of advertising the volume of investment proposals without any reference to what is happening on the ground.

2. Significant Dropout Rate?

Nearly one out of five large project proposals and one out of eight of the medium scale proposals in the government list have dropped out or cannot be traced. This is not an insignificant drop out rate. Some of the investment proposals received by the Government of Karnataka will no doubt have dropped out or got delayed for no fault of the state. But estimating their magnitude is difficult without a detailed investigation. Sometimes, entrepreneurs announce new projects to pre-empt the market and discourage competitors from entering the same field. In the licensing era, cornering licenses without any intention to actually
invest was a tactic used by some business houses to scare potential competitors.

The failure to implement some projects could be traced to practices of this type. Another set of investment projects may have been dropped because of the current recession. But the 104 large-scale projects examined here date from 1991. Since the recession emerged only during the last two years, it is likely that only a small subset of these projects would have been dropped for this reason. Thus, even if we make an allowance for voluntary dropouts, a reduction of investment plans by over Rs.10,000 crores cannot be ignored.

3. Positive Features

A positive finding is that many investors find that Karnataka’s environment — the climate, natural resources, and a relatively congenial setting in Bangalore City — is conducive to new investment. As noted above, some of these features must be discounted as they apply only to one region. Others such as the supply of a skilled labour force and good industrial relations are factors that have been nurtured through state intervention at least in part. Both, the state and central governments have invested in education and encouraged private investment in general and technical education. Improvements in telecommunications and growth of a cluster of software units in Bangalore area can partly be attributed to the interaction of these factors. Similarly, disruptive trade unionism and its adverse consequences have been avoided by the state, although a continuation of this trend is not guaranteed.
4. Growing Concern about Corruption
Most large scale and medium scale investors have identified "corruption" as their foremost concern. In public discussions and in the media, the problems highlighted are the quality and adequacy of infrastructure and tax burdens. But large-scale investors, who have experience in Karnataka, picked corruption at the political and bureaucratic levels as the most serious barrier (with a value of 3.54 on a scale of 1-5). While not a widely discussed matter, in private interviews, investors were forthright in confirming the prevalence of corruption in their transactions with the state government. The intensity of dissatisfaction with corruption was also the highest among different factors (six out of ten respondents felt strongly about it compared to three out of ten on the subject of taxation). Medium scale investors have also rated corruption as a serious issue, placing it next only to shortage of power.

Those who stand to benefit from corruption will resist the reform of outmoded systems and procedures being followed by the state government. There is thus a vicious cycle at work. Without reform, the vested interests behind corruption cannot be dislodged. Corruption has become a well-organised business with strong links to many in government. This issue should be openly debated and a serious search for remedies be launched before irreparable damage is done to the state's reputation and achievements.

5. Dependence on Government Leads to Corruption
Industries vary in the extent to which they have to cope with corrupt practices. Software industry respondents complained the least about corruption and felt that they have been able to avoid it. At the other extreme were construction and manufacturing industries that felt the
pressure of corruption to be heavy on them. There is a
distinction between these two industries that may explain
this differential impact. Software is the least dependent on
clearances, approvals and regulatory supervision by
government officials. They need little government help in
land acquisition, and power and communications, they
manage on their own if the concerned government agencies
do not assist them. If non-co-operation is severe, they can
use the threat of "exit" while dealing with indifferent
officials. Software investors can shift their locations (to
another state) with ease, as they are much less dependent
on immovable assets. In other words, their sunk costs are
low.

Manufacturers and builders, on the other hand, are heavily
dependent on government for acquiring land, power, water,
and roads and for other clearances. Their bargaining power
vis-à-vis the government is less than that of software
entrepreneurs. The ability of public officials (political or
bureaucratic) to engage in extortion is directly proportional
to the degree of dependence of the investors on them.
Here too, a major challenge for government is to devise
effective ways to make transactions transparent,
unambiguous, and time bound so that the scope for
corruption is minimised. Eliminating archaic regulations
and procedures that are used to harass and delay
investment projects can reduce dependence on government.
If necessary, experienced experts and taskforces should be
brought in with a mandate to propose efficient alternatives.

6. Rating of Disabling Factors
Other disabling factors identified by investors (in
descending order of importance) are infrastructure, taxation
and interface with government. Infrastructure being high
on the list is not surprising. But the reference here is not
only to power, roads, etc., but also to facilities like cargo handling. Many entrepreneurs have adjusted to perennial power shortages by generating their own power. Telecommunications is the only part of infrastructure that has made reasonable progress.

Interface with government not being as severe a problem as other disabling factors mentioned above requires an explanation. Interface here refers to the ability to have access to public officials and to get problems resolved with their assistance. Many respondents felt that most senior government officials understood their problems and were keen to assist them or at least promised them speedy support. This is a positive feature and has helped create a good image of the state among prospective investors. Many entrepreneurs feel that the responsiveness and commitment displayed at senior levels of the bureaucracy are not matched by prompt action at lower levels. Local governments are a case in point. Municipal administration in the state is unable to cope with the tasks entrusted to it.

While corruption is a major part of the problem, there are other important reasons why this barrier seems to persist across the board. The poor understanding among middle and lower level officials of the tasks they are responsible for, lack of training and orientation, absence of systems, deadlines for completion and standards to guide them in their work, and inadequate supervision are some of the factors that have contributed to their poor performance. Some entrepreneurs have made pointed reference to the lack of sensitivity to time among public officials. No official can be held accountable for deadlines for task completion and even the standards laid down are flouted with impunity. Senior level supervision and accountability are lacking because of the short tenures given to officials.
The responsiveness and impact of senior officers are thus adversely affected, and even when they are satisfactory, they are neutralised by the incompetence and indifference of lower level officials. Senior officials are like managers who are trying to market their products to clients, but without any control over the actual delivery of the products. Although computer and software companies are abundant in the state, the state government and its agencies have not taken advantage of the available technology to modernise the way they function.

7. Barriers to Regional Development?
Many projects were planned to be located in different parts of the state. But the majority of investments, both large and medium scale, which have occurred during the period under review, are in the Bangalore region alone. This raises some fundamental issues about the prospects for development of industry in different regions of the state. There may be different factors behind this outcome. But one that needs to be examined carefully is whether the controls and facilitation in government are biased against projects proposed to be located away from Bangalore. Distance, communication problems, visibility, and face to face interactions are critical to making or marring progress in project implementation. A careful assessment is required of what needs to be done to minimise such biases and provide a “level playing field” for investors across diverse locations in the state.

8. Importance of Top Level Interventions
There is evidence that projects that have elicited interest and support at the highest political level have avoided delays and harassment. But this applies to a few mega projects only. A finding reaffirming the pattern that others have also observed about India. The majority of investment
projects, however, cannot easily gain access to a chief minister to ensure their smooth progress. The remedy lies in instituting new practices in government so that a larger proportion of projects can move forward smoothly. In this regard, Government of Karnataka deserves credit for initiating much needed reforms in critical areas. A good example is the creation of the "single window" scheme for granting simultaneous clearances for investment projects. The experience of medium scale projects with this is positive. But the feedback from some large investors who have tried to take advantage of the "High Level Committee" that is supposed to act as a single window shows that they have still to get separate approvals from other departments and agencies.

A senior executive in one of the companies stated that the "High Level Committee" supposed to act as a single window for clearances was not very helpful. Even though sanctions were got for every department, it was later found that each sanction had to be cleared from the respective department: certain acreage of land might have been earmarked under the scheme but when approached, KIADB said that the land had yet to be acquired! This meant an interminable delay in project completion. The Single Window scheme should have more powers and be more effective than the different orders that are given presently. Government has recently announced that steps have been taken to streamline the working of KIADB.

9. Will Government Remain the Key Disabler?
Shortly, some of Karnataka's infrastructural facilities are likely to improve significantly. Major additions to power generating capacity in the state will occur this year. The captive generating capacities of existing industries may even dampen the demand for power. Roads are expected to improve. These are factors that can stimulate new
investment projects and facilitate speedy implementation. While the progress being made in the field of infrastructure is commendable, it will be a pity if new investments are held back by barriers like delays in government approvals and political and bureaucratic corruption. Such delays are being experienced at both state and central levels.

Many “departments” were converted into “boards” and “autonomous agencies” with no corresponding changes in their operating culture or accountability. The creation of physical infrastructure is no substitute for much needed organisational reforms in the government. Simultaneous efforts are urgently required to remedy these deficiencies even as the government endeavours to put in place more adequate and better quality physical infrastructure. If not, Karnataka could go the way of some African countries, whose combination of corruption and administrative inefficiencies has scared potential investors.

10. Productivity: Need of the Hour
What should the Government of Karnataka do to minimise the disabling factors in its industrial environment? Interestingly, it does not appear that further work on industrial policy and its fine-tuning is needed. States do not differ much from each other in this respect. The effectiveness of policy is limited by excessive and archaic regulations, administrative systems and practices that are inconsistent with declared policy, and by a pervasive lack of efficiency and motivation in making the policy work. It is not that policy is not important, but there has to be a balance between policy pronouncements and the capacity to translate them into action in a time bound fashion. Getting the government to be an enabler rather than a disabler is the challenge.

The government can do a great deal to mitigate almost all the disabling factors discussed above. Infrastructure is
perhaps the only factor of improvement for which the state
government needs to depend on the central government.
But even here, the opening up of this sector to the private
sector and joint ventures should make it easier for the
government to move forward. Taxation is within the control
of the state government to reform and rationalise. Here the
endeavour should not be to undercut other states, but
simply to remain at the same level as neighbouring states.
When taxes are comparable, entrepreneurs are likely to look
for excellence and support in other long-term dimensions
than in taxes that could change overnight. Improving the
quality of local governments is another area to which the
state’s leadership needs to pay urgent attention.
Productivity and competitiveness will be enhanced only
when these factors are orchestrated effectively.

11. Improvement in the Style of Government Functioning

None of the changes, however, will occur if the conduct of
the state government and its style of functioning do not
improve significantly. Government needs to be both
efficient and businesslike to be able to respond to infra-
structural inadequacies and gaps in tax policy and
administration. It has to be proactive in spotting and
solving industry problems, and creative in using the positive
experiences of existing entrepreneurs to attract more
investment. But this can happen when deliberate efforts are
taken to restructure and reorient the departments and
agencies of the state government that interact with
industry. Corruption is no doubt a complex and elusive
problem, but has been tackled in other settings through a
combination of good leadership, transparency in
transactions, deadlines and norms for accountability, and a
mix of rewards and penalties.
The requisite knowledge on the reforms required to modernise existing administrative systems and practices is available in this country and elsewhere. These reforms will help reduce the scope for corruption in government-business transactions. No one, however, will utilise this knowledge unless there is recognition of the problem. The question is whether there is serious interest and commitment on the part of those in authority to create a genuinely enabling environment for industry in the state. If the state leadership is hesitant to reform and streamline the government’s style of functioning, the reforms of liberalisation ushered in by the Centre will be neutralised and their benefits will not reach the people.

The findings of the present study will hopefully goad the Government of Karnataka and its industrial promotion and facilitation bodies to review and rectify the weaknesses in their policies and operations, and to take urgent steps to enhance the state’s competitiveness. Delay in taking timely corrective action can be detrimental when other states are increasingly turning proactive in attracting new investments.

In specific terms, Government of Karnataka needs to:

1. initiate a systematic analysis and assessment of recent experiences of investors in the state;

2. use the lessons from this exercise to devise new institutional mechanisms and practices to overcome the disabling factors pointed out by this study and other studies;

3. consult with industry leaders and associations on ways to simplify laws and regulations, and eliminate controls and related requirements that are inconsistent with the new economic policy; and

4. assign a competent team of experienced officials to implement these reforms and monitor their impact.
NOTES AND REFERENCES*

‘Investments up, but Lack of Facilities dogs Karnataka’, 9th August 1998, The Times of India, Bangalore edition. This article stated that industrial investment in Karnataka from 1991 to 1998 was over Rs. 65,000 crores.

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* This study has also made use of various newspaper reports that have appeared on industrial investment in Karnataka.

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