Ease of Doing Business

The Problem

Regulatory environment is a key factor in attracting investors. There is variation in the 'doing business' environment provided by different states in India which gives investors ample choice for parking their funds. In the Department of Industrial Policy & Promotion-Ease of Doing Business rankings for 2017, Rajasthan stands at 10 among all the states and UTs.

Land is inarguably a crucial factor of production, required for setting up a business. The Indian economy has seen a continuous shift in land use from the agricultural to the manufacturing and services sectors. In general, rural land is converted for industrial use through the mutation process. The actual cost of land is usually higher in the allocated industrial areas and SEZs, than in the former. Since the mutation process is still largely offline in Rajasthan, it makes obtaining land through the direct route a cumbersome process for entrepreneurs and drives up the cost further.

India is currently in the favourable phase of Demographic Dividend wherein, the population in the working age group of 18-59 years has been soaring continuously relative to the number of dependents. India's overall unemployment rate was recorded at a five-year high of 5 per cent in FY16, and by 2025, there will be around 80 million net new job seekers. Roughly, 10 million enter the country's labour pool every year, while the employment potential is shrinking. Through schemes like Start-up India and Stand-up India, the government is stressing on the need for generating "job creators" instead of jobs alone.

In the last few years, Rajasthan has emerged as a preferred destination for business, mainly due to its proximity to the national capital, and an immense pool of resources in areas such as minerals, tourism, handicrafts, renewable energy, etc. Rajasthan's contribution towards India's GDP has been, on an average, 4.8 per cent in the last 11 years. The unemployment rate of 14.3 percent as in March 2018 is the highest ever that Rajasthan has witnessed over the last two years and thus, emphasizes the need to boost private sector investment in the state. Businesses in Rajasthan continue to witness various administrative and regulatory issues on a regular basis.

Solutions

Interventions	BCR	Benefit (INR Crores)	Cost (INR Crores)
Land Record Management System - Digitization of cadastral maps conducting survey/resurvey activities	25.90	12598.30	486.39
Establishment of a private incubation centre			
Scenario I (with 3.5x value addition)	1.69	111.48	66.11
Scenario II (with 6x value addition)	1.87	136.55	72.88

Total costs and benefits are discounted at 5% &

The full paper by **Nirupama Soundararajan & Shagun Khurana** of Pahle India Foundation (PIF) is available on www.rajasthanpriorities.com/economy-business-and-industry.

Land Record Management System

The Problem

The computerization of existing land records is nearly complete in Rajasthan, with computerised copies of Record of Rights (RORs) available for a nominal fee in 97 per cent of the villages through kiosk centres established in each taluka. However, the overall physical progress in Rajasthan in other components of Digital India Land Records Modernization Programme (DILRMP) has been rather slow. According to the DILRMP portal, the process of mutation has been computerised in only 7.9 per cent of the villages. The state government undertook the last survey operations in the year 1976, and all existing cadastral maps under use were prepared using the traditional techniques. In addition, only about 3.3 per cent of the total rural area of the state has been surveyed under DILRMP. The integration of textual and spatial data is still under progress as until now, only 361 out of 47921 villages have been able to do it.

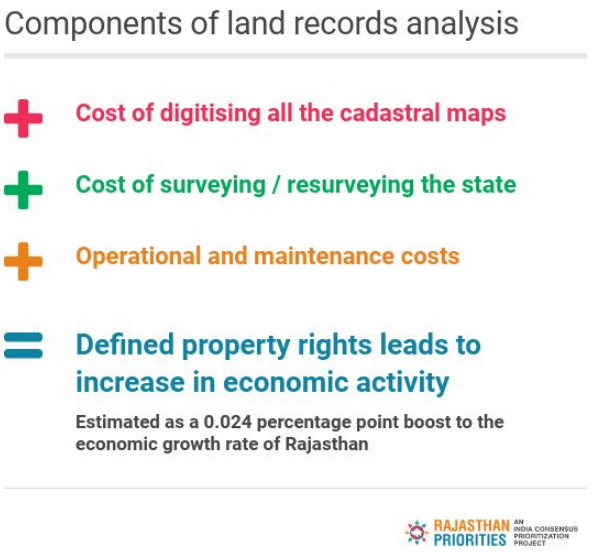
The land records available online are not free of errors as modernization has largely meant that paper records are now stored in computers without updating, with almost no verification of ownership and other data. Courts at all levels in Rajasthan are clogged with land-related disputes, which account for 73 per cent of the total civil cases in the state.

Rajasthan continue to witness various administrative and regulatory bottlenecks on a regular basis, particularly in obtaining land for commercial use. NCAER's State Investment Potential study of 2017 finds that the volume of land-related stalled projects are the third highest in Rajasthan and in terms of digitization of land records, the state stands at 15 out of the 21 states included in the study.

The Solution

Two specific interventions to improve the land records management system in Rajasthan are proposed (a) completion of survey/resurvey activities, and (b) digitisation of cadastral maps.

The proposed interventions imply a simultaneous digitization of maps made during the surveys conducted under DILRMP. The duration of the intervention is taken to be 53 years, that is, till 2070 and the costs and benefits are calculated accordingly.



Costs

The estimation of total costs of this intervention is a sum of cost of conducting survey/resurvey activities in rural areas, cost of digitizing the cadastral maps and operational and maintenance costs. This study assumes marginal increase in the existing operational costs by INR 1 crore per year, which is 0.22 per cent of the fixed costs of implementing the interventions. The recurring costs and benefits are calculated for a period of 53 years.

The total cost of digitisation of cadastral maps and conducting survey/resurvey activities in Rajasthan that will accrue for the period of 53 years is estimated to be INR 486 crore per annum at 5% discount rates.

Benefits

The benefits of this intervention are primarily derived from economic benefit due to secured property rights. Digitisation of all land records will help securing property rights in Rajasthan and lead to a movement of 1/50th standard deviation of the International Country Risk Guide (ICRG) index. This would mean a 0.024 percentage point boost to the growth rate of the economy of Rajasthan.

The total benefit resulting from the implementation of these two interventions is estimated to be INR 12,598 crore per annum accruing until the year 2070 at 5% discount rates.

Incubation Support

The Problem

Since the last few years, the "start-up culture" is flourishing in India, but has been limited to a select few destinations such as Bangalore, Delhi-NCR and Pune.

Start-ups in Rajasthan face fundamental challenges, especially in their nascent stages. Firstly, the road to finding early stage funding is patchy; funding is available only in certain sectors. There is an apparent disconnect between entrepreneurs and research organizations, where bulk of the research spending happens in India. Finally, the state faces a severe lack of entrepreneurs and mentors with experience in commercialization of new ideas and inventions.

The Solution

Incubation is a business support process aimed at successful development of start-up companies by providing entrepreneurs with an array of targeted resources and services required at the initial stage.

Incubation can facilitate removing the knowledge gap, reduce early stage operational costs, and help in establishing local support network for new enterprises. The main goal of an incubator is to produce successful firms that will leave the program financially viable and freestanding.

The duration of the intervention is taken to be 10 years.

Costs

The total cost of this intervention is a sum of cost of construction of the incubator, cost of lease on land, cost of maintenance and operations, cost of mentoring and training, cost of equity provided by incubator to graduating start-ups. investment funding received by incubated start-ups from other investors and increase in R&D spending by the private sector.

On assuming a value addition of 3.5x due to incubation the total cost of setting up an incubation centre and working space in Jaipur, along with additional funds required for investment and R&D is estimated at INR 9.53 crores per annum at 2017 prices. Over a period of 10 years, the present value of the cost will amount to approximately INR 66.11 crores at 5 percent discount rate.

In the second scenario with 6x value addition, the total cost comes to INR 9.67 crores per annum at 2017 prices. The present value will mount up to INR 72.88 crores at 5 percent discount rate.

Benefits

Benefits of this intervention are calculated considering the value addition in the valuation of graduating start-ups, multiplier effect of increased investment in start-ups on the state GDP and multiplier effect of increased R&D spending on the state GDP.

The total benefit resulting from the incubation support is estimated to be around INR 15.68 crores per annum at 2017 prices when the value addition is by 3.5 times. The present value of the benefit stream over 10 years amounts to approximately INR 111.48 crores at 5 per cent discount rate. In the second scenario when the valuation of start-ups increases by 6 times post incubation, the total benefit is estimated to be INR 17.68 crores per annum at 2017 prices. The present value of the benefits stream for a period of 10 years thus calculated, is INR 136.55 crores at 5 percent discount rate.