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Infrastructure-led Growth: Maharashtra – India’s Engine of Development¹

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According to the latest report by credit rating agency Brickwork Ratings, Maharashtra is the largest economy in India. Its gross state domestic product is expected to grow by 9.4 per cent in 2016-17 compared to 8.5 per cent in 2015-16. A state with the highest tax revenue in India, Maharashtra is also a leading player in the information technology, business process outsourcing and knowledge process outsourcing sectors. The state’s impressive performance has been attributed to the efforts by the government to take strong measures to address the challenges facing the state and putting in place important economic reforms. This paper examines the reforms undertaken in three key areas, namely, agriculture, ease of doing business and infrastructure development. It also highlights the impact of the reforms on these sectors and on Maharashtra as a whole.

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Indian Prime Minister Narendra Modi once said that, although India is a country, it lives in its states. As such, if one would like to reach out and do business with India in an informed manner, it is important to understand the functioning of the states. The Modi government has been promoting competitive federalism whereby the states compete with one another in a fair and open manner. This has led to a new paradigm in the growth of India. The states are now reaching out to potential international businesses and investors in a more direct and intense manner, and promoting business opportunities in their respective states. This friendly competition among different Indian states has the potential of benefitting not just the states, but also the country as a whole.

Maharashtra's Key Indicators

Maharashtra is the most business-friendly state and one of the most progressive states in India. It accounts for 10 per cent of the population of India and it is the second most populous state, second only to Uttar Pradesh, in the country. It has a high per capita income – it accounts for 15 per cent of national gross domestic product (GDP) and it has the largest industrial output in the country. The state has been a high economic performer for some time now. The government now wants to take it to an even higher level of performance. The government has adopted the basic principle of growth, *sab ka saath, sab ka vikaas* (with everyone, for everyone's development) with the aim of ensuring inclusive growth.

The overall macro-level indicators of Maharashtra have always been impressive. However, the same has not been the case at the micro-level – the state government has faced significant challenges.

Agriculture

The biggest challenge in Maharashtra has been the agrarian crisis. About 50 per cent of the state's population depends on agriculture for employment. However, the total share of the agricultural sector in the gross state domestic product (GSDP) has only been around 10-11 per cent. Seeing the lopsided contribution of the sector to total output, the Maharashtra

government called for a paradigm shift in the management of the agriculture sector. Also, there have been cases of farmers' distress in the state and the government has provided relief and rehabilitation to the agriculture sector. Whenever the farmers suffered from distress, the state government has provided the necessary funding and support. Although the government's efforts have been important and necessary to alleviate the plight of the farmers, such efforts would not be sustainable in the long run. The state government realised the need to create a more sustainable agricultural sector. This led to the shift in focus from relief and rehabilitation to investment-based agriculture. The state government has increased investment in agriculture, created and distributed water structures, ensured water efficiencies and developed new markets. These reforms were implemented from the realisation that the problems faced by the agricultural sector had to be viewed from a non-traditional and different perspective.

Maharashtra is home to 40 per cent of the large dams in India. Unfortunately, these dams only cover 22 per cent of total irrigation in the state. The topography, hydrology, geology and weather patterns in Maharashtra are such that it needs large water-storage capacity. The solution to sustainability, therefore, is water conservation. Through water conservation, the state would be able to ensure sustainability in agriculture, create climate-proof agriculture and mitigate the effects of climate change. In this regard, the government started a water conservation scheme called *Jalyukt Shivar Abhiyan* in an effort to make the state a drought-free state by 2019. The project involves deepening and widening of streams, constructing cement and earthen stop dams, among others.

However, it must be stated that such a water conservation scheme is not new. Maharashtra actually had 14 different schemes of water conservation, with seven departments executing these schemes. However, there was no synergy between the different departments. This was akin to the analogy of someone getting the hat, someone the coat, someone the shirt and somebody the pair of shoes but no one was well-dressed. The lack of coordination made the water conservation schemes ineffective. The state government took the decision to combine all the schemes into one scheme. As a result, there was a convergence of schemes and a convergence of command.

The government then began to invest in its water conservation initiative and encouraged public participation – there was participation from the people at every stage from planning to execution. This effort paid off – it resulted in the creation of more than 11,000 drought-proof or ‘water-neutral’ villages in less than two years. That created irrigation potential for two million hectares of land. As a result, the entire agricultural landscape changed. Maharashtra, which had constantly negative growth in agriculture in the past years, witnessed the sector growing by 13 per cent in 2016. The creation of the distributed water structures also mitigated climate change. During the *kharif* season,³ there is usually a gap of 20 to 25 days between two rainy days. This creates a stress on the crop, which often gets damaged. However, if irrigation is assured, the farmers are able to sustain their crops even if there are no rains.

As a result of its reforms in the agriculture sector, Maharashtra has been ranked as the top state in agro-reforms by the National Institution for Transforming India Aayog, the premier policy ‘Think Tank’ of the Indian government which provides directional and policy inputs.

The Maharashtra government has plans to do more for the agriculture sector as it believes that there is a huge opportunity in the sector. Its plans include creating backward and forward linkages, value chains and cold storage chains, among others. These are also good business models. The government hopes to attract more investments in agriculture as it holds the view that only investment-led agriculture will be sustainable in the long run and, doing so would alleviate the distress faced by the farmers.

Ease of Doing Business

While the agricultural sector provides employment to 50 per cent of Maharashtra’s people, its real potential to do so is much less. In fact, about 15 per cent of the people employed in agriculture are underemployed. In order to ensure the sustainability of the agricultural sector,

³ The agricultural crop year in India is from July to June. The Indian cropping season is classified into two main seasons: i) *Kharif* and ii) *Rabi* based on the monsoon. The *kharif* cropping season is from July to October during the south-west monsoon and the *Rabi* cropping season is from October to March (winter). See http://www.arthapedia.in/index.php?title=Cropping_seasons_of_India-_Kharif_%26_Rabi. Accessed on 13 October 2017.

these people need to be moved to industries and services. As such, the government is making the efforts to increase the ease of doing business through a regime of liberalisation. It has initiated a process of reforms not just for infrastructure projects, but also for industrial projects. These reforms are needed as acquiring land and obtaining permission to start a business has been a major issue for companies and investors.

In his first speech upon taking office, Prime Minister Modi stated that he wanted India not to be a country of red tape, but a country of red carpets. The Central government realised that, if India reformed and rolled out the red carpet, investments would start coming into the country as the conditions are favourable to investments. India has demography, democracy and demand. Fifty per cent of the Indian population is below 25 years of age and around 65 per cent below 35 years. The country has a young population and the potential for growth and development. The younger generation has embraced technology, knows the world and has the aspiration to change. The only thing that the government needs to do is to provide the opportunities for them in this regard.

In Maharashtra, the government decided to create the necessary atmosphere for businesses to grow. Firstly, it implemented policies which made it easy for businesses to acquire land. Earlier, it would take up to three years and 76 permissions for an individual to set up a business. Now the state government has reduced it to less than 25 permissions and it has created a digital platform to streamline and expedite the application process. The Maharashtra Industrial Development Corporation (MIDC) started a *Maitri* (friendship) platform, and through this platform, the government started giving permissions in 90 to 100 days; in some cases, in a month's time, sometimes even within 48 hours. The government changed the entire business outlook. It realised that the old lengthy process of starting a business could not be allowed to go on. A business that has invested in land and has to wait three years to start the business would be subject to intense interest payment pressure for the land which would make it unsustainable to start a business. Formerly, in a city like Mumbai, it needed more than 120 approvals for a building plan. The process has been speeded up. The government created a robust digital platform and all the relevant departments became part of that platform. This resulted in the filing of building plans and approvals being reduced to less than 30 days and, in most cases, to less than nine days. Similarly, to start a hotel, one needed 176 permissions. Now these permissions have been brought down to 25 and put on a common

platform so that one does not have to make different application is sent to different departments. Under the new procedure, an application is sent to different departments within a stipulated time and these departments are required to respond promptly – permission is given almost immediately. Recently, the government also enacted a law to ensure businesses can run 24 hours a day and seven days a week. The state also reformed the labour laws which were not benefitting the workers or the businesses.

The reform process has created significant confidence among businesses in the state. Recently, the World Bank visited Maharashtra to make an assessment of its reform initiatives. It randomly called a list of beneficiaries, as a form of verification, to inquire about their experiences of doing business in the state. It found every single claim made by the state government to be true.

As a result of the state government's ease-of-doing-business initiatives, the global community has shown a lot of confidence in Maharashtra. In the financial year 2016-17, 51 per cent of the foreign direct investment (FDI) that came into India went to Maharashtra. That is treble the amount it received before 2014. Before 2014, there was stiff competition for FDI among a number of states. Then, Delhi was the top destination for FDI, with investments amounting to ₹110 billion (S\$2.28 billion), Maharashtra was second with ₹100 billion (S\$2.08 billion) worth of investments, followed by Gujarat and Karnataka. In 2016, Maharashtra received around ₹1,200 billion (S\$24.97 billion) in FDI while the second biggest recipient state was a distant second at just ₹200 billion (S\$4.16 billion). The confidence the global community has shown in Maharashtra is recognition of the efforts by the government to make it easier to do business in the state.

Infrastructure Development

The third area that the state government has placed significant emphasis on is infrastructure. The biggest bottleneck in infrastructure development has not been the capability to invest, but the ability to take forward a project. India is a country with multiple stakeholders and various governmental institutions, and each has its own jurisdiction. As a result, it becomes difficult to execute a project. In Mumbai, for example, in order to execute a project in Mumbai, one

has to deal with 17 authorities. Some of these authorities are from the federal government, some from the state government and others from the local government. It would be a difficult task to bring all of them together. As such, the state government set up the chief minister's 'war room'. The critical infrastructure projects were placed in the war room, where the chief minister conducts a review of these projects once every two months. In the 'war room', all the authorities come together to meet, either directly across the table or via video-link. All of them take the necessary decisions in the 'war room'. This ensures that the projects are not delayed.

In the past, if a note or a file was sent to a department, it would take its own time to look at the proposal, thus causing unnecessary delay. The new system, however, cuts down such delays. As such, work is progressing much faster today. A comparative example is Metro 1 and Metro 2A of the Mumbai metro projects. Metro 1, a 10-kilometre metro, took nearly eight years to complete. It took 25 months to prepare the detailed project report (DPR) and another 18 months to seek further cabinet approval. With the 'war room' approach taken for Metro 2A, it took only three months to prepare the DPR, eight months to gain cabinet approval (including tenders) and the actual work started within one calendar year. It took even less time to start work on Metro 7. In a short span of only two years, the authorities have started work on about 170 kilometres of metro lines in Mumbai, and around 300 kilometres in Maharashtra.

The 'war room' approach allows all land parcels to be transferred and permissions granted. All that remains, thereafter, is for the engineering work to be carried out. How much capacity has this new approach added? If one looks at Mumbai, the lifeline of Mumbai is the suburban railway. In the last 70 to 80 years, the suburban railway has achieved a carrying capacity of seven million passengers. Under the current expansion plans, once the new lines are in place by 2021/22, Mumbai will have the capacity to carry an additional nine million passengers. So, while it took 70 years to create the capacity to carry seven million passengers, it will take only four years to carry an additional nine million.

The government is also integrating all modes of transport – the bus system, the monorail, the metro and the suburban railway. Moreover, at the end of 2017, the government will start the water transport system. Everything will be integrated and on a single application. Through

these efforts, the authorities hope to reduce 35 per cent of vehicular traffic in Mumbai. Singapore is the best example of traffic management. The Maharashtra government hopes to have Mumbai emulate Singapore. If the Maharashtra government is able to provide appropriate solutions and fast communications, the people would be more inclined to use public transport.

The government has initiated iconic projects such as the Mumbai TransHarbour link, a 22-kilometre sea-link which will connect Mumbai to the hinterland, New Mumbai, the next centre of development. Here, the government is developing a new airport, which will be bigger than that in Mumbai. With this 22-kilometre sea-bridge, there will be seamless connectivity between Mumbai and New Mumbai. This sea-link was conceived in 1997, but till 2014, it remained only on the drawing board. It was taken up by the new Bharatiya Janata Party state government at the end of 2014. Mumbai has many laws. It is a coastal city and the marine ecosystem has to be taken care of and a sanctuary has to be created. The new government did this within a year. Unfortunately, the government had to go to the Supreme Court because the activists thought the plan was not sustainable. The government proved it was indeed a green project. The government has now shortlisted the bidders and, by December 2017, work will start on the 22-kilometre Mumbai-New Mumbai sea-link, which will create a new economic zone stretching from Mumbai to New Mumbai. This will enhance the economic potential of the state and the country as well. This sea-link is the result of decisions in the 'war room'.

The Mumbai-New Mumbai sea-link highlighted the importance of the Central government. State governments can make decisions but these are subject to the laws and regulations enforced by the Central government in New Delhi. The Central government has its coastal regulation zone laws and environmental laws. These stalled the sea-link plan which remained in limbo for 14 years. However, the situation changed when Modi became prime minister in May 2014. He has his own 'war room' and interacts with all the chief secretaries through video-conferencing once every 15 days. The sea-link plan was cleared in one video-conference session of the prime minister and all central permissions were given in less than a month.

The New Mumbai airport is also an example of quicker decision-making in the new regime. It is common knowledge that the existing Mumbai airport is congested and there is no capacity to accommodate more flights. There are demands for direct connectivity with Mumbai since it is the country's financial capital. However, the airport, located in the city, has no room to expand further. The New Mumbai airport is also a project that was conceived 15 to 20 years ago but it was stuck due to the lack of permissions from New Delhi. The logjam has been cleared in the new dispensation. The current state government had wanted to get eight permissions from the central government to start work on the airport. It received seven in one video-conference session and the last in the next 15 days. In a fortnight, it received all eight permissions.

The new Central government means business. In Mumbai alone, it has invested around US\$12 billion (S\$16.3 billion) in various projects. The figures speak for themselves. In its latest report, the Deutsche Bank stated that, 51 per cent of all critical and big infrastructure projects in India are in the state of Maharashtra alone. It is not only Mumbai that is being developed further, Pune, Nagpur and the rural areas are also part of the development exercise. An airport has just been built at Shirdi and new airports are also being built at Pune and Nagpur. The state government is also building logistics parks in Nagpur because the newly-introduced goods and services tax has created fresh possibilities for logistics businesses, for which Nagpur could be a distribution centre.

India's largest super-expressway is also being built in the state of Maharashtra. It is a 700-kilometre super-expressway which will integrate 24 districts of Maharashtra. It is being called a 'prosperity corridor' because it will connect Mumbai, the port which handles 70 per cent of the container cargo traffic in India, and Nagpur, a logistics hub of India. The two cities are being integrated with 700 kilometres of expressway which will be the most intelligent highway ever created in India. This will put Maharashtra at least 10 years ahead of the rest of the country – the expressway is not just a highway or information and communication technology(ICT)-powered intelligent way; it is also a prosperity corridor because it will host 22 smart cities and 22 roads along its length and breadth.

These smart cities will be thematic cities specialising in agro-processing, ICT and tourism, which will change the entire face of Maharashtra. It is a mammoth project. The state

government hopes to start work on the project in the first quarter of 2018. For this, the government is using a new land acquisition policy. Normally, under the land acquisition policy, it takes two to three years to acquire land. The government is speeding up the process. It started a 'consent land acquisition' policy in which it will give farmers in rural areas five times the ready rate for their land. Prior to this policy, only between 12 and 14 per cent of land could be acquired. With the new policy, land acquisition has increased to between 15 and 17 per cent. There is no opposition. In fact, the farmers want the government to take the land because of the amount of money they receive and the opportunities created throughout the corridor. For the 700-kilometre expressway, the government is acquiring land in record time. It expects all the land needed for the expressway will be acquired by March 2018.

As a result of this investment model, the creation of new infrastructure, making it easier to do business policies, the state government has created a lot of business opportunities and jobs. For a country to prosper and develop, it must have good infrastructure. If Maharashtra is able to create world-class infrastructure in minimum time, it would not only create more jobs and accelerate the growth of economy; it would also take the state, and India, to the next level.

Conclusion

India has an aspiring population. The country is at the cusp of great opportunity and change. Never in its history has India had such a golden opportunity. By 2020, when the median age will be 48 years in Japan, 44 years in Eastern Europe, 41 years in Western Europe, 39 years in America and 37 years in China, it would be 25 years in India. The developed economies will be ageing and will require human resources. India will be one country with such a large young population. Its human dividend is an important element in its efforts to develop and progress as a nation.

The state of Maharashtra wants to give its people the opportunities to raise their living standards and be part of the growth story. The government has put in place numerous policies and instituted a series of reforms so as to enhance the state's socio-economic status. While the impact of some of these efforts is already bearing fruits, it will take time for the others to make an impact. Countries like Singapore are role models for the present government of

Maharashtra. The government strongly believes that Maharashtra has the potential to be the model state in India's economic growth story.

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