**Issue Note**

**Rethinking planning for industrial development in Smaller Towns**

**The Appropriate Role for Local and State Governments**

**The Case of Maharashtra**

December 2013

City-centric planning for economic and industrial development has never been on the public policy agenda despite the 74th Constitutional Amendment Act mandating that urban local bodies (ULBs) be responsible for “economic development”. It is the state government that directs and controls the entire process of industrial planning. The strategy in Maharashtra, similar to many other states, is a top-down strategy, not geared towards nurturing existing economic activities of the city and region and follows a policy of spatial separation from the city from which it draws its workers, producer services (such as banking and insurance) and supplier networks and markets. This means that industrial development takes place without building sustainable livelihoods for industry workers and better quality of life within the town in which it is spatially embedded. It is also a compartmentalized strategy that doesn't involve proactive engagement with other public agencies and local governments like municipalities, panchayats or transport authorities, in order to better deliver industrial outcomes. This note assesses the major challenges and disconnects of such a centralized and disconnected policy based on its performance in two towns in the state of Maharashtra. It argues for rethinking industrial planning policy so that industries are no longer established and developed in isolation from the city or town in which they’re located, calls for institutional integration/coordination of both spatial and sectoral industrial policies and considers an appropriate role for the ULB as well as the state government.

This note is based on case studies of two towns, Solapur and Ratnagiri[[1]](#footnote-1) in Maharashtra. This involved a literature review and in-depth interviews with key stakeholders in the town and the dominant sectors of the towns (powerlooms and bidi in Solapur, and fishing, horticulture and tourism in Ratnagiri) over the period of April 2012-Jun 2013. In addition, planners, state level officials, and officials from MIDC were interviewed.

**National and Regional Background**

The need for rethinking industrial and economic planning has never been more urgent due to increasing urbanization, urbanization of poverty and the growing reliance on cities and towns as engines of growth. Importantly, the 2011 Census reveals that it is small and medium towns and districts surrounding metropolitan cities that are registering higher population growth rates while those of the core areas of metro cities are largely declining. Moreover, the number of slums within smaller towns is rapidly increasing while their financial status is very weak. This has brought urban policy back onto the national and regional agenda, most notably via the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and the Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT). While the JNNURM focuses on 65 larger cities in the country that dominate in size, economic, cultural and political importance, the remaining urban centres of the country fall within the domain of the UIDSSMT. However, these highly centralized policies exclusively focus on the delivery of better services and infrastructure and governance reforms and do not support ULBs to nurture and create industrial/economic activity that can sustain the infrastructure and poverty alleviation needs of the ULB in the long term.

The divorcing of industrial development from spatial and infrastructure development of the town also occurs at the regional level. The formation of industrial estates, and more recently IT parks and special economic zones (SEZs), and the designation of product and micro, small and medium enterprises (MSME) clusters are the primary instruments of industrial development used in Maharashtra. Industrial estates, IT parks and SEZs are situated outside city/town limits and are established and governed by the Maharashtra Industrial Development Corporation (MIDC), a parastatal that was constituted under the MIDC Act. The objectives of MIDC as specified in the MID Act are to promote and assist in the planned, decentralised and balanced establishment, growth and development of industries in the State of Maharashtra, and specifically, to establish, manage and develop industrial estates at places selected by the State Government. The MIDC’s activities therefore fall within three broad categories: acquisition and disposal of land, provision of infrastructure facilities and provision of services (MID Act and MID Rules 1961).

The MIDA came into being in a particular historical and political context. Sections 40 and 41 of the Land Acquisition Act 1894[[2]](#footnote-2) provided for acquisition of land for companies and were used by state governments for industrial development purposes. Initially there was no requirement that this acquisition satisfy the condition of ‘public purpose’ but in 1962, in the Case of R. L. Arora v. State of Uttar Pradesh, the Court held that when acquiring land for a company it had to be shown that the company was engaging in an activity that had a public purpose because the LAA did not intend for the government to act as a general agent for the acquisition of land in order to make profits. This decision was resented by a number of state governments who feared that it would render the planned development of industries difficult, that there was danger that acquisition made for companies in the past would be questioned and would overall hinder economic growth and development. There was therefore a consensus that a special legislation was required to enable state governments to easily acquire land for industrial development. Maharashtra was the first state to introduce special legislation – the MIDA of 1962.

Over the last 50 years, MIDC has established ----- estates in 6 investment regions.

[Table here]

The findings from the towns of Solapur and Ratnagiri highlight the challenges and disconnects of this strategy of industrial development.

**Challenges and disconnects of current model of industrial planning**

1. **Limited industrial policy largely focused on establishing MIDC estates but not on industrial health or performance**

The MID Act gives a limited mandate to the MIDC. Via its industrial estates MIDC officials are typically concerned only with acquiring land with the assistance of the Collector, preparing a land use plan for the industrial estate, plotting land, providing infrastructure and allotting plots to industries. Case study findings demonstrate that in practice, there is no focus on industrial performance within the estate. Interviews with local MIDC officials in Solapur and Rantagiri reveal that they don't see attracting and nurturing productive enterprises or monitoring economic activities of companies who have leased plots to check misuse as part of their role. For instance, they don't inspect plots to see if factories are operational nor do they concern themselves with the nature of production. Officials maintain that the District Industrial Centre (DIC) is supposed to maintain this database. Further, after allotment of plots in the estate, businesses need not construct anything for upto 4 years with no penalty and can request for an extension even beyond this period. Decisions on extension are given at the discretion of the MIDC Andheri head office. Meanwhile, the local office cannot do anything with regard to vacant plots for four years, and it is only after this period that MIDC can take vacant plots back for resale. This provision has actually encouraged companies to lease plots in MIDC estates not for production but for real estate speculation. Solapur’s Akkalkot estate has many non-operational factories and vacant plots. Ratnagiri’s Mirjole and Zadgaon estates too have many vacant plots and non-operational industrial units. According to one to one official estimate, out of the 948 carved plots, there are 128 vacant plots and 29 closed units. This has led to tremendous resentment amongst local villagers whose lands were acquired to set up the MIDC estate in the name of “public purpose” and who were promised jobs in return along with compensation, none of which were fulfilled.

The process of allotment of plots allows incompetent plot holders occupy the space, in the absence of monitoring mechanism, MIDC becomes a lucrative business for real estate agents. In Ratnagiri MIDC (Mirjol), hardly 25/% plots are functional. The senario with respect to small scale industries is also not different. While DIC looks after self employment, there is no mechanism which will ensure organic linkage between DIC - MIDC and SSIs. Does MIDA speak about this?

This also means that there is no focus on obtaining coordination with other public agencies/local governments (like ULBs and panchayati raj institutions -PRIs) to deliver better industrial or service outcomes. When discussing the need for coordinating with other agencies regarding problems with acquiring land or attracting industry or getting transport facilities, MIDC officials state that Government has other agencies to take care of these things, that this is not part of their (limited) mandate. In Solapur there is not a single bus from town to the MIDC estate in Akkalkot due to the lack of coordination between MIDC and the local transport agency. The burden of this falls most heavily on workers who commute to the estate daily, especially women and elderly workers who typically walk to work, a journey of 30min-1 hour. MIDC Mirjole is located 4 km outside the town of Ratnagiri and there is no public transport to the estate. The onus of travel arrangements is on the unit owners or else on the employees. There is no coordination with the regional transport office or the traffic and transportation department of RMC which has led to haphazard parking, congestion and accidents at the Mirjole MIDC junction where large and speeding goods vehicles take a sharp turn.

Apart from the failure to focus on industrial performance within estates, we argue based on our case study findings that setting up of MIDC estates by itself is insufficient to grow and sustain industries. More attention needs to be paid to regional and local dynamics of the economy, and how concentrations of public investment can be most effectively placed to spur existing and new economic developments. In Maharashtra, economic development is handled primarily by the Industries Department and MIDC. While the Industries Department (and concerned Departments like Fisheries) take a sector-specific approach of formulating policies and schemes, MIDC takes a spatial approach; there are few connections between the two. But we argue that for sustainable industrial growth what is needed is an integrated approach: planning for economic growth along with appropriate spatial and infrastructure planning to support industrial production and workers.

1. **No convergence between industrial development and urban development despite deep connections**

While the Urban Development Department has created some sector- specific policies, it is largely uninvolved in industrial planning and development. The local government is the spatial locus and often the service provider particularly for informal small-scale and home-based industry and its workers but it is also not involved in industrial planning or development. These multiple institutional disconnects mean that urban development is pursued separately from industrial development despite the fact that most MIDC industries in Solapur and Ratnagiri depend on facilities of the town (eg transport and housing) but don't pay for this use and thus don't contribute to the revenues of the city. The lack of holistic understanding of the role that industrial activity plays in the creation and sustenance of cities has led to a new set of problems.

It has led to a territorial battle with industries locating outside city limits to reduce their tax burden while fueling a growing competition between ULBs and PRIs to retain industrial estates as they contribute to local revenues. A common strategy to achieve this in Maharashtra is to expand town boundaries. In 1992, Solapur expanded its limits by 145 sq. km. ensuring that the Akkalkot estate would fall within the expanded limits. In Ratnagiri a proposal to expand limits has been pending due to opposition from the surrounding Gram Panchayats, namely Mirjol and Nachne . If the proposal is passed, again at the discretion of the state government, then the MIDC estate would also be within the city limits and under the control of the urban local body. Outside Ratnagiri, Gram Panchayats like Shirgaon, Nachane are earning handsome revenue from MIDC, as well as from real estate sector, hence, they fear loss of autonomy and loss of income with limit expansion. However, residents of these GPs as well as other GPs confess, that GPs do not have the capacity to handle the mounting pressure to provide infrastructure and services to the rapidly growing population, and that unplanned constructions have disturbed the ecological as well as social equilibrium of the villages. There is no leadership, which will facilitate the process of consensus building between the ULB and the surrounding villages and help then arrive at a win-win situation, while, there are no processes, which lay down guidelines to do this. Ratnagiri MIDC is silent on this, and again, there are no processes, which will enable the dialogue between the ULB and the MIDC.

If they are absorbed within the town, industrialists complain that they face problems of poor maintenance and low quality services as municipal finances, particularly in small and medium towns, are insufficient for improving basic services. Industries in the Akkalkot estate have been buying water from tankers since provision from the Corporation isn’t sufficient. A local MIDC official explained this by saying that these estate areas have few residents so corporators have less interest in catering to them. As a result, industrialists are pressing for the creation of independent township authorities that would bypass the ULB. In 2000, the first proposal for 12 industrial townships was introduced. As on April 2013, 162 industrial areas have been proposed as industrial townships, revealed a MIDC official.

The original intention behind developing MIDC estates on the peripheries of towns/cities was due to affordability of land, lower taxes, and proximity to municipal workers and facilities. MIDC officials themselves are not in favour of their estates falling within cities since this implies that the ULB takes charge of governing the estate and this would considerably erode their authority. Yet they also acknowledge that this policy actively discourages industrial activity within the ULB, thereby reducing its revenue base. The establishment of the fish industrial estate within the city limits of Ratnagiri is a positive example in this respect. In this context, discussion on the way forward, particularly developing a concrete strategy for strengthening economic activity that benefits the town is imperative. Importantly, our case studies reveal that ULBs and PRIs need to be involved in this process both to better address what kinds of roles and capacities we can envisage as well as how to minimize conflicts and disconnects between them.

1. **Centralised and compartmentalized industrial policy means that specific industrial activities and potential of towns/regions are not nurtured**

While MIDC is supposed to consult with Regional Plans to assess their estates’ fit with economic developments and potential in the region, this rarely happens because interviews with MIDC officials revealed that they consider Regional Plans out of date (revised once in 20 or more years). Moreover, Regional Plans only denote broad land uses and as such do not specify the type of industrial activity that can be supported in a particular land use category. The city’s Development Plan (DP) is likewise rarely considered when establishing an estate because industrial planning takes places divorced from urban policies/plans of the town it is located. For instance the MIDC Akkalkot was set up in 1970 when Solapur already had a 100- year history of textile industry and yet it did not constitute a textile zone. Ratnagiri town along the West coast of India and famous for its fisheries had to advocate with the state government in order to obtain ‘industry’ status for its fishing industry and qualify fish processing industries for plots within the Ratnagiri MIDC estate. Decisions on categorization of zones, which has implications for provision of special facilities, are made centrally by MIDC in consultation with the Industries Department. There is little clarity on how these decisions are made. Field level findings indicate that it occurs in response to advocacy from bigger and more organized industries. Or else, the decision to locate industrial estates is politically motivated. This disproportionately benefits bigger, more organized industries that can advocate at state level while small scale industries, based on local labour and locally appropriate technologies are neglected.

Going beyond economic complementarity with the town/region, industrial policy also doesn't concern itself with the issue of spatial and infrastructural connectivity between economic hubs in the region. In Solapur, major development along arterial roads or activity corridors has happened organically but not much attention has been paid to developing spines that connect them at different points, which would greatly increase the accessibility of existing powerloom clusters to main roads. In Ratnagiri, there could be huge positive spinoffs resulting from better connection with ports and related fishing infrastructure and people through activity spines and corridors. Improving facilities and upgrading Mirkarwada harbor and building better quality fish markets, one industrialist pointed out, would actually boost the fish processing and export industry located in the MIDC area while benefitting fishermen as well. Providing better avenues for processing units and mango, cashew, coconut producing areas could also lead to positive spinoffs. Connecting the Konkan region and therefore Ratnagiri by rail links was a deliberate strategy to boost industrial development in the region, which seems to have had some positive impacts in terms of the movement of goods and people in the region. However, the strategy to connect the Mirjole and Zadgaon industrial estates in Ratnagiri through air routes failed to take off, despite the acquisition of land adjacent to the MIDC area. Recently, through a decision taken by the state cabinet the air strip owned by MIDC, meant to have been used for commercial flight purposes has been handed over to the Coast Guard.

If Development Plans (which according to the MRTP Act are made for guiding the development of land uses and activities at the town or city level) were also made keeping in mind the location of economic centres within and near the town, including MIDC estates, then they could deliberately set out to promote economic development. In Ratnagiri, for example, the first DP created a special zone called the Fish and Light Industries zone which was geared to provide space for forward and backward linkages for industrial development through the establishment of a fish and light industrial zone. near the coastal belt of the town and close to the Mirkarwada harbor. This 5 ha zone (about 56 plots) was developed with help from the IDSMT scheme of the Central Government by the urban local body – Ratnagiri municipal Council. Observations on the ground revealed that half of the plots were vacant. Of the ones were buildings had come up, very few were purely industrial uses. In fact, some of the plots are being used for residential purposes. Some of the industries that are found on the coastline have also been affected by the CRZ 2011 ruling and have been unable to garner state support to seek exceptions to the rule for their operations to be expanded in the zone. Although some of the net making plats, ice factories, fish cleaning factories in this zone have generated employment, unfortunately, most of the staff in these factories are severely underpaid and on a contractual or seasonal hire basis. Thus the benefits of the zone have clearly accrued to the larger entrepreneurs and factory owners.

Establishment of MIDC estates often drive urbanization and industrialization in surrounding regions but there is no plan or provision or agency to govern this growth. According to retired planner, Mr. V.K. Phatak, in many cities CIDCO has stepped in to build townships around MIDC estates. Local MIDC officials admit that declaration of an estate acts as a trigger for other industries to locate, immediately raises land values and alters land market dynamics often leading to the formation of informal industrial and residential clusters. MIDC estates in Solapur have triggered the establishment of informal gunthewari-like settlements and small-scale factories because there is inadequate provision made for workers’ housing and small-scale industries. GPs in the vicinity of the MIDC estates in Ratnagiri, such as Nachne , Mirjole and even Shirgaon have undergone rapid transformation from being villages to urban settlements overnight. These urban settlements though have limited capacities in providing basic services - sewerage, drainage, solid waste collection, water provision. Thus these unplanned growth areas have become congested and underserviced compared to the city itself or the MIDC estate itself. MIDC estates also provide better infrastructure to factories inside the estate and sometimes to the GP it is located in, making for infrastructural disparities in the region. In Ratnagiri, some of the surrounding GPs have successfully negotiated access to piped water and electric supply from MIDC. The MIDC, however, only plans for the area within the boundaries of the estate so any (unauthorized) construction in the vicinity falls within the Gram Panchayat that the estate is located in. On the other hand, the 30-40 per cent of land within MIDC layouts kept open for residential purposes (for workers, staff, managers etc.), are coveted by investors because these plots have better provision of water and electricity that outside the industrial estate, thus defeating the purpose of housing only people working in the estate. These unintended consequences of current MIDC policies need to be urgently addressed.

1. **Lack of inclusivity of this mode of industrial planning**

Overall, this model of industrial planning is a highly exclusive one biased against workers and small and micro-scale, usually informal, industries. MIDC estates do not provide adequately for the housing and transport needs of workers on the estate. Additionally, small-scale factories tend to benefit less from MIDC estates than larger factories. 5-8 sq. m is the smallest plot size in MIDC estates, with officials plainly stating that bigger tenants that have big supplier-producer chains and can serve as an anchor tenant are sought after in each estate. Case findings also reveal that it requires considerable lobbying and political connections at state level to be allotted a plot within an MIDC estate, greatly reducing chances of small industries to get access to MIDC plots. Bigger business owners, through their location in the MIDC estate, qualify to get loans more easily as well as avail legal land and high quality infrastructure. However, there is no control over these private players and if these industries decide to locate to places where land and labour is cheaper, the economy of the town and surrounding region suffers. This is in contrast to small and informal businesses that are strongly rooted within the city that comprise a majority of establishments and provide the bulk of employment but find it hard to access loans due to illegal land status, suffer load- shedding and poor services. This note thus highlights the importance of acknowledging informal economies (small-scale industries and home-based production) located outside of industrial estates in small and medium towns and including them in economic planning. The planning of MIDC also needs to take into account these activities, and create avenues for their upscaling and value addition. However, inviting industries in the MIDC is again a process of negotiation, which requires political back up. Towns, regions, which lack this dynamic leadership, also lag behind in industrial development.

**What could be appropriate roles for local and state government?**

A significant gap with regard to MIDC’s industrial policy of setting up estates is the lack of a stated role for politicians. Findings from the field indicate that local and regional politicians play a crucial role in two broad aspects of this model: on land and industrial development. With respect to land, politicians play an important role in deciding location of estates as well as negotiating with farmers regarding selling their land. The demand from politicians for an industrial estate is often in response to demands from local people and business groups. While virtually every district in the state has an MIDC estate, powerful political leaders have been able to bring more than one estate to their towns (eg Baramati, Solapur) and have also influenced the location of the estate even though there ight be severe constraints in terms of availability of water and electricity. The availability of land that is affordable, that is not prime agricultural land, and which farmers are willing to sell is also an important criterion in siting estates as reported by MIDC officials. Politicians play a role in this negotiation process. Thus while the MID Act lays down a procedure for land acquisition that is supposed to result in finalization of the most suitable site for location of the industrial estate, in practice this process is highly conflicted, messy and deeply political.

Politicians also play an important role in attracting industries to specific estates and in providing access to land and services, particularly for small and micro-enterprises that are located in informal settlements. Countless examples from the two case study towns reveal how politicians have been instrumental in the regularization and enhanced access to secure land and services of informal factories in Solapur and Ratnagiri. In many cases, these informal firms supply larger factories on a contract basis both supplying the global as well as domestic market. The role that politicians play at different scales is not well understood nor are the factors driving success of some politicians versus others. For e.g., in Maharashtra Sharad Pawar is often cited as a role model for other politicians in bringing development to his constituency of Baramati. However, the case study findings emphasize the need to build on the role already being played by politicians in economic development.

In industrial development, the role of the state government in defining and shaping industrial policy is paramount. Based on our case studies, however, we argue for the state government to carve out a stronger role for the ULB and PRIs as it provides services to the bulk of the economy comprising informal small and micro enterprises and yet has no power over decision-making or design of industrial/economic policy. A more decentralized policy would be a move forward taking into account sector needs that are specific to local contexts (in regions and within cities). An explicit policy of integrating spatial and sectoral policies is also necessary for growing stronger industries. Additionally, greater importance should be placed on nurturing a mix of commercial and small industrial developments particularly in the Indian context where the informal small-scale sector dominates production and employment. Finally, for effective industrial development on the ground, local policies and practices need to align with regional plans and policies.

1. For copies of these case studies refer uirf website -------------- [↑](#footnote-ref-1)
2. The Land Acquisition Act of 1894 has been replaced by the Right to Fair Compensation and transparency in Land Acquisition, Resettlement and Rehabilitation Act of 2013. [↑](#footnote-ref-2)