



## NEW ERA OF ECONOMIC DEVELOPMENT IN HIMACHAL PRADESH OPPORTUNITIES AND CHALLENGES EXECUTIVE SUMMARY



There exist a vast number of investment and business opportunities in the state of Himachal Pradesh. The Government of Himachal Pradesh has made efforts to provide a comprehensive framework to create an investor friendly environment to ensure sustainable industrial and economic development in the state through the *Industrial Policy of 2004*. A number of fiscal and non fiscal incentives have been extended in order to attract large scale

investments into the state. Priority has been accorded to the rapid industrialization of the state with the main objectives of employment generation and promotion of sustainable economic development.

Emphasis has been laid on the development of quality infrastructure in high potential growth centres, promoting economic and social development particularly in the industrially backward areas, encouraging and sustaining the cottage and small scale industries and focusing on environmental protection and pollution control.

The challenge in the case of Himachal Pradesh is to harness the untapped potential of the identified sectors and create adequate forward and backward linkages to ensure citizen empowerment and sustainable economic development. Furthermore substantial attention needs to be paid to the development of infrastructural facilities to ensure rapid industrial growth in the state as this is one of the major impediments to the state's progress.

### **Integrated Agribusiness**

Like most Indian states, Himachal Pradesh, too is primarily an agrarian economy with approximately 70 percent of the state's population being directly employed in the **Agriculture and Allied Activities** sector. This sector contributes almost 30 percent of the total state domestic product. In the state about 18-20 percent of the area is irrigated and the rest rain fed. The major food crops of Himachal Pradesh are wheat, rice, maize, fruits and



cash crops like apples, seed potatoes, ginger, vegetable seed, among others. It also abounds in important minerals like rock salt, slate, gypsum lime stone, barytes, dolomite and pyrites.

The diverse agro climatic conditions and the fertile land enable the growth of horticulture produce like fruit crops (from temperate to sub tropical), flowers, vegetables, mushrooms, hops, tea, medicinal & aromatic plants in the state. **Apple** is the dominant fruit crop and accounts for about 45 percent of the total area under fruit crops and 88 percent of the total fruit production in the state. However there is the need to address the issues of productivity in the state through plantation management and replacement, and introduction of high yielding planting material. India is already witnessing the import of apples. Efforts need to be made by the state of Himachal Pradesh to leverage its inherent advantage in terms of favourable agro climatic conditions and existing brand name in the context of apple production to meet this demand. There is the need to address issues of quality and move towards exotic varieties of apples. Other fruit crops cultivated in Himachal Pradesh include mango and litchi. Besides fully exploiting its potential and inherent strength in apple production, there is also the need for Himachal Pradesh to value add Agribusiness items beyond Apples as the agro-climatic diversity of the state offers very high potential to develop other produces in this sector.



In the state, vegetable and fruit cultivation is undertaken to meet the **off season supplies** to the plains. Mushroom cultivation is also been taken up for augmenting incomes. Bee keeping, which is also practiced in the state serves in the production of economic apiculture products such as honey and bee wax.

In recent years various efforts are being made to **increase the productivity, production and profitability** of field crops. Emphasis is also being placed on ensuring the ecologically sustainable use of natural endowments such as soil, land, water etc. Diversification in terms of shifting area from traditional food grain crops to high value cash crops like Vegetables, Spices, Seed Production is also being encouraged in the state.

The varied agro climatic conditions of Himachal Pradesh are also suitable for growing **high valued medicinal plants** demanded by the pharmaceutical industry. The Himachal Pradesh government has also launched a number of schemes to propagate and promote the cultivation of medicinal plants on a commercial scale. A board has also been set up on similar lines as the National Medicinal Plant Board to guide the programme for the propagation and preservation of medicinal plants.



The Government of Himachal Pradesh is taking steps to convert Himachal Pradesh into a '**Herbal Biobusiness Valley of India**'. The areas identified as priority biobusiness include commercial micropropagation, bio-business through high value industrial cash crops, organic farming, vermicompost, mushrooms, fermentation, nutraceuticals and other processed products which have immense scope in the first phase.

The state is putting considerable thrust on value addition of the Agricultural and Horticultural Produce of the state. It is also working for the development of the Agribusiness sector through considerable emphasis on the development of infrastructure and food processing. However to fully harness the potential of this sector, Himachal Pradesh needs to address the growth and development of state of the art Agri Infrastructure facilities. This is the key enabler for the development of agribusiness and has been discussed in further detail in the next section.

#### Investment Opportunities In Agri- Infrastructure

AREA OF CONCERN	INVESTMENT OPPORTUNITY
Old orchards & low quality planting material	Rejuvenation of Orchards, Modern Production Units and High Quality Planting Material
Fruits and vegetables but inadequate storage space	Bulk and Specialized Warehousing
Potential in Horticulture and Floriculture	Contract Farming & Export Zones
Access to inputs	Input Retail Outlets/Modern Rural Market
Lack of adequate food processing	Value addition through Processing Units and Cold Chain
Lack of adequate information & extension services	Agri Service Centers/ Information Kiosks
Intermediary practices	Auction Centers & Commodity Exchanges
Consumer pull: Quality needs	Value Addition Centers: Agro Parks, Food Parks
Irrigation facilities	Water Management Practices
Quality of produce	Tissue Culture and Quality Certification Lab
Inadequate transportation facilities	Bulk Grain Handling Systems/ Perishable Cargo Centers/ Carrier vehicle
Inadequate market infrastructure	Market upgradation – modern mandi, terminal market set up

The state has an established presence in the case of certain horticulture crops such as apples. In case of such crops, the business opportunities are immense as the state is unique in having the required agro-climatic conditions. One major revenue source could be through enterprises that can market the processed & value added products of such crops and alternative products such as medicinal oil extracts, flower extracts, etc.



Hence, the strategy for improvement of Horticulture in Himachal Pradesh should be an *implementation - oriented strategy* that would:

1. Identify high potential areas/segments in the horticulture sector where Himachal Pradesh is competitive.
2. Identify the gaps/constraints which are hindering growth and business viability.
3. Support initiatives to build an umbrella brand name for '**Produce of Himachal Pradesh**' for food and agricultural products in the international market.

The **Branding exercise** is important for the marketing of fruits, vegetables and medicinal plants from the state because of the following reasons:

1. A branding strategy for the state would help it to differentiate its produce from the other states or countries given the favorable image with relation to horticulture produce that it has established in the consumer's mind over the years.
2. Branding would help in identification of the produce with the state and hence would help in lower marketing costs and a better distribution mechanism as against the effort required to market several smaller brands to different areas.
3. Branding would help in giving a sense of identity to the growers and would help in better farming and quality techniques before the marketing of the produce itself. A case in point is that of Amul where the owners take pride in their involvement in the milk revolution.

The three pronged strategy mentioned above needs to be enabled with suitable enterprise structures that would help in giving stability to the business venture. Such enterprise structures must take into account a "**Closed Loop Model**" which would address the total value chain and bring efficiency in the operational and cost aspects. This has been discussed in greater detail in the Investment Strategy Theme Paper in Himachal Pradesh.

Certain other opportunities that can go a long way in the development of Horticulture in the State are as follows:

1. **Apple** is the dominant fruit crop and accounts for about 45 percent of the total area under fruit crops and 88 percent of the total fruit production in the state. However there is the need to address the issues of productivity in the state through plantation management and replacement, and introduction of high yielding planting material. Efforts also need to be made by the state of Himachal Pradesh to leverage its inherent advantage in terms of favourable agro climatic conditions and existing brand name in the context of its apple production to meet the growing demand.
2. The state must promote gradation facilities in fruits & vegetables, flowers which have a **better marketing ability and a higher price realization**.
3. A significant business opportunity that can be promoted and scaled up is the **processing of fresh fruits & vegetables**.



4. **Technology** is of utmost important in the area of food processing and hence suitable concessions must be given if some technology is being imported into the country and has the potential to improve quality and economies of scale.
5. Out of the several species of **medicinal and aromatic plants**, efforts should be made in order to identify the most important medicinal plants which would have assured off takes and can be grown on a large scale. These can then be promoted by securing appropriate linkages between the research institutions, farmer cooperatives and private enterprises engaged in the use of such products.
6. The state has the potential for the development of **organic seed production** for crops such as fruits & vegetables, and tea.

### Infrastructure

India offers tremendous opportunities for the development and construction of infrastructure. Many segments within this sector are opening up for participation and private investments. From a state's perspective availability of good quality and state of the art physical and social infrastructure is one of the key determinants of investment and rapid industrial and economic development. Despite significant achievements and efforts made in this area by the government of Himachal Pradesh there is a wide gap that still exists between the potential demand for infrastructure for high growth and the available supply.

The state of Himachal Pradesh needs to address the issue of connectivity both within the state and with other centers and markets. This would entail increasing the number of rail and air services to and from the State. Given the importance of the road networks in Himachal Pradesh, efforts need to be made to improve the quality of the same. Furthermore, to provide a boost to industrial development the state would need to ensure an effective telecommunication network, state of the art information technology infrastructure, uninterrupted supply of power and upgradation and modernization of existing industrial area infrastructure.

The government has placed significant emphasis on the issue of connectivity which is the crux for achieving the developmental targets and is making efforts to address the issue of upgradation, modernization and development of infrastructure. Emphasis has also been laid on encouraging maximum private sector participation in the same

Proper infrastructural facilities are essential for the overall economic and industrial development of the state of Himachal Pradesh. The state needs to address the issue of connectivity and strengthen the same within industrial areas as well as with other town and centres in the country. Efforts are being made by the state government to ensure the development of high quality infrastructural facilities. The government is looking at the upgradation of existing facilities as well as development of infrastructure through private sector participation.





<i>Area of Concern</i>	<i>Current Status</i>	<i>Proposed Project</i>
<b>Development of Transport facilities</b>		
Roadways	Main mode of transportation in the state Need for further upgradation and modernization of the road network	<ul style="list-style-type: none"> <li>• PPP for upgradation and construction of roads</li> <li>• Four laning and widening of Roads and National Highways</li> </ul>
Railways	Railway track within Himachal Pradesh is accessible only to a few places in the state	<ul style="list-style-type: none"> <li>• Invite private participation to set up feeder projects near rail heads – e.g Agri Export Zones</li> <li>• Development of a system of feeder road connections from railway stations</li> <li>• Package the Kalka Shimla and Kangra Valley railway to an international tourist attraction using PPP in collaboration with Indian Railways</li> </ul>
Airways	Needs to address the issue of air connectivity	<ul style="list-style-type: none"> <li>• Upgradation and modernization of the existing airports in the state</li> <li>• Emphasis on increasing the number of direct flights on various routes</li> <li>• Feeder Helicopter Services to various tourist destinations.</li> <li>• Air Taxi Feeder Services connecting Himachal airstrips to Delhi and Chandigarh airports</li> </ul>
<b>Power</b>	Large untapped potential for Hydropower	<ul style="list-style-type: none"> <li>• Invite more private sector participation</li> </ul>
<b>Industrial Infrastructure</b>	Needs to develop a focused strategy for guiding the process of industrialization in the state.	<ul style="list-style-type: none"> <li>• Development of common infrastructure within and around the Industrial Areas</li> </ul>

## Conclusion



There exist a vast number of investment and business opportunities in the state of Himachal Pradesh. The Government of Himachal Pradesh has made efforts to provide a comprehensive framework to create an investor friendly environment to ensure sustainable industrial and economic development in the state through the *Industrial Policy of 2004*. Various fiscal and non fiscal incentives have been extended in the state to attract large scale investment. Priority has been accorded to the rapid industrialization of the state with the main objectives of employment generation and promotion of sustainable economic development.

Himachal Pradesh's potential in key sectors such as Tourism and Hydro Power is well known. The state also offers excellent prospects for the development of value adding Agribusiness Projects. This is accentuated by the need to augment the Agribusiness portfolio beyond Apple as the agro-climatic diversity of the state offers very high potential to develop other produces in this sector. Further knowledge based sectors like Information Technology have tremendous potential in the areas of e-governance and also as a business proposition for the private sector, besides offering vast employment opportunities for the citizens. Biotechnology has also been identified as an important sector by the state and can make significant contributions in the areas of agriculture, human and animal health, environment management and process industries. The state government has made various efforts to provide a comprehensive framework to create an investor friendly environment to ensure sustainable industrial and economic development in the state.

Based on its belief in Public-Private Partnerships (PPP), the Government of Himachal Pradesh has started inviting private sector participation/investments and encouraging the creation of long term partnerships in a number of areas such as Infrastructure, Information Technology, Tourism, Bio Technology and Power while itself playing the role of the facilitator. A number of fiscal and non fiscal incentives and institutional frameworks to ease the process for private sector participation have been introduced by the government.