

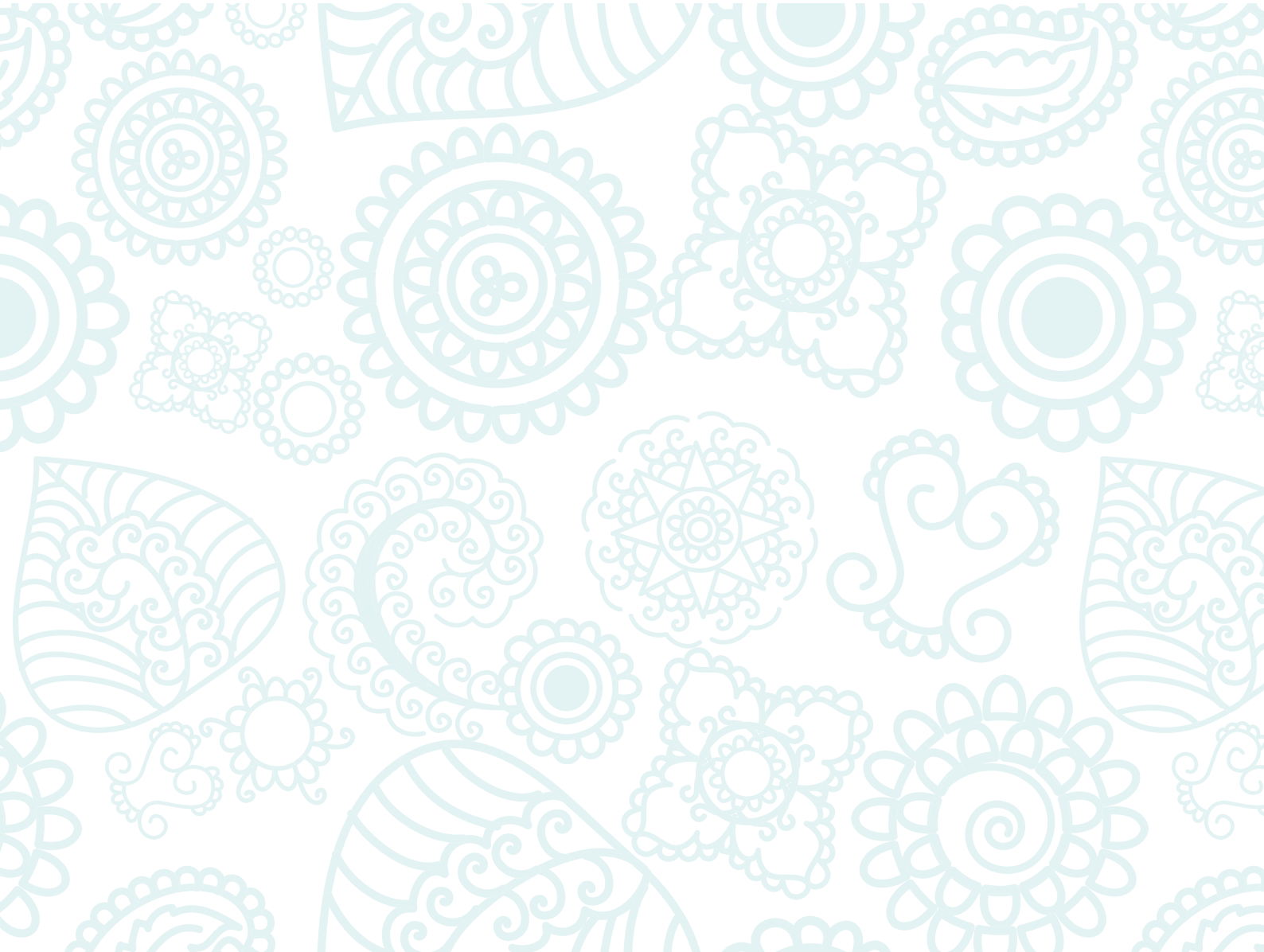
UKIBC'S 4TH ANNUAL DOING BUSINESS IN INDIA REPORT: THE UK PERSPECTIVE

NOVEMBER 2018



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INTRODUCTION

This report, based on responses from companies representing a combined turnover of over USD 122 billion, marks the fourth annual study on 'Doing Business in India' by the UK India Business Council (UKIBC) and will be the last prior to India's General Election in 2019. Launched at the start of Narendra Modi's term in office, we have been able to track if and how his commitment in 2014 to give investors 'a red carpet, not red tape', has come to fruition.

Last year, India made an unprecedented 30-place jump in the World Bank's Ease of Doing Business (EODB) rankings, from 130 to 100. This year it has improved another 23 places, to rank 77th in the world.¹ It is fair to say that India is coming on leaps and bounds in its reported ability to do business, but does this accurately reflect the reality on the ground?

India is a large and fast-growing market – its GDP is predicted to grow 6.7% in 2017-18.² With a fast-growing aspirational consuming class, and 50% of its growing population below the age of 25, India's growth is being driven by domestic demand. The current surge in consumer spending, which The Boston Consulting Group predicts will increase to US\$3.6 trillion by 2020, is underpinning India as an investment destination.

And yet, India remains a complicated market with a federal system of 29 States and a multiplicity of regulatory, tax, social, and linguistic differences. While the majority of indirect and direct taxes are centrally controlled, there are worries that States are not making the most of changes to the tax regime to increase their competitiveness. This has prompted the UKIBC to include three new questions in this year's survey, specifically designed to understand how the ease of doing business breaks down at the State level.

Understanding India's digital push will be a vital window into future development. Drives to digitalise Government interactions mean 93% of all Indians now pay tax online, resulting in an impressive 80% jump in tax returns filed in the last 12 months.³ Plans to establish the largest health insurance scheme in the world, Ayushman Bharat, are set to be totally digital. At the same time the roll out of the Aadhaar biometric identity card to 1.1 billion citizens is rapidly making India one of the most data-rich countries in the world.

Attention increasingly needs to be turned to maximising digital platforms to ease doing business, whilst ensuring high standards of data protection are in place. For these reasons, the UKIBC has included measures of 'Digital Innovation' for the first time in this year's survey questions.

Sources

1. <http://www.doingbusiness.org/en/data/exploreconomies/india#>
2. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/657825/Quarterly_Economic_Report_October_2017__Website_.pdf
3. <http://www.businesstelegraph.co.uk/two-crore-indians-file-returns-but-pay-zero-income-tax/>

More than those from any other country, UK businesses are increasingly investing in India. Since 2000, the UK has been the largest G20 investor in India, investing £17.5 billion and creating 371,000 new jobs, representing 10% of all FDI-related jobs in that period. British companies in India now employ almost 800,000 people, representing an impressive 1 in 20 jobs in India's organised private sector⁴.

Monitoring progress on the Ease of Doing Business in India is therefore important not only for UK businesses, but also for India's wider economy. On the eve of India's general election and the UK's exit from the European Union, this report could not be more timely in shedding light on the operational attractiveness of the key growth economy of the 21st century and potential future of business-led, UK-India trade and investment relations.

Sources

4. <https://www.ukibc.com/wp-content/uploads/2018/03/Report-UK-and-India-Bilateral-Investment-Relationship.pdf>

METHODOLOGY

The evidence within this report was gathered via a survey the UKIBC conducted between September 23, 2018 and October 22, 2018. The report draws on the outcomes of our 2015, 2016, and 2017 surveys as well as associated focus groups.

EXECUTIVE SUMMARY

The key findings are:

- Since the UKIBC first launched our annual Ease of Doing Business report, the proportion of all respondents citing 'corruption' as a barrier to doing business in India has halved, from 51% in 2015 to 25% in 2018.
- A year on from its implementation, perceptions of the GST have greatly improved. More than twice as many respondents now believe that the GST will improve the operating environment in India, with 48% agreeing and 19% disagreeing. This is a reversal from last year, where only 26% of respondents were optimistic about the GST, with 28% pessimistic and 46% unsure.
- 'Quality of bureaucracy' is rated as the weakest component of India's business environment for the fourth year running, with 67% of respondents citing it as 'poor' or 'very poor'. This is followed by 'Quality control measures', with 47% registering a negative vote.
- Despite 'quality of bureaucracy' being rated the overall weakest component, 'lower regulation and supportive government policies' alongside 'quick approvals and effective bureaucracy' were by far the two most important factors reported to influence an investment location decision, at 49% and 47% of respondents citing each respectively. 'Size of market' came in third, being cited by 44% of respondents.
- When asked for the first time which States respondents thought had made the biggest improvements in ease of doing business, Maharashtra and Gujarat - accounting for 18% of respondents' current locations - came out on top.
- A remarkable 46% of respondents said they were planning to expand their Indian operations in the next 12 months, of which a significant minority (some 25%) were looking to direct this new investment towards the eastern states of West Bengal, Assam, Meghalaya, and Manipur.
- Seven of the 17 indicators for improvement in India's business environment were seen to be

improving by a higher proportion of respondents than at any other time since 2015, with 'presence of quality infrastructure' and 'tele-communication facilities' seen to be improving the most.

- Overall, 51% of respondents thought the ease of doing business in India was improving, whereas 34% said that it wasn't (down on 2017) and 15% unsure (akin to the previous year, with 8% less respondents replying 'No' in 2018 than 2017).

The following pages provide more detail from the results.

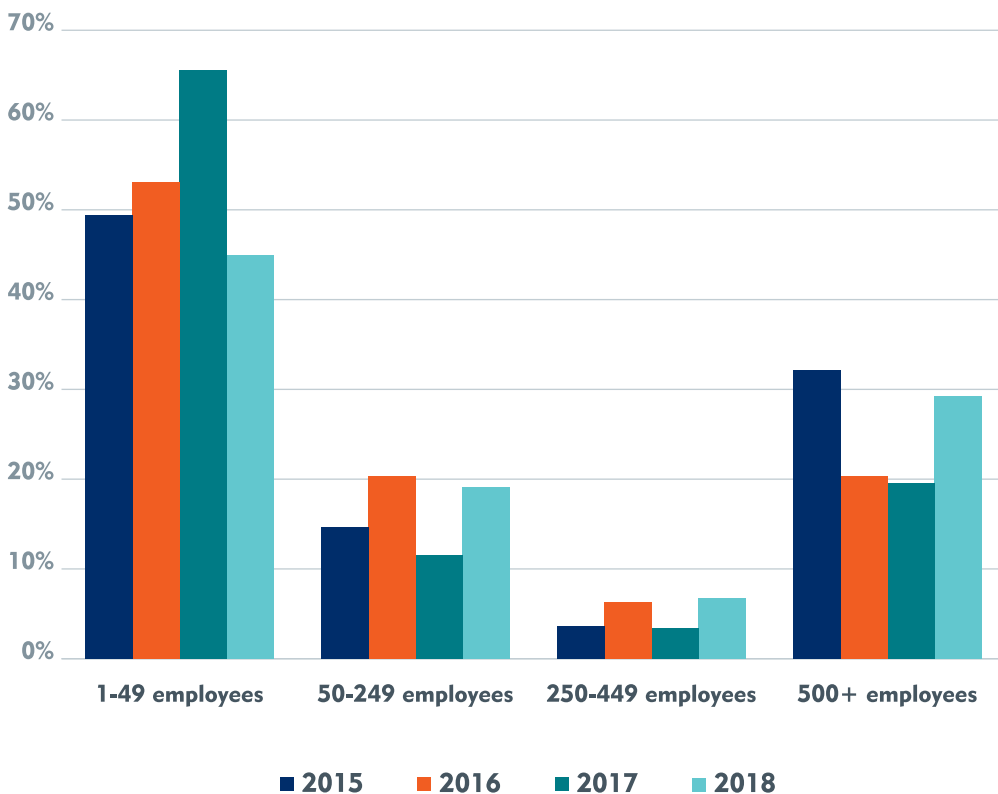
This report finds that a host of robust macroeconomic factors, combined with proactive, business-friendly leadership, make India an increasingly compelling destination in which to do business - both now and in the long-term. Where systemic inefficiencies and less-than-perfect implementation are mitigating the short-term effects of pro-business reforms, long-term advantages are increasingly being seen.

KEY FINDINGS

4.1. THE SURVEY RESPONDENTS

The survey is the result of responses from 89 companies, representing a combined turnover of at least USD 122 billion. This compares to 88 responses received in 2017, 65 in 2016 and 115 in 2015. As in previous years, most respondents were SMEs (64%), although this year we saw a higher proportion of large companies responding.

FIGURE 1.0
SIZE OF COMPANY

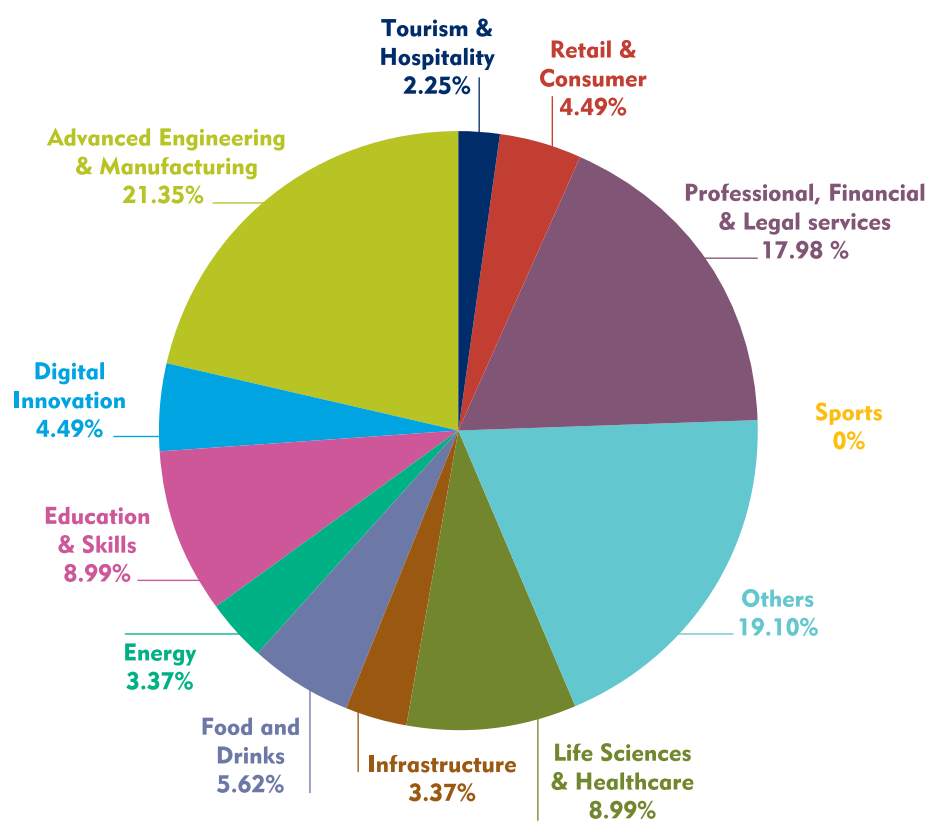


4.2. RANGE OF SECTORS

Respondents were from a range of sectors. Unlike previous years, the largest sectoral responses to the survey were from 'Advanced Engineering and Manufacturing' firms (21%), whilst the response from 'Professional, Financial, and Legal Services' remained high, at 18%. In 2017, two additional sectors were added to the survey - 'Tourism and Hospitality' and 'Food and Drink' - which comprised 2% and 6% respondents this year respectively. The 'Other' section was mostly drawn from 'Security and Defence', 'Tele-communications', 'Media and Entertainment', 'Distribution', and 'Events and Facilities Management'.

FIGURE 1.1

WHAT SECTOR IS YOUR COMPANY IN?



2018

4.3. NATURE OF BUSINESS IN INDIA

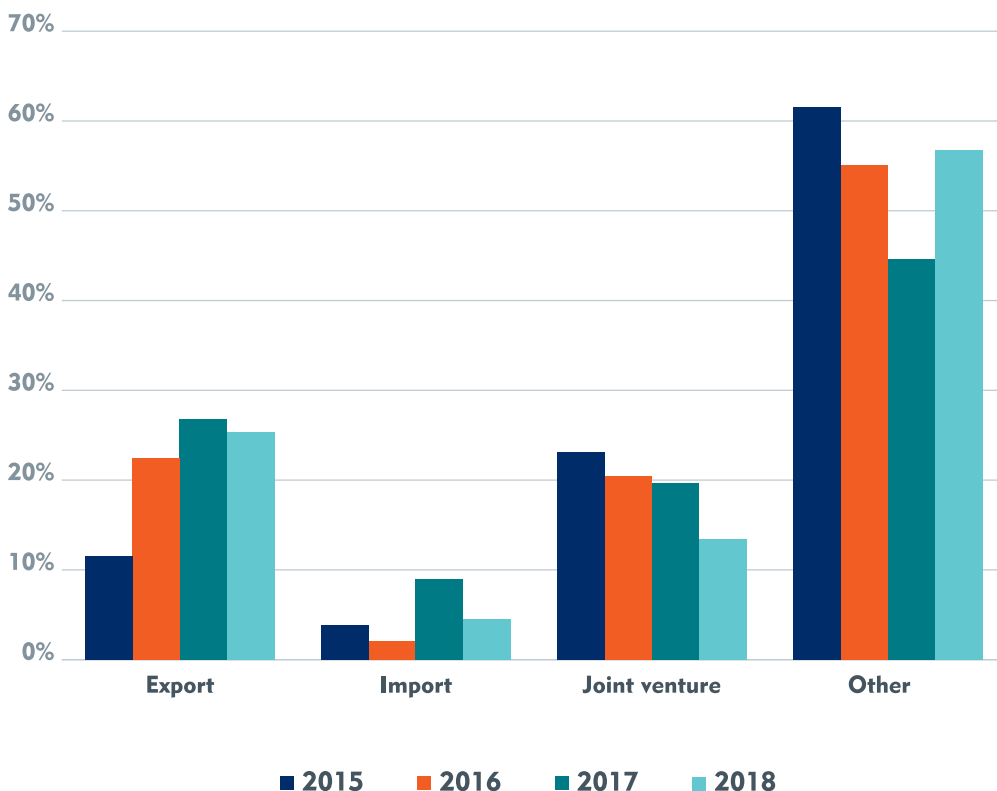
Of our respondents, 87% currently do business in India and 13% do not.

A review of the survey responses indicates that 30% of respondents currently doing business with India are engaged in the export and import of goods and services. We found that 13% have a joint venture in India, while 57% selected the 'other' option, citing various aspects of their business including consultancy, partnership, and R&D, as well as financial and legal services.

Existing import/export relationships with India are of great significance as the UKIBC's experience shows that initial trade engagement with India commonly precedes an investing relationship. Once a company establishes a distribution network, or customers in a market overseas, the natural next step is to set up a presence there. And, in turn, that initial presence often leads to subsequent investments in other facilities in other States.

FIGURE 1.2

WHAT IS THE NATURE OF YOUR COMPANY?



4.4. FACTORS WHICH INFLUENCE THE DECISION TO DO BUSINESS IN INDIA

Respondents currently active in India were asked to rate the factors that influenced their decision to do business in India, (see figure 1.3 below). In line with the previous reports, a 'Request for product or service from customers in India' emerged as the key factor growing in importance for the last three years, with 62% of respondents now rating it 'Very important', followed by 'Visiting the markets (personally)', with 58% respondents highlighting it as 'Very important'.

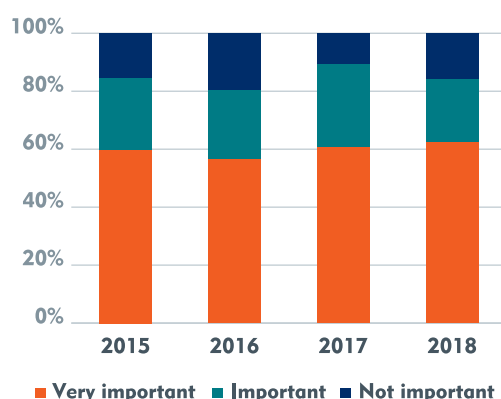
"The emphasis appears to be on face to face meetings (you have to be in India to do business in India)" – Small enterprise in the Advanced Engineering and Manufacturing sector

Other factors such as 'Awareness of opportunities for your company through the media' declined in importance, though still remaining very important to 29% of respondents. Although 'Awareness of Competitors already active in India' grew in importance slightly, 'Awareness of opportunities for your company through professional bodies (e.g. UKIBC) or government departments (e.g. DIT)' returned to pre-2017 levels, at 22%.

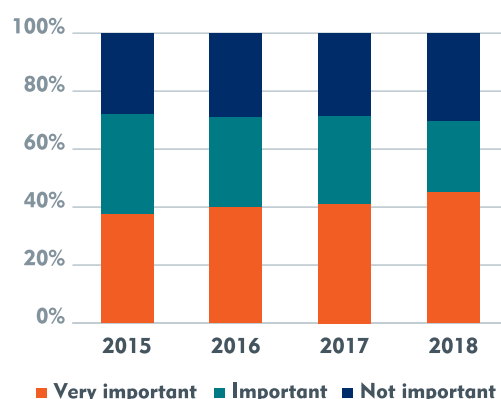
Taken together, the increase of these factors indicates India's growing attraction as a probable market destination and manufacturing hub. Given the steady increase in those citing 'Poor growth prospects in existing markets' as 'Very Important' or 'Important', we can interpret that India is increasingly an attractive place to do business in its own right as well as in comparison to other foreign markets

FIGURE 1.3

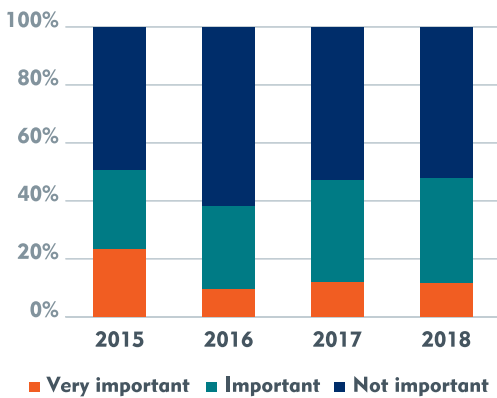
REQUEST FOR PRODUCT OR SERVICE FROM CUSTOMERS IN INDIA



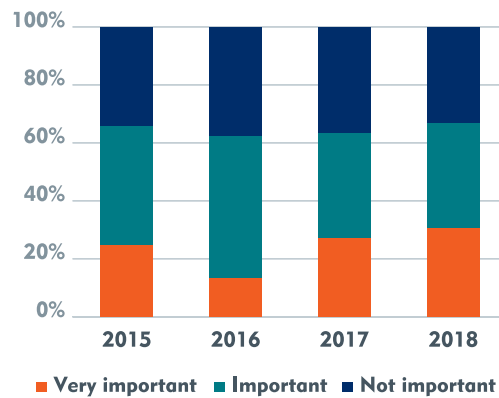
EXISTING CUSTOMERS OR SUPPLY CHAIN INVITED YOU TO SUPPLY THEM IN INDIA



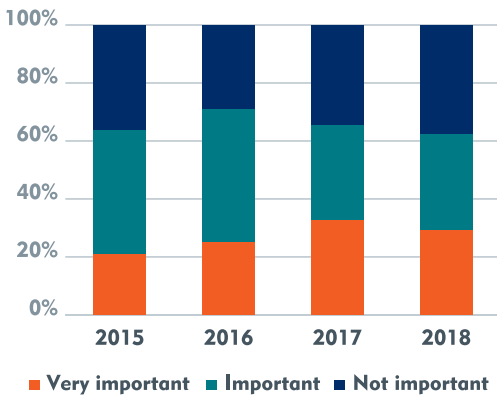
POOR GROWTH PROSPECTS IN EXISTING MARKETS



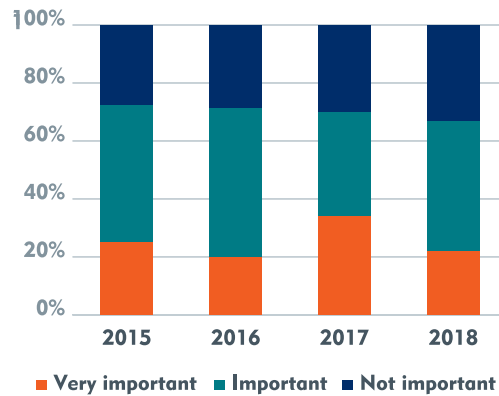
AWARENESS OF COMPETITORS ALREADY ACTIVE IN INDIA



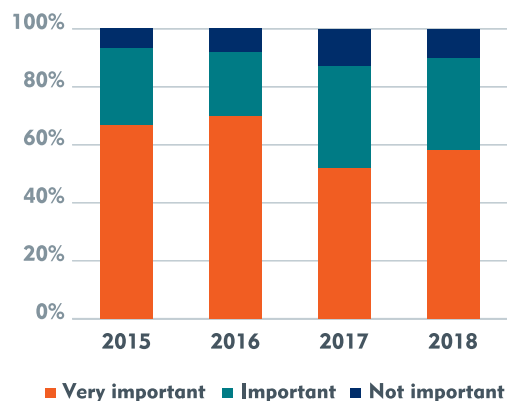
AWARENESS OF OPPORTUNITIES FOR YOUR COMPANY THROUGH MEDIA



AWARENESS OF OPPORTUNITIES FOR YOUR COMPANY THROUGH PROFESSIONAL BODIES OR GOVERNMENT DEPARTMENTS



VISITING THE MARKET (PERSONALLY)



4.5. BARRIERS TO DOING BUSINESS IN INDIA

Respondents were asked to choose the issues that they perceived as major barriers to doing business in India. As in 2015, 2016, and 2017, 'Legal and regulatory impediments' was again identified as the top barrier growing slightly from 63% in 2017 to 66% in 2018, reversing three years of steady decline.

Since the first report was launched, there has been a considerable year-on-year fall in the number of companies that viewed 'Corruption' as a major barrier - from 34% in 2016 to 25% in 2017, halving since 2015, where it stood at 51%.

This decline shows a major improvement, indicating that the current Government's efforts to mitigate corruption appears to be delivering tangible and much-desired results. Drives such as the Aadhaar Biometric card scheme, which has secured 90% enrolment to date, alongside the electronic submission of Government documents, the acceptance of electronic signatures, and the push to file taxes online, have all reduced face-to-face interactions where corruption is most likely to take place. The extent of digitalisation, however, varies markedly across sectors, as does corruption, with those engaging in infrastructure projects still reporting significant issues relating to corruption.

"Massive reduction in corruption is continuing." – Small enterprise in the Energy sector

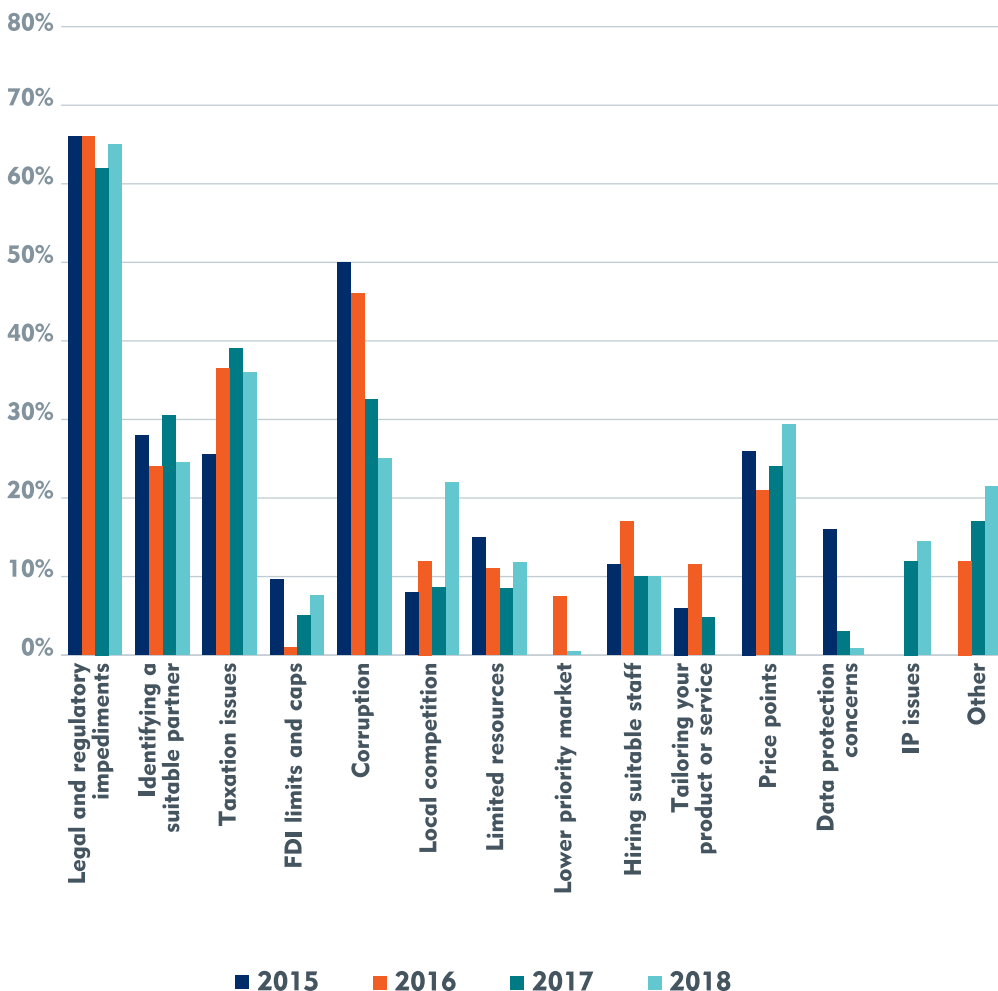
Indeed 'Taxation issues' and 'Price points' overtook 'Corruption' as major barriers identified by 36% and 29% of respondents respectively. The proportion of respondents identifying 'Taxation issues' was 3% lower in 2018 than 2017, suggesting that businesses may be starting to adjust to the GST which originally meant businesses had to adjust their procedures to meet the new requirements.

"Taxation has been simplified, most government functions are digital now which provides efficiency and transparency. India is improving but can change faster." – Small enterprise in the Digital Innovation sector

Breaking this down, we compared the results for those who are currently active in India with those who are considering entry. 'Legal and regulatory impediments' and 'Corruption' are two of the greatest barriers for both groups. However, those identifying 'Corruption' as a major barrier has declined far more dramatically over the four-year course of this survey among those currently doing business in India (decline of 27% in the last two years) where

it is no longer considered a 'top-three' barrier compared to those not currently active in India (with a 5% decline in those citing corruption in the last two years). Since 2017, 'Price points' are considered a slightly more substantial barrier by those operating in India.

FIGURE 1.4

WHAT MAJOR BARRIERS HAVE YOU ENCOUNTERED?

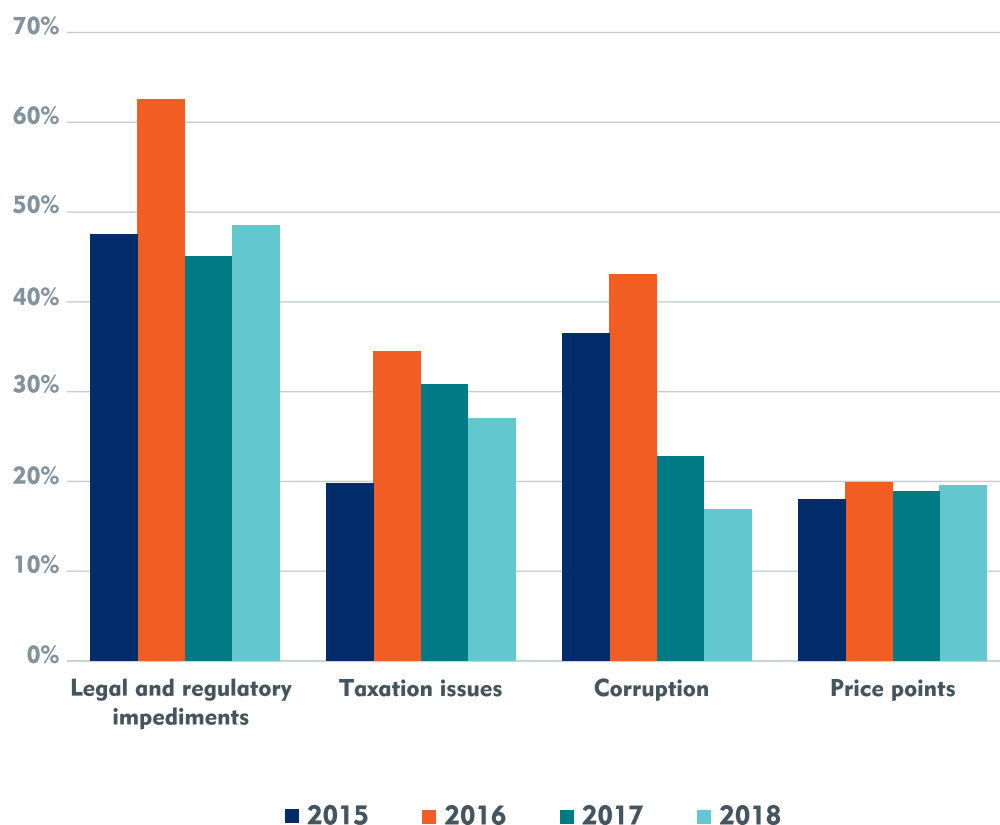
One predictable difference is again highlighted by our survey. Those currently doing business in India cite 'Taxation issues' as a consistent barrier, whilst those looking to enter the Indian market understandably rate 'Identifying a suitable partner' as their most salient issue after a considerable decline in reports of 'Legal and regulatory impediments' from 2017 to 2018. The key issue for those outside India is increasingly market demand for their products and services

relative to government and bureaucracy-related barriers.

"I have visited three times and it is changing and improving all the time. I just wish I could find a partner!" – Small enterprise in the Food and Drink sector

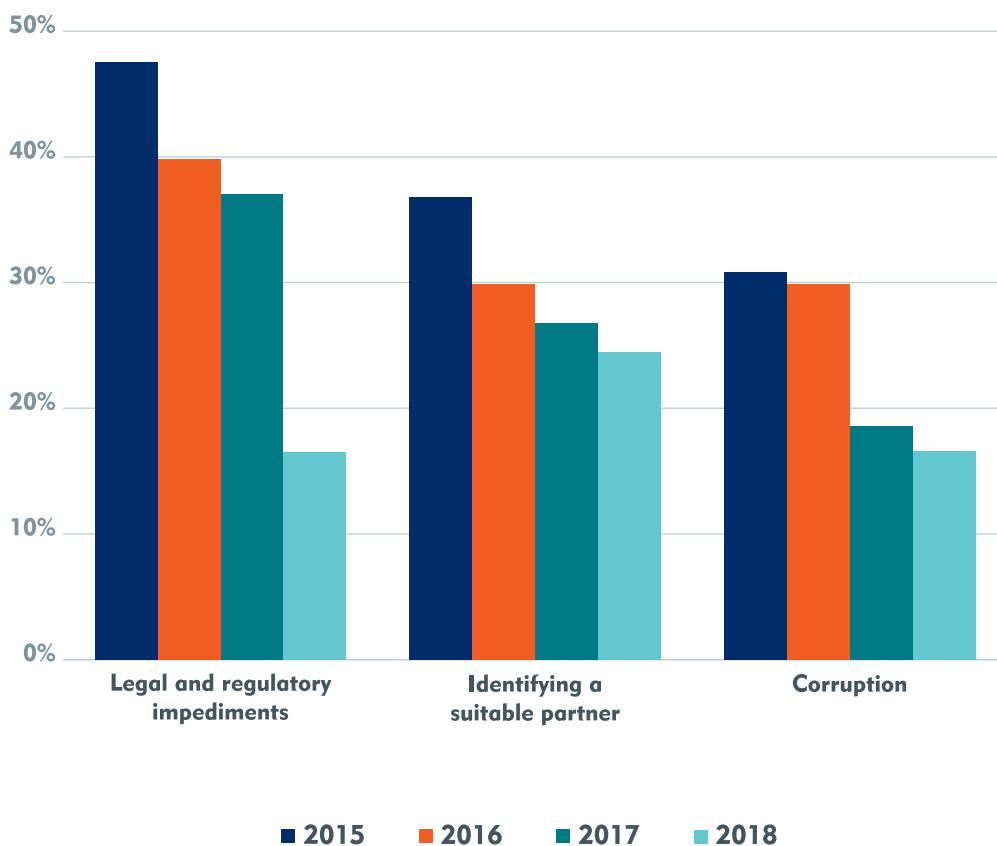
FIGURE 1.5

TOP BARRIERS FOR THOSE WHO DO BUSINESS WITH INDIA



UK businesses have had experiences with government contracts in India where they have faced considerable delays in securing payments, which discourages foreign players from bidding for government projects. However, the digitalisation of significant portions of government interactions has gone some way to making this process smoother and more transparent.

FIGURE 1.6

TOP BARRIERS FOR THOSE WHO DO NOT DO BUSINESS WITH INDIA**Approvals and clearances**

The e-governance systems put in place by the Government to simplify procedures, and remove opportunities for officials to seek facilitation payments, continue to encourage businesses.

It was widely agreed that the Indian Government's 'e-biz' initiative, integrating 11 central Government services to facilitate faster clearances, would improve the business environment. Rolling out this initiative across all States and departments should bring about real change.

Yet, though we have highlighted these issues over the past four years, there remains significant complaints around the lack of transparency around business approvals, particularly in the case of statutory approvals for investments (e.g. setting up manufacturing facilities or opening retail

outlets). Procedures vary from State to State, and respondents reported inconsistencies between, and even within, States. Clearances are often required from numerous government agencies for new projects, and a lack of clarity causes delays.

Every year we refer to the case of a multi-national beverage company which operates on a pan-Indian basis but only after securing over 200,000 distinct approvals. This is not restricted to the food and drink sector - the renewable energy space is another case as solar developers face long delays. For example, the Power and Telecom Coordination Committee takes up to 32 weeks to grant its approval. Similar complaints arise amongst those UK businesses involved in the growing consumer sectors with labelling issues, minimum retail price issues, and payment of import duties.

The growth of dominant companies in the e-commerce sector has led to improvements where the e-commerce platforms offer an end-to-end backend service to their suppliers. This is a positive move, but is small in comparison to the overall process.

On the other hand, companies operating in the pharma sector continue to be complimentary of new 'quick and decisive' regulatory processes. Certain respondents note favourably that the Government of India's introduction of the 'Single Window Interface for Facilitating Trade Clearances' project has replaced the nine separate forms that were previously required by six different customs agencies by a single common electronic declaration on an electronic portal for customs.

Government procurement and contracts

Our survey indicates that a holistic review of governmental procurement, contracting, and tendering processes continue to attract comments. Respondents continue to propose that the traditional focus on lowest price bidding (L1) be more widely replaced with systems that balance issues such as experience, cost, time, quality, and performance.

We remain convinced that public procurement rules that emphasise lowest price affect all stakeholders negatively. Companies that follow best practice and invest in technology and skilled staff, Governments and PSUs who are left with substandard equipment and services, and, ultimately, India's citizens, all suffer because of the compromise in efficiency and quality of services.

At the same time, UK companies in the defence sector believe that amendments to the Defence Procurement Policy and the offset policy will help India achieve its 'Make in India' objectives. The current policy on offsets is interpreted in such a way that it only allows the contracting entity to discharge offsets, whereas other divisions of the same group are not permitted to discharge offsets, as in other parts of the world. Following international best practice in discharging offsets will boost 'Make in India' and significantly promote exports from India.

UK companies in the healthcare sector pointed out that the mandatory route of 'Tender Transparency' fails to encourage new and innovative ideas. The requirement to demonstrate past performance and a track-record in India is felt to be an unfair barrier for new entrants who want to bring new ideas, technology, and finance into India.

UK companies from the infrastructure sector believe that the traditional 'design-bid-build' approach has inefficiencies and that India, as a growing nation, should consider more robust forms of procurement, such as the Lean Integrated Project Delivery System (LIPDS), collaborative contracting, and other innovative project delivery systems. As the nature of projects become more complex, it will become critical to infuse procurement methods, contracts, and related work practices with collaboration, trust, and integrated teams.

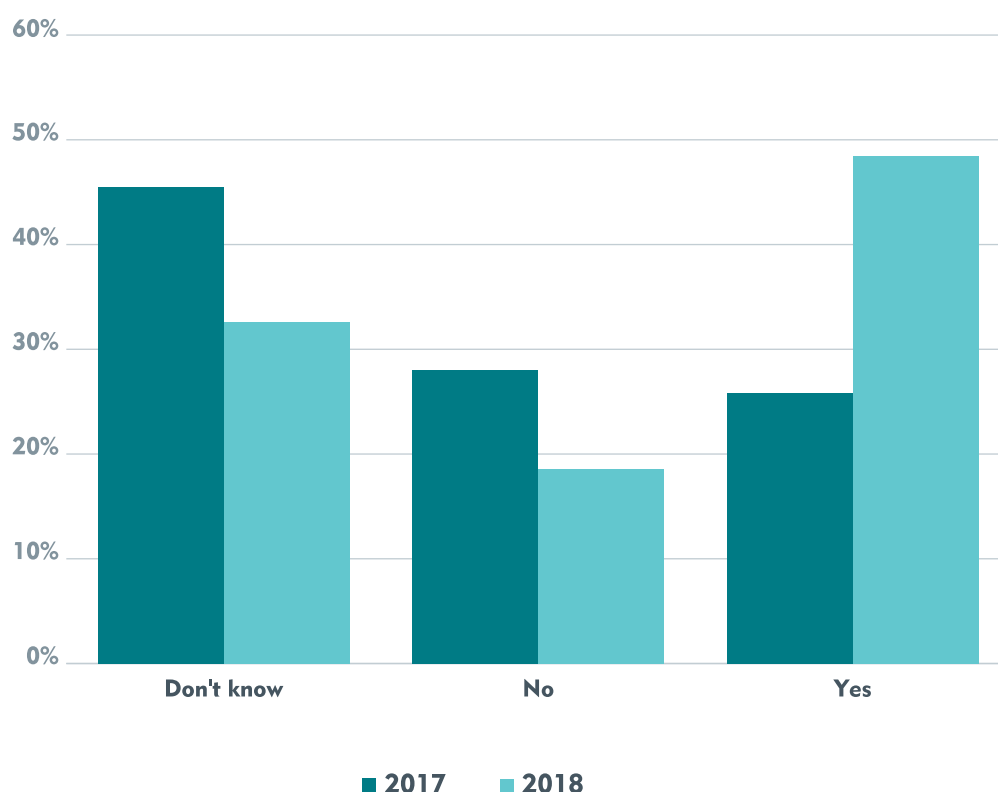
A general view emerged across sectors that innovation and the introduction of new technologies are central to India's 'Make in India' objectives, and that current Government procurement practices could be reviewed so as to enhance their achievement.

Taxation issues

UK companies commended the Indian Government's vision of a stable, clear, and transparent tax regime. It is felt that GST is a significant step forward and that its introduction was bound to have suffered from associated teething problems. There is a positive sentiment regarding the improvement in the financial environment of the country.

Despite organisations last year expressing concern about a lack of clarity around tax policies, GST, though still a work in progress, has received a far clearer endorsement a year after its implementation. Of our respondents, 48% agree that GST will aid the operating environment for businesses in India. Likewise, those disagreeing or understandably unsure declined to 19% and 33% respectively.

FIGURE 1.7

WILL GST AID OPERATING ENVIRONMENT OF BUSINESS WITH INDIA?

The rollout of GST has been a major positive in terms of Ease of Doing Business. Nonetheless, it remains a fact that dealings with both central and State-level tax authorities can be difficult and confusing. Annual KPIs are often imposed on officials to achieve certain “demand-related” targets. These are then struck down in consequent financial years, but not until cost and angst has been expended unnecessarily. Further digitisation of the tax system should ameliorate this situation. At the same, the spectre of “retrospective” tax claims has not gone away. The Vodafone and Cairn Energy claims are still going through arbitration. Judgements should be handed down soon. It is hoped that the rulings will be respected.

4.6. RATING THE DIFFERENT COMPONENTS OF INDIA'S BUSINESS ENVIRONMENT

We asked companies to rate the different components of India's business environment. The ratings are a weighted average of responses - the higher the number, the more favourable the rating.

There were positives and negatives in respondents' analyses of the business environment. Respondents' attitudes to the 'Availability of support and services' has shown steady decline across the last three years, but improved notably in 2018.

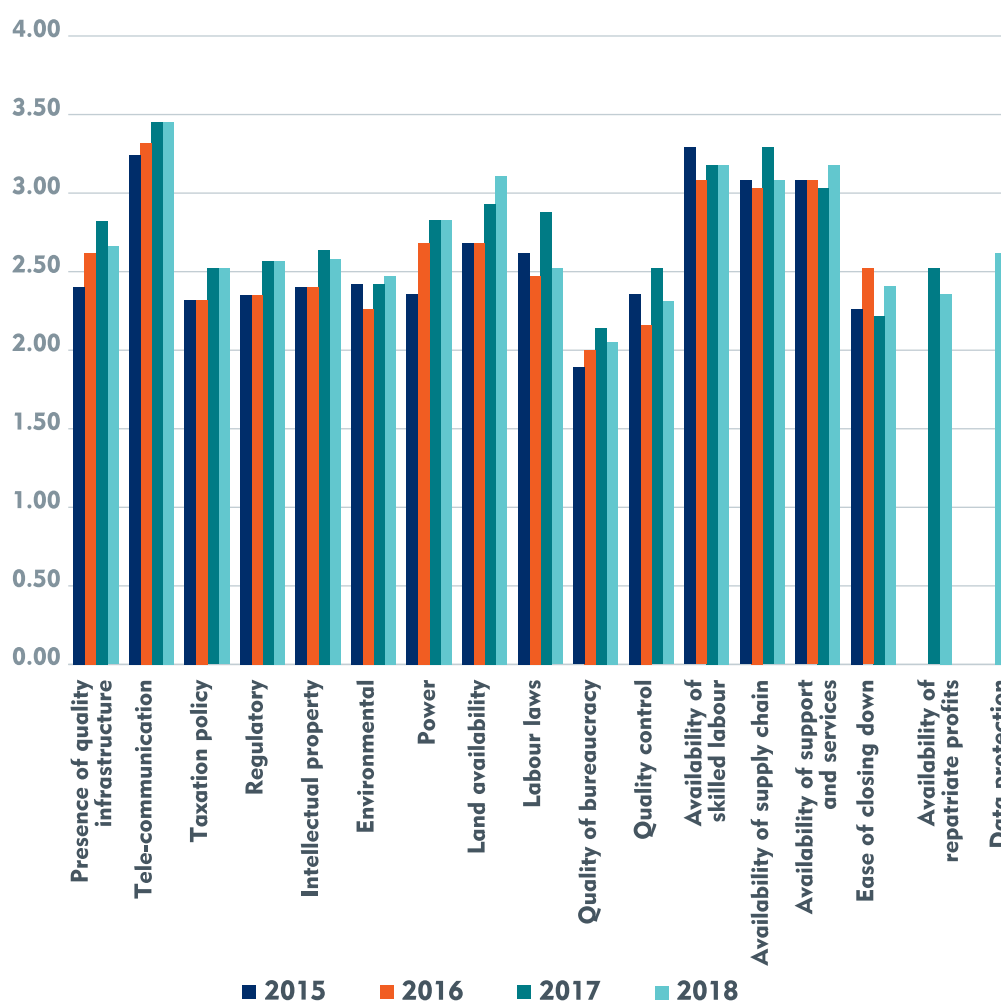
Respondents also found 'Ease of closing down the business' to have improved in 2018 from 2017. Despite steady increases from 2015 to 2017, respondents were less clear this year about the 'Presence of quality infrastructure' though recognition of India's 'Tele-communication facilities' has grown year on year highlighting sustained Government efforts to improve them.

Other factors such as 'Power (ease of getting connection)' witnessed a steadier year-on-year growth since we launched the report in 2015, whilst a number of other factors including 'Taxation Policy', 'Availability of skilled labour', and 'Environmental regulation' consolidated on improvements made in 2017. The positive movement across all these categories indicates that the Government's measures to put in place better taxation structures and simplify regulations are finally starting to show results.

This is the first year in which we included 'Data Protection' as a component, given the greater role of digital innovation across Indian sectors. This scored well at 2.6 – recognising India's data-richness and future technology potential, though much needs to be done to harness this going forward.

FIGURE 1.8

RATING DIFFERENT COMPONENTS OF INDIA'S BUSINESS ENVIRONMENT



Low rating components

'Quality of bureaucracy' continues to remain a point of concern in India's business environment, with over 67% of respondents rating it as 'Poor' or 'Very poor' – a deterioration on the previous year. Although the overall rating of the factor has improved over the years prior to 2018, many respondents feel that further improvements in bureaucratic processes need to be rolled out before India is on a par with other effective and attractive markets for global businesses.

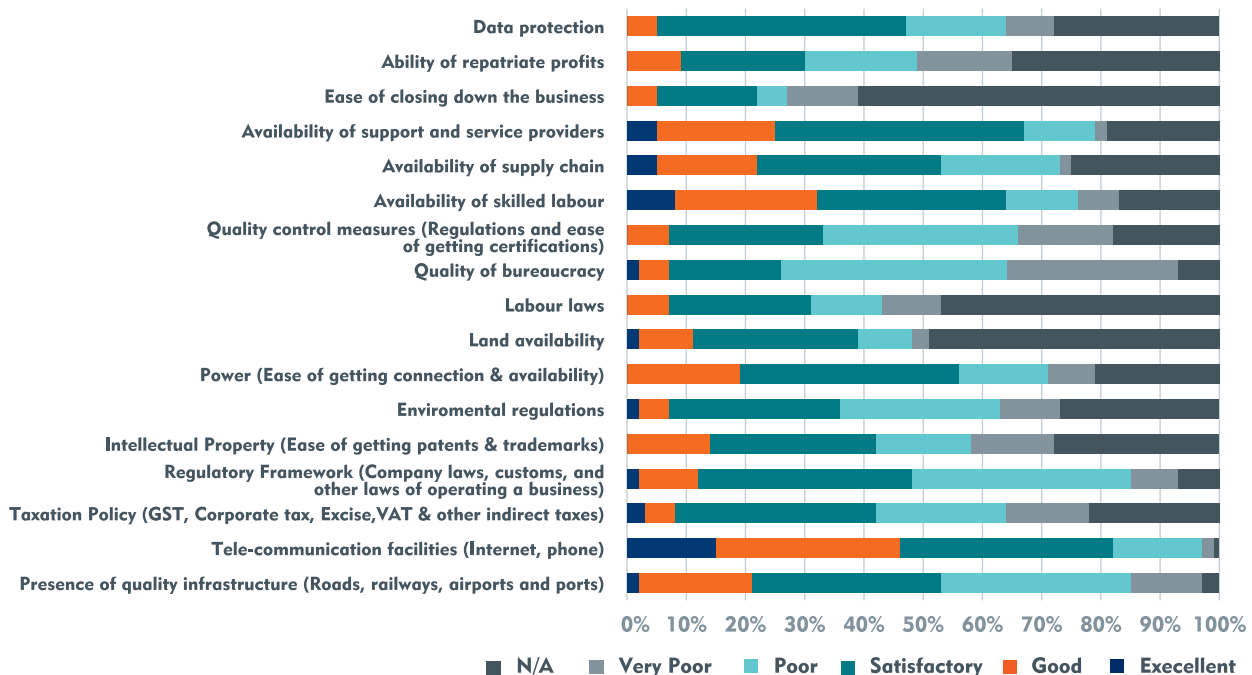
At the same time, there is widespread recognition among UK businesses that the Government of India is putting in place improved policies and that bureaucrats at the senior level in New Delhi and in certain States are leading reform. Overall, though, the on-the-ground view is that the quality of systems and processes is uneven, particularly at operational levels.

“There appears to be a greater willingness to simplify bureaucracy”
– Small enterprise in the Distribution sector

High rating components

‘Tele-communications’, yet again, came out on top as the highest scoring parameter having posted an increased scoring of 3.43 in 2018 compared with 3.4 in 2017, 3.3 in 2016, and 3.2 the year before. ‘Availability of skilled labour’, ‘Availability of supply chain’, and ‘Availability of support and service providers’ all emerge as relative strengths in the present Indian business environment.

FIGURE 1.9
RATING OF INDIA'S BUSINESS ENVIRONMENT 2018



4.7. CHANGE IN THE BUSINESS ENVIRONMENT OVER THE LAST FOUR YEARS

The data in figure 1.10 below shows a broadly positive experience of respondents in terms of the improvement in the business environment over the past three years.

On seven of the 17 indicators, a higher proportion of respondents indicated that conditions were improving more than during any other year this survey has been taken. Indeed, on 'Availability of supply chain', no respondents thought the situation in India was 'worsening' at all.

The 'Taxation policy' was rated as 'Improving' by 39% of respondents in 2018, versus 41% in 2017, and 29% in 2016. However, it has been rated as 'worsening' by 14% and 'no change' by 20% in 2018. This difference underscores that, while most respondents are hopeful about the GST and have adjusted successfully, some organisations, particularly SMEs, are still unsure about how to implement it and hence are yet to experience the benefits from its implementation.

"The market is opening up with more transparency" - Small enterprise in the Security and Defence sector

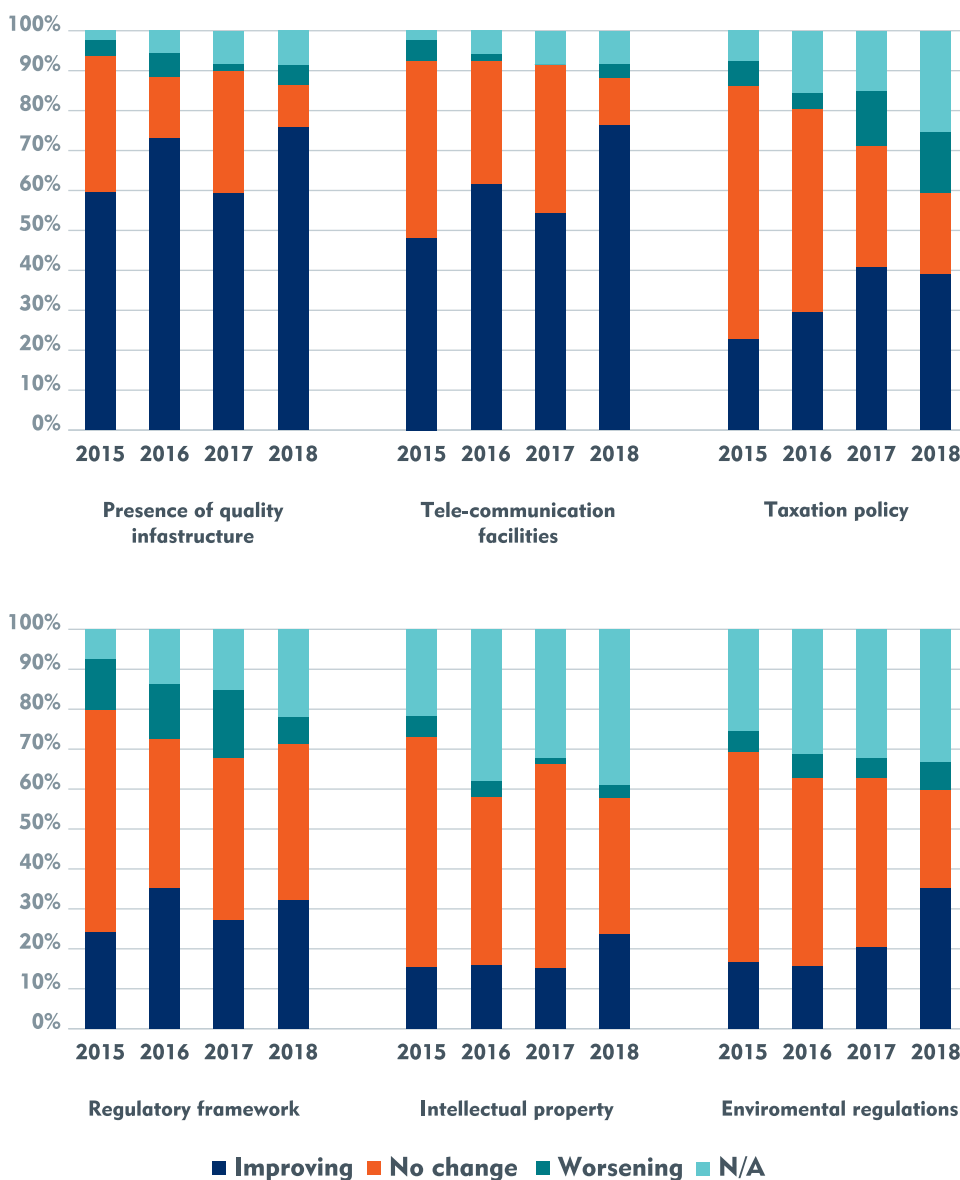
Although there was a slight decline in the rating of 'Presence of quality infrastructure' (see figure 1.8 above), 76% of respondents noted it was 'improving', a significant jump from 60% in 2017, even if 4% noted it as 'worsening' and 9% noted 'no change'. The presence of quality infrastructure and tele-communications have consistently seen the highest perceptions of improvement of all changes in the business environment reflecting the Government's drive to build roads, railways, ports, and connect all Indian villages to electricity and gas – all of which are on target with the exception of metro-lines, which have still increased substantially across India.

'Quality of bureaucracy' was seen to be 'improving' at a higher rate than ever before by respondents. However, this is from a low base of 41% reporting 'no change' and 21% saying it is 'worsening'. On the other hand, 'Availability of skilled labour', 'Availability of supply chain', and 'Availability of support and service providers' all showed some of the biggest improvements on 2017 – reinforcing India's strengths (highlighted in figure 1.8).

'Ability to repatriate profits', which appeared in the survey for the first time last year, showed a very slight decline in perceived 'improvement' to 12% this year

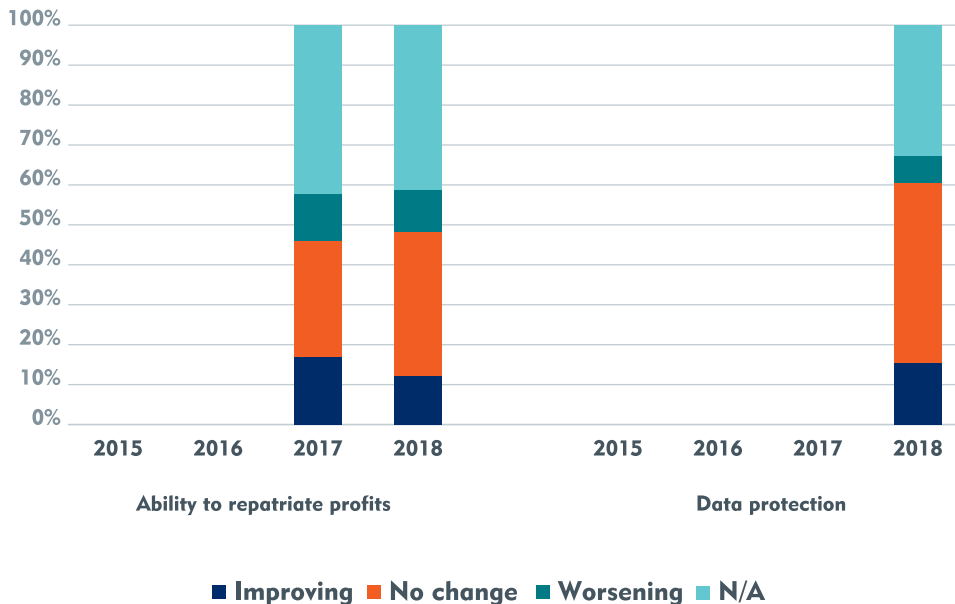
whilst 36% noted 'no change' and 10% indicating it was 'worsening'. This year included 'Data protection' for the first time, which despite reasonable ratings in India's business environment (see figure 1.8), was only seen as improving by 15% of respondents. Given this will soon become a key strategic area for improvement, more needs to be done to address data protection concerns.

FIGURE 1.10

CHANGES IN THE BUSINESS ENVIRONMENT



■ Improving ■ No change ■ Worsening ■ N/A



4.8. WHICH STATES DO UK COMPANIES OPERATE IN AND WHY?

Those completing our survey operated in 24 of the 36 States and Union Territories across India, with many of the businesses operating in multiple States. The most frequently cited States and Territories in which respondents operated were Delhi, Maharashtra, and Karnataka. What, though, draws UK businesses to operate in these States?

The Indian Government recognises that individual States will play a key role in scripting the Indian growth story. There is little doubt that co-operative federalism has already had an impact and will be key in achieving the shared vision of India's sustainable development. Competition between States will bring about even greater efficiencies. A "race to the top" is creating a virtuous cycle for States, their people, and businesses in terms of more jobs, economic growth, and increased tax revenues enabling greater investment in healthcare, education, and infrastructure.

The 'Business Reforms Action Plan' aims to encourage exactly that. In driving reform to meet Mr Modi's desire to move India into the top 50 for Ease of Doing Business in the world, the Department of Industrial Policy and Promotion, in partnership with the World Bank, generates an annual ranking of States and Union Territories against action taken on 372 business reform criteria and industry feedback.

In these 2018 rankings, the States of Andhra Pradesh, Telangana, and Haryana were ranked the top three States in India to do business. However, this does not necessarily reflect the ease of UK businesses' ability to operate in India.

This year, therefore, we took the step of including three new questions in our survey specifically designed to map UK business operations and opinions of ease of doing business at the State level.

Which states have made the most improvement?

We asked respondents which States they thought had made the most improvement in the last five years. Whilst 39% of respondents were unsure, Maharashtra and Gujarat come out as clear ease of doing business leaders, at 15% and 13% of respondents citing improvements in these two States respectively.

Several respondents also cited Delhi and Telangana as having improved noticeably.

FIGURE 1.11
WHICH STATE HAS MOST IMPROVED EASE OF DOING BUSINESS IN THE LAST 5 YEARS?

STATE	2018	
MAHARASHTRA	14.6%	
GUJARAT	12.6%	
TELANGANA	4.9%	
DELHI	4.9%	
KARNATAKA	4.9%	
UTTAR PRADESH	2.4%	
PUNJAB	2.4%	
KERALA	2.4%	
		39% NOT SURE
		4.9% NO IMPROVEMENT
		2.4% ALL IMPROVED

Which states are businesses expanding to?

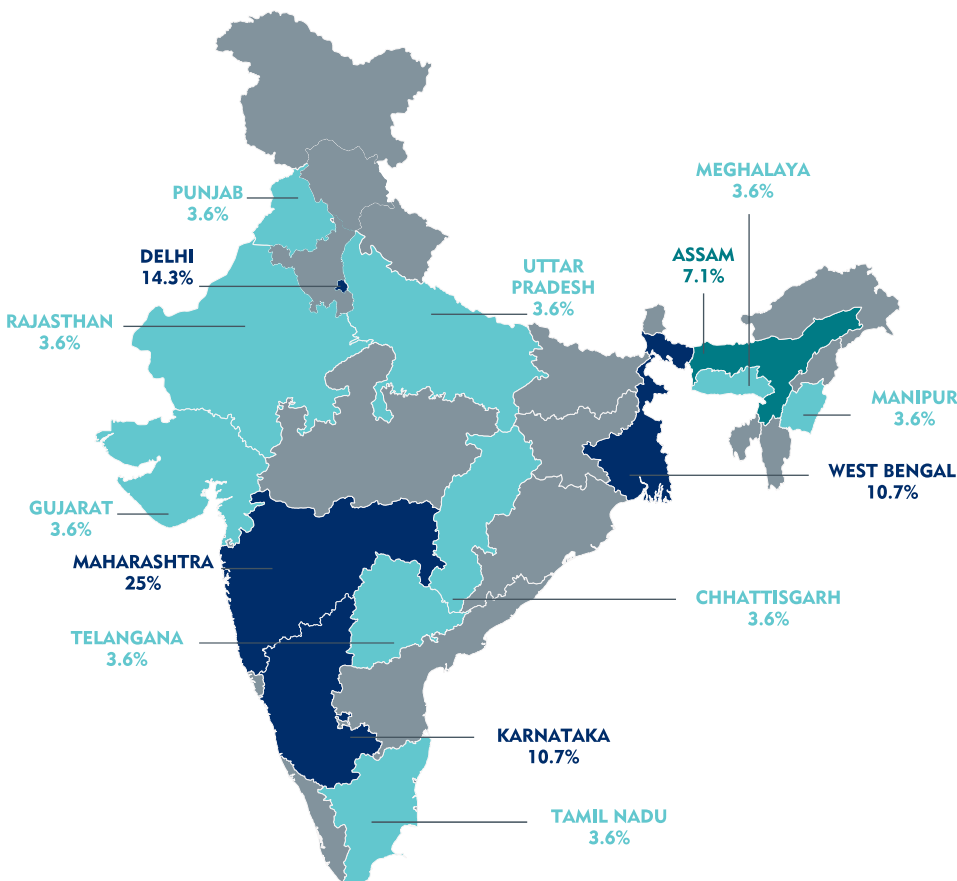
Being seen to improve ease of doing business can give States a clear advantage with businesses seeking to expand their operations. We asked respondents if they plan to start or expand their operations in the next 12 months. Of our respondents, remarkably 46% said they were planning to expand their Indian operations in that timeframe.

Of those who would like to establish themselves or expand in India, we asked in which States they would like to locate to in the next 12 months. We found that 25% opted for Maharashtra and 14% for Delhi. Assam and Karnataka also rated highly for business expansion plans, whilst businesses were also considering a range of other States, including Gujarat, Karnataka, Maharashtra, and Chhattisgarh.

Collectively, over a quarter of our respondents to this question reported that they are seeking to expand into eastern states such as Bengal, Assam, Meghalaya, and Manipur. This reflects patterns of businesses expanding from west to east India to capture opportunities in this region, and its proximity to ASEAN nations such as Myanmar, Laos, and Cambodia.

FIGURE 1.12

WHICH STATES WOULD YOU LIKE TO START/EXPAND INTO IN THE NEXT 12 MONTHS?



Important factors which influence investment location

Patterns of competitive federalism are already evident, with many States doing their best to cut red tape and simplify compliance procedures. It was interesting therefore to note which factors influenced UK companies' choice of investment location when entering or expanding in India.

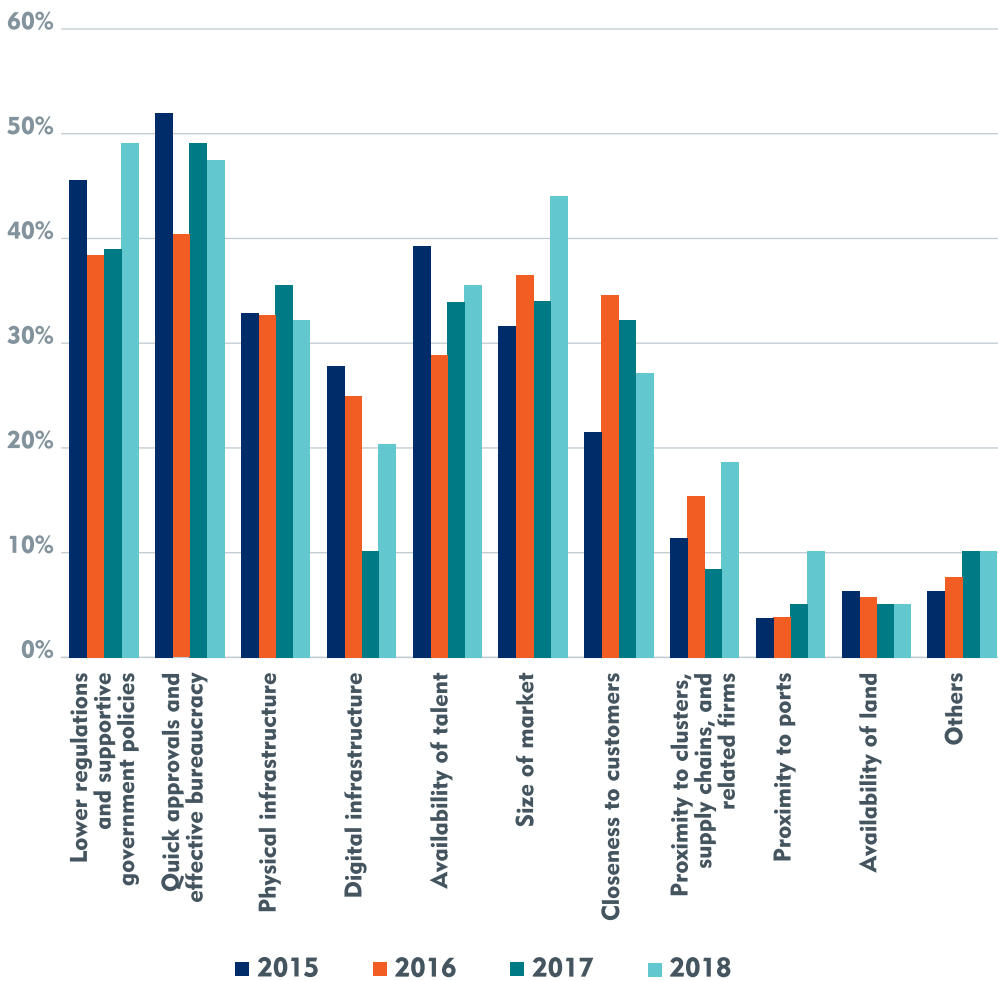
Of the 2017 respondents 17% chose 'Quick approvals and effective bureaucracy' and 49% chose 'lower regulations and supportive Government policies' as key factors. These two factors go hand in hand and are consistently rated as the most important factors, though this year 'Lower regulations' was rated significantly more important than previous years, increasing by over 10% on 2017 and 2016 levels.

The importance of these factors underlines the need for the Government of India to make improving the 'Quality of bureaucracy' a top priority given this is raised as a key point of concern in India's business environment, with over 67% of respondents rating it as 'Poor' or 'Very poor' (see 4.6. 'Rating the different components of India's business environment').

'Size of market' and 'Availability of talent' were also key factors with 'Size of market' increasing 11% in importance on 2017, and 'Availability of talent' rating higher for the third year running. This implies that the Government should continue to focus on improving the quality of its education and its 'Skill India' initiative. 'Closeness to customers' also ranked highly, though is consistently declining in importance amid mass digitalisation of India's market.

This is matched by the significant jump in importance of 'digital infrastructure' by 10% on 2017 indicating the success of 'Digital India' in easing transactions and the growing digitalisation of Government and business transactions.

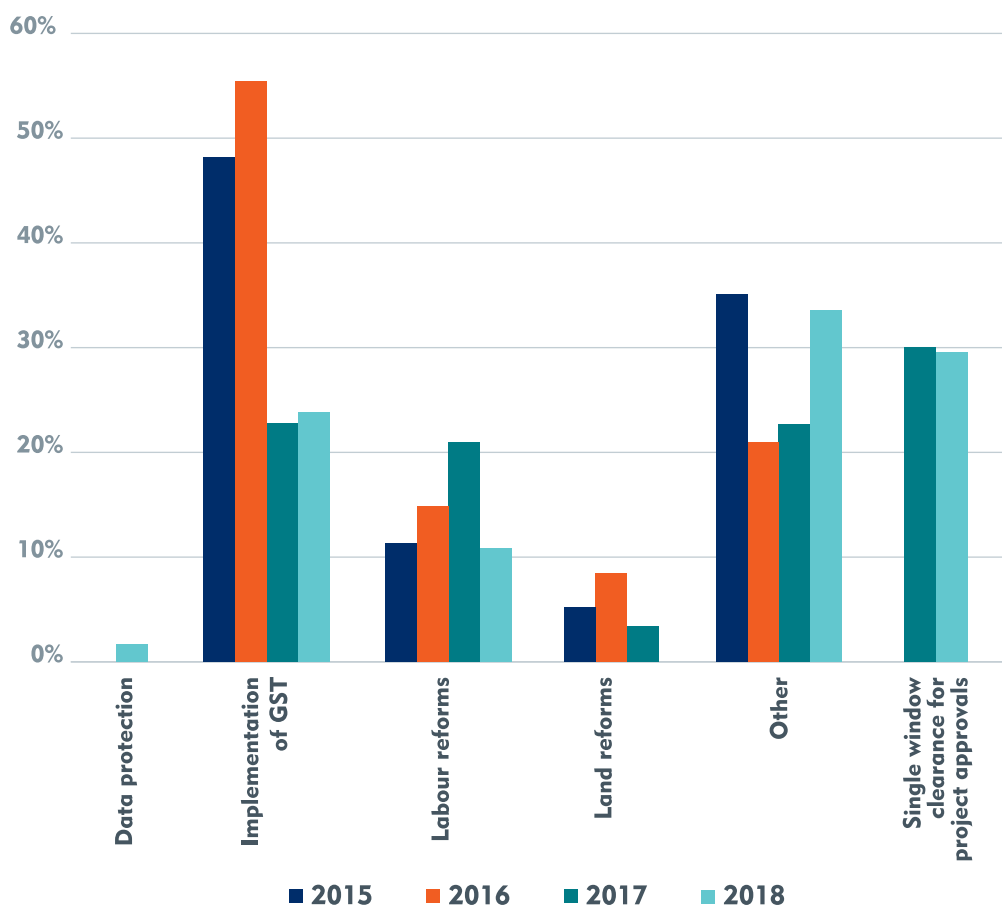
FIGURE 1.13

IMPORTANT FACTORS WHICH INFLUENCE INVESTMENT LOCATION

4.9. WHICH REFORM WILL SIGNIFICANTLY IMPROVE INDIA'S BUSINESS ENVIRONMENT

FIGURE 1.14

WHICH REFORMS IMPROVE INDIA'S BUSINESS ENVIRONMENT?



Having built a picture of how businesses view the ease of doing business situation across India, it is important to understand where they would like efforts to be focussed going forward.

This is why respondents were asked to choose which reform they felt would have the biggest positive effect on India's business environment. In 2015 and 2016, GST was by far the most anticipated reform among survey respondents. With the GST having been rolled out, businesses are now prioritising other areas.

The results show that a new option in the 2017 survey, 'Single window clearance for project approvals', is the most favourably anticipated specific reform again in 2018. At 11%, 'Labour reforms' are also an important factor affecting India's business environment, though less so than the previous year. By contrast, none of our respondents prioritised land reforms in 2018.

Around 33% of respondents highlighted 'Other' reforms that will significantly improve the ease of doing business in India, some of which were:

- Uniform and consistent decisions in clearances and policy making by bureaucracy
- The need for simplified regulation across all sectors
- Further action on corruption
- Building on GST to simplify taxation further
- Opening the Higher Education sector in India to international partnership

4.10. IS THE EASE OF DOING BUSINESS IN INDIA IMPROVING?

The generally positive trends on individual ease of doing business parameters described above are reflected in respondents' views on the question 'Is the ease of doing business in India improving?'.

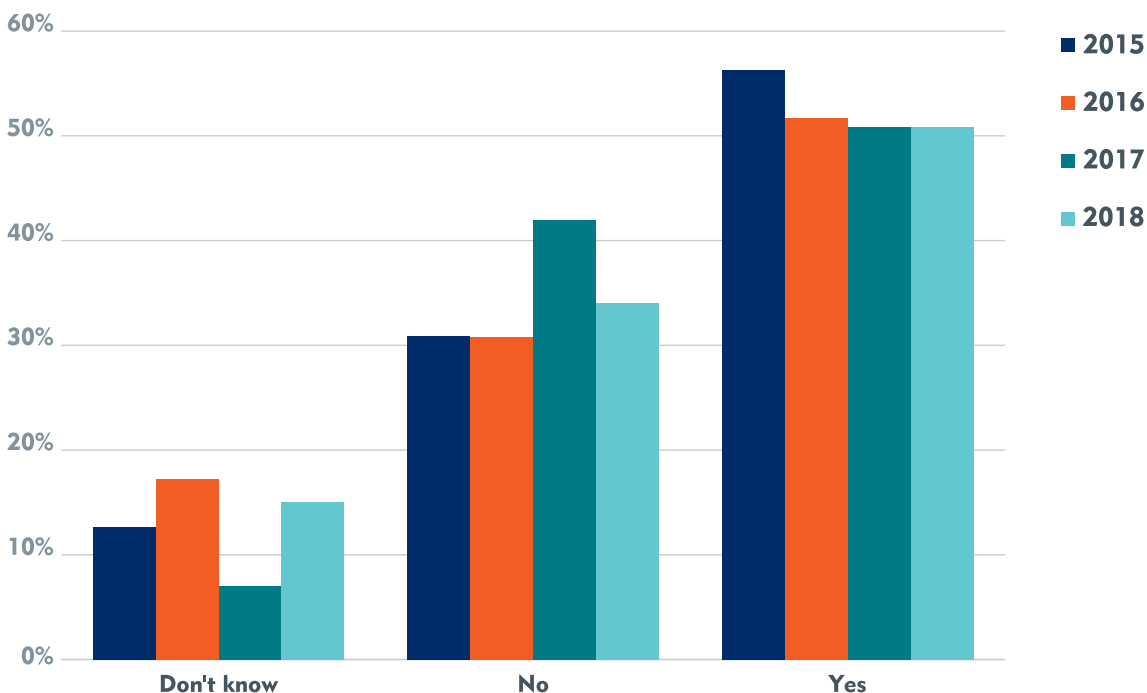
Those saying ease of doing business had improved remained high at 51% - on a par with 2017, though those who were unsure doubled from 7% to 15% between 2017 and 2018.

Likewise, fewer respondents highlighted 'no' improvement in ease of business in 2018, at 34%, compared to 42% in 2017.

Respondents recognised commitment from the highest levels of Government and bureaucracy to simplify, reform, and open up Indian markets but highlight impediments in this translating to day-to-day improvement. As it is the operational members of the bureaucracy that deliver directly to business, respondents urged senior officials and Ministers to do more to cascade efficient practices that enable businesses to invest and grow.

FIGURE 1.15

IS THE EASE OF DOING BUSINESS IMPROVING?



CONCLUSION

India appears to be seizing the opportunity to improve the ease of doing business with both hands. However, as this report shows, progress is uneven and hap-hazard across States. We would urge future efforts to be directed to where the biggest impact can be made for business.

Focus among our respondents has shifted away from corruption in a way few would have thought possible at the launch of our report in 2015. Likewise, India is seen to be improving markedly on measures, including infrastructure, environmental regulation, taxation, and the availability of supply chain and support. On many measures, this improvement has been recognised by more respondents than at any other time in this report's history.

UK businesses have become more optimistic about the GST one year on from implementation. However it still proves complicated for SMEs whilst its implementation and reporting requirements need simplifying further.

At the same time, reform of bureaucracy in the form of quick approvals, lower regulation, and supportive government policies consistently rank the most important factors in a business decision to locate and invest in India, yet twice as many of our respondents report 'no change' or 'worsening' quality of bureaucracy than did those citing improvement.

It is clear, therefore, that reforming bureaucracy and regulation is India's big priority. Should this action be taken, India will be on track to break into the top 50 for ease of doing business in the world.

Given that the UK is the largest G20 investor in India, UK businesses are clearly enthusiastic about the opportunities in India. Those already in India are expanding and those businesses not yet in India would consider investing more, and more quickly, if Government – both in States and at the Centre - delivered further reform.

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Design

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APPENDIX

Comments from survey respondents on the question:

Why are/aren't you optimistic about the improvement in the ease of doing business in India?

2018 responses:

1. "Many important milestones achieved, execution of key policies will be crucial" – Large Tele-communications company
2. "Because the Bureaucracy is still prevalent and becoming worse" – Small enterprise in the Life Sciences and Healthcare sector
3. "fear of government change" – Large enterprise in the Retail and Consumer sector
4. "Highest level in government wants to make a change, on the ground still bureaucracy exists" – Large Tele-communications company
5. "There is a huge potential for our services as India emerges stronger into the global business environments where our service helps the businesses. The growth opportunities are also huge as the economy grows at over 7% and exports of manufactured and processed items improve requiring internationally credible certification." – Large enterprise in the Professional, Financial and Legal Services sector
6. "Bureaucracy and unfriendly taxation environment" – Large enterprise in the Professional, Financial and Legal Services sector
7. "Pre-election vacuum" – Large enterprise in the Professional, Financial and Legal Services sector
8. "I have tried and tried and failed" – Small enterprise in the Tourism and Hospitality sector
9. "The required change in culture and business structure is massive and will take many years." – Medium enterprise in the Advanced Engineering and Manufacturing sector
10. "Income tax and Transfer pricing cases are taking long years to complete" – Large enterprise in the Advanced Engineering and Manufacturing sector
11. "Bureaucracy" – Small enterprise in the Education and Skills sector
12. "There appears to be a greater willingness to simplify bureaucracy" – Small enterprise in the Distribution sector
13. "We would like to trade but no information on credible sources of supply." – Small enterprise in the White Goods sector
14. "I am optimistic, provided the willingness converts into actions" - Large enterprise in the Professional, Financial and Legal Services sector
15. "Indian MOD is low risk taker therefore no sign of change" – Small enterprise in the Security and Defense sector
16. "the market is opening up with more transparency" - Small enterprise in the Security and Defense sector
17. "The emphasis appears to be on face to face meetings ('you have to be in India to do business in India !!'). There is no urgency or focus on 'doing the deal' so it is not only costly in time but also in resources. India has to be encouraged to adopt a more effective business negotiating style and not simply use meetings to 'talk'." – Small enterprise in the Advanced Engineering and Manufacturing sector

18. "I am optimistic. Hence continue to struggle." – Medium enterprise in the Life Sciences and Healthcare sector
19. "Can only get easier" - Small enterprise in the Advanced Engineering and Manufacturing sector
20. "Bureaucracy" – Small enterprise in the energy sector
21. "Bureaucracy and poor work culture" – Small enterprise in the Professional, Financial and Legal Services sector
22. "Too many Regulations" - Small enterprise in the Professional, Financial and Legal Services sector
23. "Too much corruption" - Small enterprise in the Life Sciences and Healthcare sector
24. "My business is product development in the Defence sector, not one of India's strong points" – Small enterprise in the Advanced Engineering and Manufacturing sector
25. "because there's so much that is so difficult to do here, time is wasted regularly for the simplest of tasks" – Small enterprise in the Event Management sector
26. "Taxation has been simplified, most government functions are digital now which provides efficiency and transparency. India is improving but can change faster." – Small enterprise in the Digital Innovation sector
27. "Optimistic as government policies are becoming more supportive." – Large enterprise in the Facility Management sector
28. "Optimistic because of a leader like Narendra Modi" – Small enterprise in the Professional, Financial and Legal Services sector
29. "Complex regulatory framework that will be hard to change" – Small enterprise in the Audio Visual sector
30. "Massive reduction in corruption is continuing" – Small enterprise in the Energy sector
31. "I have visited three times and it is changing and improving all the time. I just wish I could find a partner!" – Small enterprise in the Food and Drink sector
32. "Very difficult to get paid according to contract" – Small enterprise in the Toy Manufacturing sector
33. "Good products and services will always do well in India" – Small enterprise in the Professional, Financial and Legal Services sector
34. "We are optimistic. We have exhibited for a number of years and have a good distributor for our products" – Small enterprise in the Advanced Engineering and Manufacturing sector
35. "The changes that are taking place is not so effective until the people/decision makers are trained to implement the policy and learn from other countries who are ahead in the use of doing business scale." – Small enterprise in the Energy sector
36. "Projects are taking longer to approve & GST confusion" – Small enterprise in the Fire Detection sector.
37. "Universities shout the loudest" – Small enterprise in the Education and Skills sector

2017 responses:

1. "Import Duties are prohibitive." – Small enterprise in the Food & Drink sector
2. "I am positive. EODB is affecting the industry by making people talk about taboo subjects

intelligently & arrive at resolves locally & internationally. However, the country is far from actually making any constitutional changes unless the Honourable PM himself along with the Indian Industry at large takes a strong, all embracing, progressive step forward to change the existing framework of regulations that are crippling every industry from growth. The country needs a reliable supply chain system and also a reliable Quality & Standards board which is an independent international body. This said supply chain solution & *policy resolve* (in all industries) must reach *every indian household*. The country & its support system, or interested traders must muscle up to support the cause and *make it happen for India* to help the world with innovation, quality products & perhaps one of the biggest Quality markets in the world. The launch of a scheme is simply a step to make a change, the real change will come about only when the Ministers and every household signs up to move the public & steer change into motion as was done with Demonetization. India needs an Industrial revolution & HPM Modi may well be the one to make it happen” – Small enterprise in the Food & Drink sector

3. “Slow, but general de-regulation and a clear desire by government to improve” – Large enterprise in the Advanced Engineering & Manufacturing Sector
4. “Nothing is being done to resolve the legacy issues - there is then a trust deficit that rules won't be changed in the future.” – Small enterprise in the Energy sector
5. “Invisible barriers to trade haven't changed in our experience. Partners interested in cheap prices and one-sided profit rather than long terms prospects.” – Medium enterprise in the Advanced Engineering & Manufacturing Sector
6. “Slow to implement changes announced. Bureaucracy is an impedance.” – Small enterprise in the Infrastructure sector
7. “With regard to my own business, I am optimistic as we are working very closely with the Ministry of Power” – Small enterprise in the Energy sector
8. “Optimistic. Greater financial transparency fighting corruption. Will improve bureaucracy and clearances.” – Small enterprise in the Energy sector
9. “Reforms are now taking place and being implemented. Also the central government is listening to concerns of business community and implementing reforms.” – Small enterprise in the Digital Sector
10. “Some changes will take time, but the moves are in the right direction.” – Small enterprise in the Education Sector
11. “There has been no improvement, just red tape and key persons inability to get anything done” – Medium enterprise in the Facilities Service Sector
12. “More Noise but no actual improvement in implementation.” – Large enterprise in the Life Sciences & Healthcare Sector
13. “GST has totally stymied business in this market.” – Small enterprise in the Food & Drink Sector
14. “At present all factors are improving and satisfactory.” – Small enterprise in the Professional, Financial & Legal Sector
15. “How effectively is the message of change filtering down the bureaucratic food chain?” – Medium sized multi-sector Trade Association

WHO ARE WE?

The UK India Business Council believes passionately that the UK-India business partnership creates jobs and growth in both countries. Through our insights, networks, and policy advocacy, we support businesses to succeed.

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