

UKIBC'S 6TH ANNUAL REPORT ON DOING BUSINESS IN INDIA: THE UK PERSPECTIVE

NOVEMBER 2020

SUPPORTING BUSINESS SUCCESS

CONTENTS

FOREWORD	3
EXECUTIVE SUMMARY	4
1. INTRODUCTION	5
2. METHODOLOGY	6
2.1. THE SURVEY RESPONDENTS	6
3. INDIA: AN ATTRACTIVE COUNTRY TO DO BUSINESS	8
4. EASE OF DOING BUSINESS	9
4.1. RATING INDIA'S BUSINESS ENVIRONMENT	10
4.2. BARRIERS TO DOING BUSINESS	12
4.3. IMPROVING INDIA'S BUSINESS ENVIRONMENT	14
5. SECTOR ANALYSIS	16
5.1. ADVANCED ENGINEERING AND MANUFACTURING	16
5.2. INFORMATION AND COMMUNICATIONS TECHNOLOGY	17
5.3. PROFESSIONAL, FINANCIAL AND LEGAL SERVICES	18
5.4. FOOD AND DRINK	19
5.5. ENERGY	20
5.6. EDUCATION AND SKILLS	21
6. IS IT GETTING EASIER TO DO BUSINESS IN INDIA?	22
7. NEW CHALLENGES - OR OPPORTUNITIES - TO DOING BUSINESS	23
7.1. BREXIT	23
7.2. COVID-19	24
7.3. ATMANIRBHAR BHARAT (SELF-RELIANT INDIA)	25
8. DOING BUSINESS AT STATE LEVEL	27
8.1. LOCATION PULL FACTORS	27
8.2. STATE PROGRESS	28
8.3. MAHARASHTRA	29
8.4. KARNATAKA	30
8.5. GUJARAT	31
8.6. WEST BENGAL	32
9. CONCLUSION	33

FOREWORD

Greetings from the UK India Business Council (UKIBC) as we continue our endeavour to strengthen UK-India bilateral economic ties through advocacy, advisory services and governmental deliberations.

I cordially invite you to read this report, which has been produced to examine India's business environment from the perspective of UK businesses. We look at issues over time, building on the UKIBC's intelligence across five previous Doing Business in India reports, and consider new developments, including Brexit, the Atmanirbhar Bharat mission, the COVID-19 pandemic and the global economic slowdown.

The voice of business is crucial to improving the business environment as those working on the ground who are most affected are in the best position to provide crucial feedback. This reality is the genesis behind the UKIBC's Doing Business in India report.

UK businesses are already a large part of, and contributor to, the Indian economy. The UK's direct investment into India is responsible for more than 800,000 direct and indirect jobs in India. In the last two decades, UK businesses have invested more than GBP 22 billion into India. This strong relationship is growing. In FY 2019-20, UK FDI into India exceeded GBP 1.1 billion. Many best-in-class UK firms have established a large industrial presence in India spanning both manufacturing and services sectors.

2020 has been a year like no other. Across the world, companies, and indeed governments, have had to adjust to the 'new normal' as the COVID-19 pandemic has impacted all strands of society. Healthcare infrastructures and economies have been placed under unprecedented stress and new ways of working and living have been necessarily enforced.

Yet, businesses in the UK and in India, with support from governments and through innovation, entrepreneurship and diligence, have adapted to continue to provide their crucial products and services, employ workers across both countries, and support their economic recoveries.

In a post-Brexit world, where the attractiveness of India for UK companies is even greater, enabling further collaboration is paramount. India's *Atmanirbhar Bharat* (Self Reliant India) mission is ushering in a unique potential for co-development and co-creation among UK and Indian firms, leveraging the UK's innovation for manufacturing in India. Moreover, as global companies are exploring possibilities of relocating part of their manufacturing supply chain, India is emerging as an attractive proposition. In addition, India's New Education Policy 2020 has created new opportunities for the UK's universities and vocational skills institutions.

As both countries' economies have grown to a comparable size in terms of nominal GDP, the UKIBC reaffirms its resolve to continue to support prosperity in both countries by working with our members and clients in the UK-India economic corridor.



Jayant Krishna

Group Chief Executive Officer
UK India Business Council

EXECUTIVE SUMMARY

Our sample of UK companies reported largely positive perceptions about the business environment in India, with responses and feedback suggesting that progress is being made in key areas. In fact, 66 percent of respondents said they think it is getting easier to do business in India. Challenges remain, but there is a cautious optimism among UK companies and a renewed commitment to India against the backdrop of significant developments such as Brexit, COVID-19 and India's self-reliant mission.

Some of the key findings of this report include:

Brexit, COVID-19 and India's Atmanirbhar Bharat are significant developments that have shaped the year and are set for considerable ramifications in 2021 and beyond. Yet, UK companies were overwhelmingly positive on their effect. For the majority (69 percent), Brexit will have no impact on their business with India. In fact, 31 percent of companies would do more business with India. On COVID-19, the most common experience from our cohort was that the pandemic has not impacted their company's business with India. For around one-quarter of respondents, their company is doing, or plans to do, more business with India as a result of COVID-19.

The survey suggests that India's self-reliant mission, or "Atmanirbhar Bharat", stands for greater global integration for the Indian economy. More than three-quarters of respondents (77 percent) were positive about Atmanirbhar Bharat, believing it is an opportunity to do more investment and trade with India.

As in previous UKIBC Doing Business in India reports, the most frequently selected obstacle to business was 'legal and regulatory barriers' with just over half of all respondents selecting it in their top 5. However, there has been a noticeable fall from a selection rate of 66 percent of respondents in 2018 to 51 percent in 2020. The most pressing regulatory impediments were 'foreign exchange regulations', 'goods and services tax', 'import tariffs', 'alignment with international standards' and 'incorporation of company'.

The second greatest barrier was 'price points'. In contrast to legal and regulatory barriers, this has been a noticeable increase as compared to previous years apparently due to the pandemic-induced pressure on margins. Completing the top 5 were 'taxation issues', 'corruption', and 'finding a suitable partner'.

'Telecommunication facilities', 'the availability of support and service providers', 'the availability of skilled labour', and 'the availability of supply chain' were the top 4 most noted strengths in India's business environment.

More than half of respondents identified 'improving bureaucratic processes with accountability' as one of their top 5 reform priorities, making it the most frequently cited. 'Increasing regulatory certainty' was the second most popular reform, followed by 'simplification of the GST processes' and 'improving the quality of infrastructure'.

For the third year running, Maharashtra came out as the state with maximum incremental improvement, followed by Karnataka, Delhi, Gujarat, and Tamil Nadu, in that order. Next in sequence were Uttar Pradesh, Telangana, Andhra Pradesh, Chandigarh and Haryana to complete the top ten.

The positively balanced findings of this report substantiate that the long-term benefits of the Indian market outweigh some of the short-term barriers to doing business. As these barriers get progressively addressed, the UK-India bilateral trade and investment relationship is set to continue to grow even stronger.

1. INTRODUCTION

This is the UK India Business Council's sixth annual 'Doing Business in India' Report, in which we outline the point of view of UK businesses and higher education institutions on India's business environment and the ease of doing business.

This report details why companies want to do business in India, the challenges they face in doing so, priorities for the future, and rating of India's business environment. This is done with the aim of uncovering the existing ease of doing business in India and shaping its progression.

Under Prime Minister Mr Narendra Modi, India's economy had grown at an average rate of more than 6 percent year on year from 2014 to 2019, making it the world's fastest growing major economy in that time and has been projected to become the world's third largest economy by 2030. However, India's economic growth had slowed even prior to the pandemic and, like most countries, faces huge challenges to return to the high levels of recent years.

The Government of India has identified digital technology, manufacturing, healthcare, education, infrastructure, agriculture and rural development as priorities for the country's development. The UK and other countries are well placed to support India in these and other areas. Accordingly, it is vital that India continues to improve its business environment to attract and facilitate external support, investment and partnerships.

In the World Bank's Ease of Doing Business (EoDB) rankings, India has made extraordinary – and indeed unprecedented – progress in recent years, rising from 142nd globally in 2014 to 63rd in 2019. The Government of India has rightly set the goal of reaching the top 50 in the near future and into the top 25 thereafter. So, while India has experienced great success, this report uncovers how this macro-level achievement has translated in reality and what must be done in the future if India is to emerge amongst the top 25 EoDB nations.

Discrepancies between states on regulations, laws, culture, and language are just some of the challenges that the Indian market poses to any active organisation or would-be investor. For this year's edition, UKIBC has also included a section on four Indian states to show the developments taking place at the state-level to facilitate business.

This report highlights the existing challenges and priorities presented in India before concluding with several recommendations to improve the ease of doing business in India.

2. METHODOLOGY

The findings included in this report are derived from extensive consultations involving 106 UK businesses and higher education institutions in a series of roundtable discussions and a UKIBC survey run throughout September 2020.

The survey is consistent with our five previous surveys conducted and reports released in 2015-2019, as completed by approximately 500 respondents. This prolonged data set has enabled us to identify trends over time. We have subsequently analysed the vast sets of data that our survey has produced in order to reveal the key developments taking place amongst UK companies and higher education institutions operating in India.

2.1. THE SURVEY RESPONDENTS

The majority of the companies surveyed are already working in India (89 percent); although, we have also gathered the views of companies still entering the Indian market in order to provide useful information on the challenges faced by organisations intending to do business in India.

We heard from a variety of companies by size and by sector, varying from those in advanced engineering and manufacturing, to information and communications technology, to food and drink, healthcare and life sciences, BFSI and others. In terms of size, small and medium sized enterprises, or SMEs, (companies with a workforce of less than 250) have a significant representation. The survey also has a good share of large conglomerates that employ more than 1000 workers in India.

FIGURE 1
COMPANIES BY SECTOR

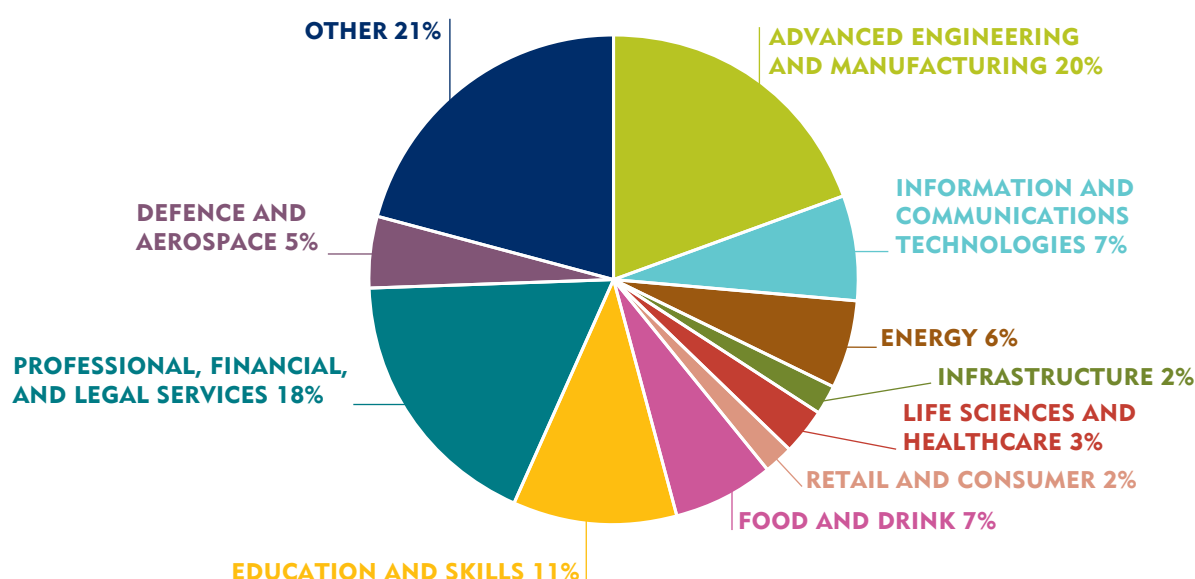
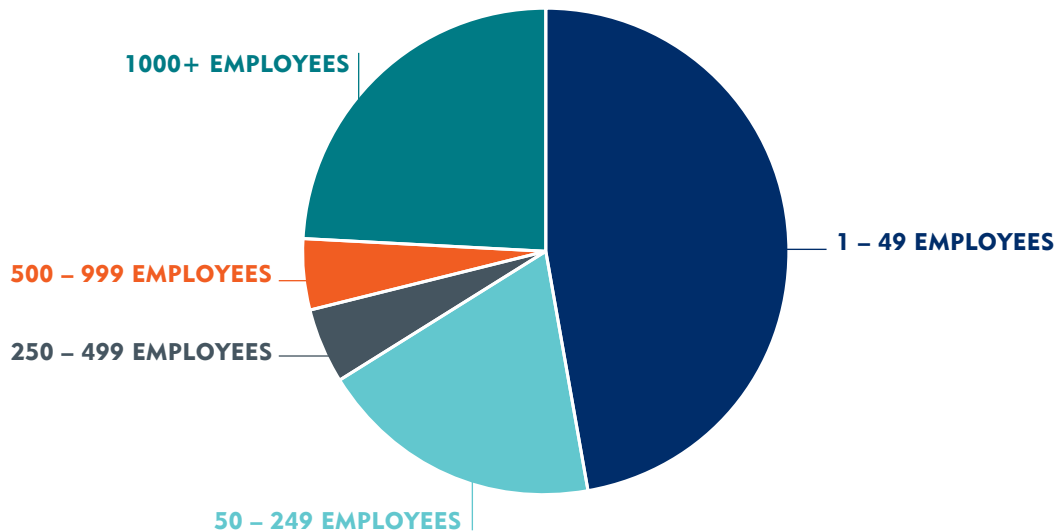
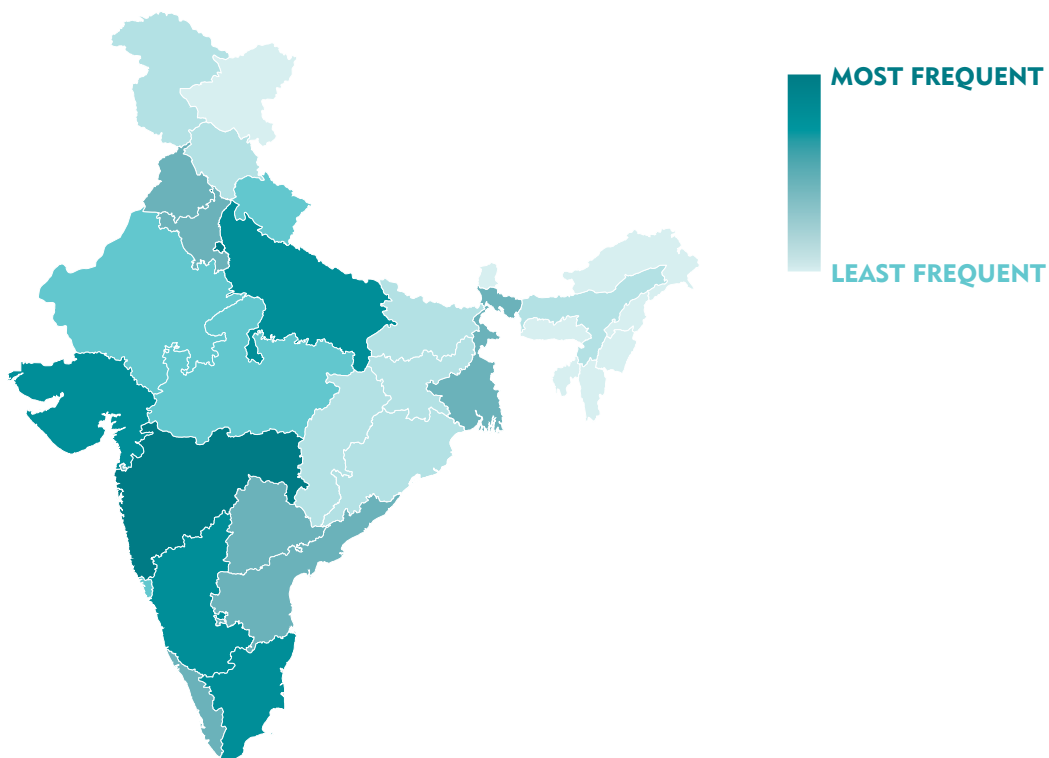


FIGURE 2
COMPANIES BY SIZE



We heard from companies working across India's 28 states and 8 union territories, as the map below illustrates. Many of these companies are working in multiple states.

FIGURE 3
WHERE RESPONDENTS ARE WORKING IN INDIA



The range of states and union territories gives us an insight into the variation in challenges and positive developments taking place in India, with states varying on language, laws and regulations, and indeed governance.

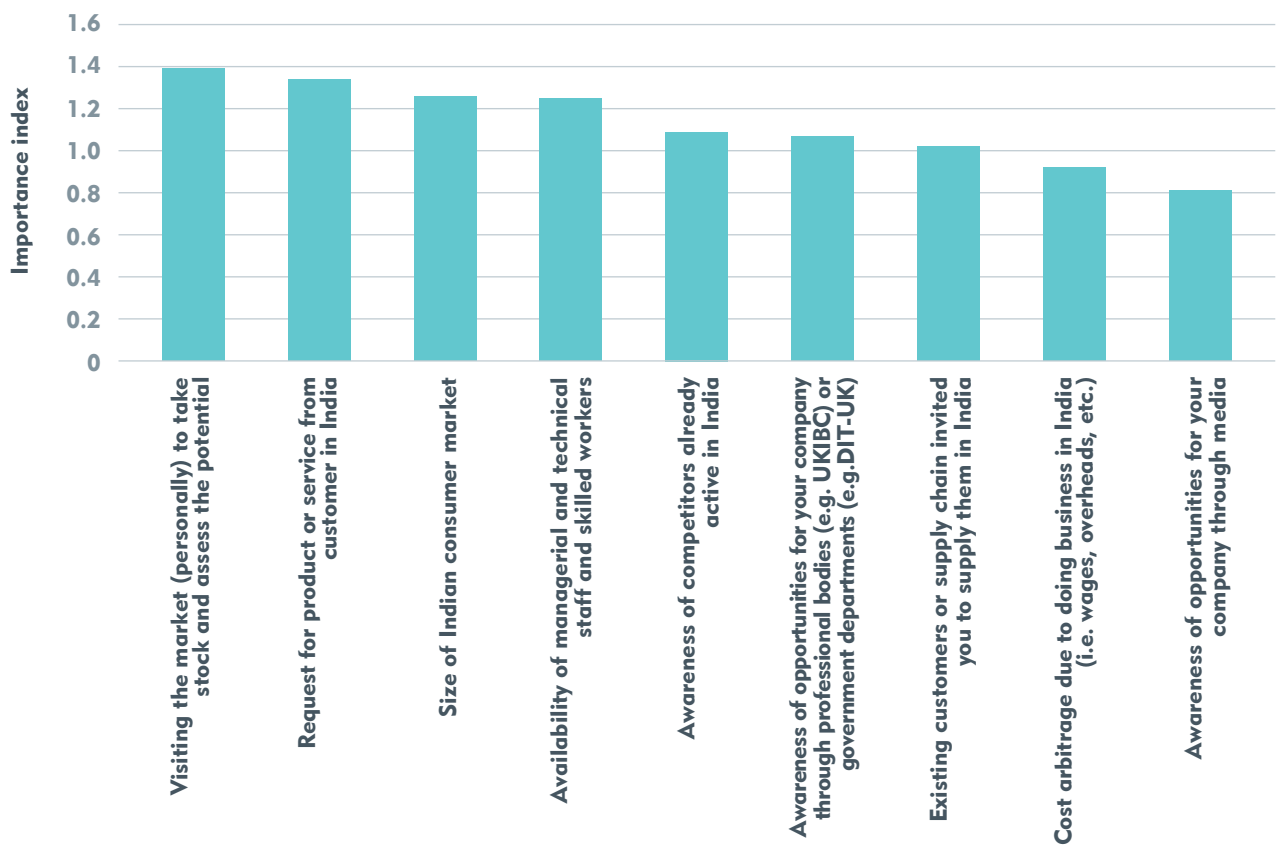
3. INDIA: AN ATTRACTIVE COUNTRY TO DO BUSINESS

To better comprehend the experiences of UK companies in India, it is important to understand what their motivations and goals are for working in India. We asked respondents to rank a number of location factors on a range from very important to not important, in order to build an index of Indian pull factors.

‘Visiting the market (personally to gauge its characteristics)’ and ‘request for product or service from customers in India’ ranked highest, in line with previous years.

‘Size of the Indian consumer market’ and ‘availability of managerial and technical staff and skilled workers’ were also noted for importance in company's choosing to work in India, testifying to the growth characterised above.

FIGURE 4
INDIA PULL FACTORS



India is an increasingly attractive place to do business for a variety of reasons. Firstly, the size of the economy and the population have grown to the fifth and second highest in the world respectively at USD 3.2 trillion and 1.35 billion people. These facts mean that India has a large and expanding consumer market and talent pool. Secondly, as this report shows, the ease of doing business in India has been steadily improving over time too.

Together, these mean that India is becoming an increasingly attractive and accessible market.

4. EASE OF DOING BUSINESS

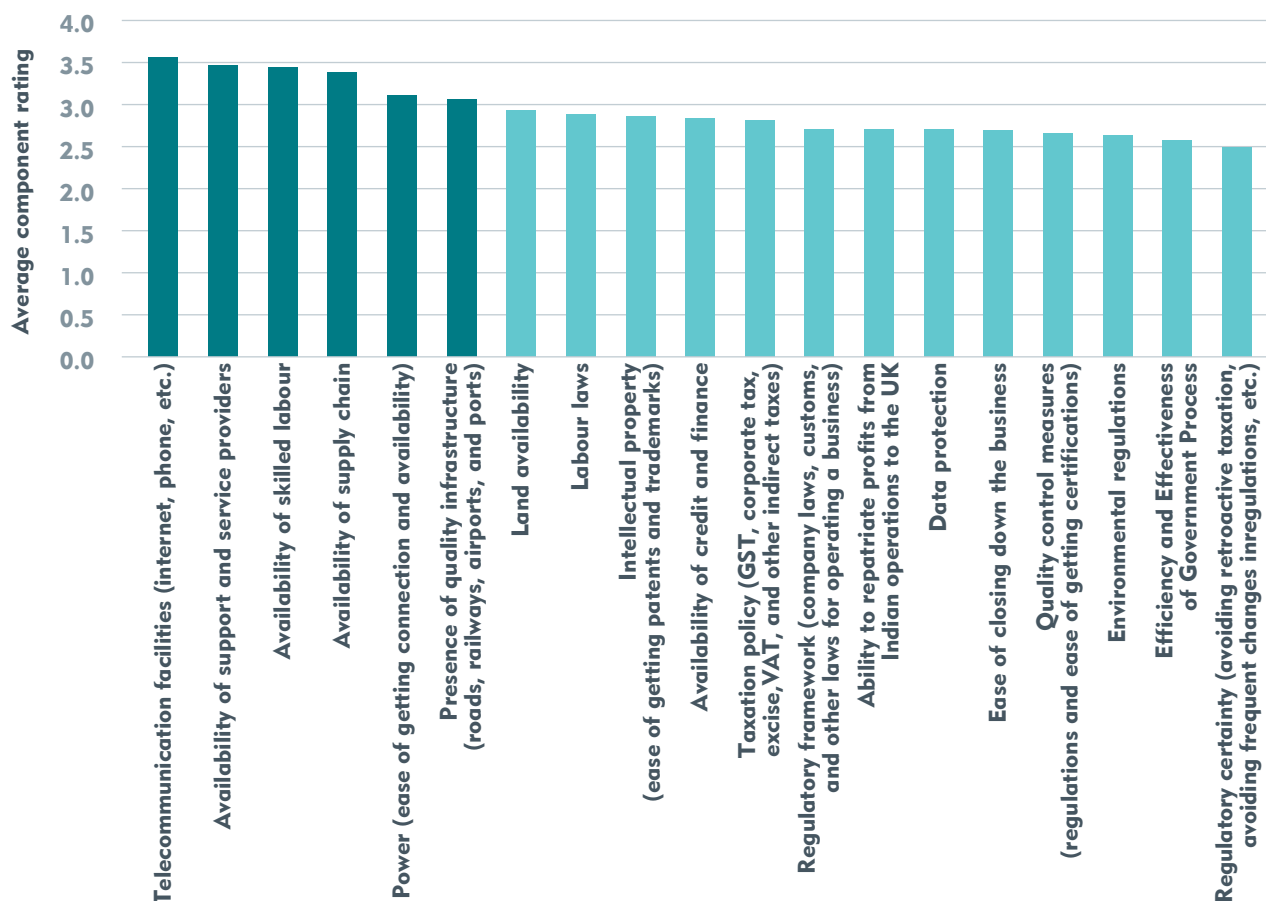
Since opening-up its economy in 1991, India has continued to prosper. To attract foreign direct investment, the Government of India has sought to improve the country's business environment. This has been achieved through significant policy reforms and perseverance - and has had significant success in recent years.

The World Bank's ease of doing business rankings had put India as the 142nd best country to do business in in 2014. Yet, thanks to reforms that have improved trading across borders, online submissions and approvals and resolving insolvency among others, India has risen rapidly up the rankings to 63rd in the most recent rankings of 2019.

4.1. RATING INDIA'S BUSINESS ENVIRONMENT

Our survey asked companies to rate various components of India's business environment from poor to excellent. Factors which score 5 are considered excellent; 4-4.99 are very good; 3-3.99 are good; 2-2.99 are satisfactory; 1-1.99 are poor; and less than 1 are very poor. Subsequently, we produced a weighted average of their responses, for which the higher the score, the more favourable the rating.

FIGURE 5
RATING BUSINESS COMPONENTS



Of the 19 components considered, 6 were rated as 'good' on average. Telecommunication facilities (3.56), availability of support and service providers (3.47), availability of skilled labour (3.45), and availability of supply chain (3.39) were clearly the top 4 reputed components, all scoring above 3.39/5. Power (3.11) and presence of quality of infrastructure (3.06) also scored well.

The remaining 13 components were all considered 'satisfactory'. Land availability (2.93), labour laws (2.88) and intellectual property (2.86) all scored better than expected. Efficiency and effectiveness of government processes (2.57) and regulatory certainty (2.49) were ranked as the worst factors.

As section 4.2 supports, regulatory certainty is a critical issue for India still to be overcome. The experience of the UKIBC and our members and clients tells us this is improving but remains a significant step to address.

If we look at these 19 components over time, we find that UK companies are increasingly positive on the quality of India's business environment.

Every factor has increased in score on previous years at an individual level. In addition, the total score for every factor combined has improved year on year. In 2015, business components scored 2.57/5 on average. In 2020, that has risen to 2.92/5, representing a significant increase.

FIGURE 6
RATINGS ACROSS TIME

BUSINESS COMPONENTS	2015	2016	2017	2018	2019	2020
TELE-COMMUNICATION FACILITIES (INTERNET, PHONE)	3.20	3.33	3.40	3.43	3.48	3.56
AVAILABILITY OF SUPPORT AND SERVICE PROVIDERS	3.07	3.05	3.02	3.19	3.32	3.47
AVAILABILITY OF SKILLED LABOUR	3.26	3.07	3.20	3.18	3.35	3.45
AVAILABILITY OF SUPPLY CHAIN	3.05	3.00	3.25	3.05	3.17	3.39
POWER (EASE OF GETTING CONNECTION AND AVAILABILITY)	2.37	2.65	2.81	2.83	2.85	3.11
PRESENCE OF QUALITY INFRASTRUCTURE (ROADS, RAILWAYS, ETC.)	2.42	2.62	2.80	2.65	2.78	3.06
LAND AVAILABILITY	2.69	2.67	3.15	2.93	2.89	2.93
LABOUR LAWS	2.61	2.46	2.86	2.52	2.61	2.88
INTELLECTUAL PROPERTY (EASE OF GETTING PATENTS AND TRADEMARKS)	2.42	2.38	2.63	2.59	2.78	2.86
AVAILABILITY OF CREDIT AND FINANCE					2.64	2.84
TAXATION POLICY	2.31	2.31	2.49	2.52	2.51	2.81
REGULATORY FRAMEWORK (COMPANY LAWS, CUSTOMS, ETC.)	2.33	2.35	2.55	2.56	2.70	2.71
ABILITY TO REPATRIATE PROFITS			2.51	2.35	2.46	2.71
DATA PROTECTION				2.60	2.67	2.71
EASE OF CLOSING DOWN THE BUSINESS	2.23	2.52	2.21	2.39	2.43	2.69
QUALITY CONTROL MEASURES (REGULATIONS AND EASE OF GETTING CERTIFICATIONS)	2.33	2.14	2.49	2.30	2.55	2.66
ENVIRONMENTAL REGULATIONS	2.41	2.24	2.42	2.47	2.55	2.64
EFFICIENCY AND EFFECTIVENESS OF GOVERNMENT PROCESS/QUALITY OF BUREAUCRACY	1.89	2.02	2.13	2.06	2.12	2.57
REGULATORY CERTAINTY (RETROSPECTIVE REGULATION ETC.)					2.27	2.49
ALL COMPONENTS AVERAGE	2.57	2.59 ^	2.75 ^	2.68 ^	2.74 ^	2.92 ^

Telecommunication facilities have been regarded as India's strongest component every year. In fact, the next top three - the availability of support and service providers, skilled labour, and supply chain - have all consistently ranked high every year.

The highest climbers in 2020 include: power, which has risen from 2.37 to 3.11 since 2015; and the presence of quality infrastructure, rising from 2.42 to 3.06 in the same period. Other notable improvements are: taxation policy, up from 2.31 to 2.81; and the regulatory framework, up from 2.33 to 2.71. Though there remains lot of work to do, these are positive trajectories to build on.

In summary, all components of the business environment are improving and ranked as either good or satisfactory but none are yet considered very good, or - in other words - world leading. With continued support and perseverance of Government, and input from the private sector, this is reason for optimism.

4.2. BARRIERS TO DOING BUSINESS

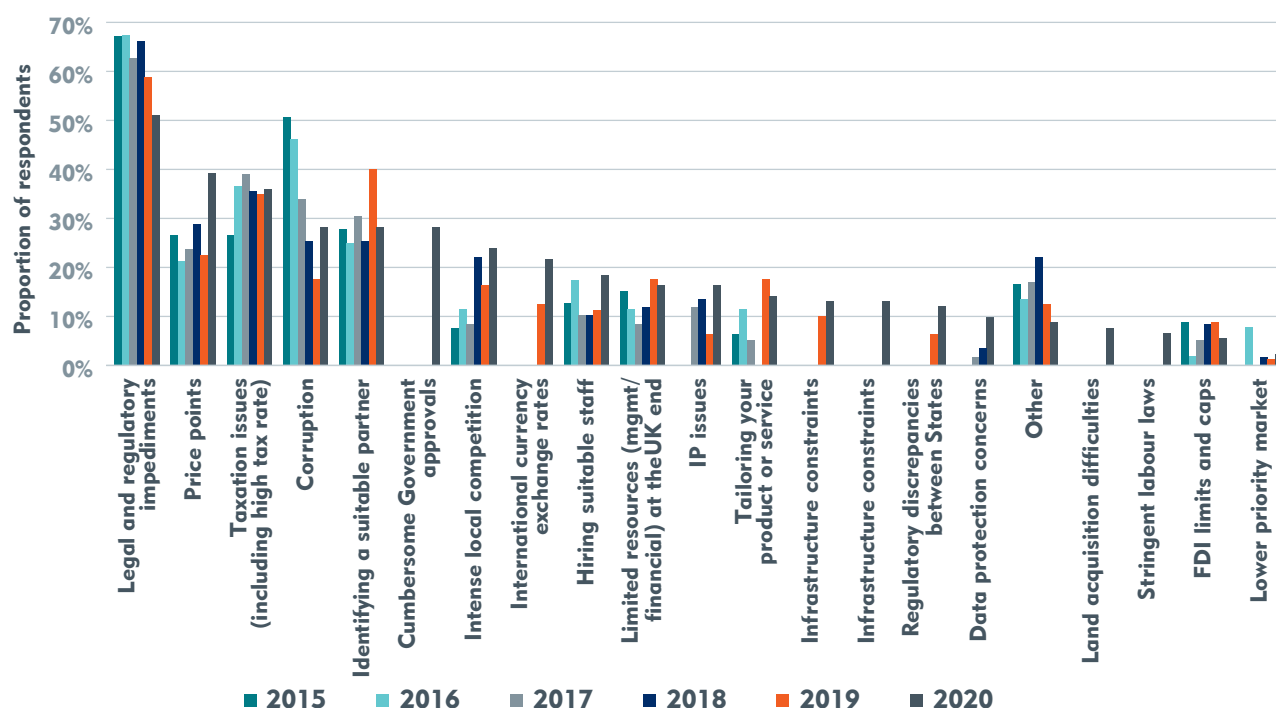
Though India has made significant progress on the ease of doing business, a number of significant challenges remain. To ascertain where the most problematic areas are, we asked respondents to select their top 5 most significant barriers to doing business in India.

The most frequently selected barrier was 'legal and regulatory barriers' with just over half of all respondents selecting it in their top 5. As figure 7 below shows, this has been the most prevalent barrier in all our *Doing Business in India* Reports. Encouragingly, though, there has been a noticeable improvement in the last two years, with the percentage of respondents citing this as a top five barrier dropping from 66 percent to 51 percent.

The second greatest barrier was operating a profitable business given 'price point' challenges, as selected by 39 percent of respondents. This has been a noticeable increase on previous years in which around one-quarter of respondents typically selected it. This rise could be for a couple of reasons, namely that cost/price point challenges have indeed become a more pressing issue due to the pandemic or demand recession driven reasons or it could be that it is a relative increase, given that other barriers have reduced. Nonetheless, this rise indicates a widely perceived challenge.

Completing the top barriers this year were 'taxation issues' (36 percent), which has consistently been selected by around one-third of respondents since 2015, while 'cumbersome government approvals', 'corruption' and 'finding a suitable partner' (all 28 percent) were jointly selected fourth most frequently.

FIGURE 7
BARRIERS TO DOING BUSINESS



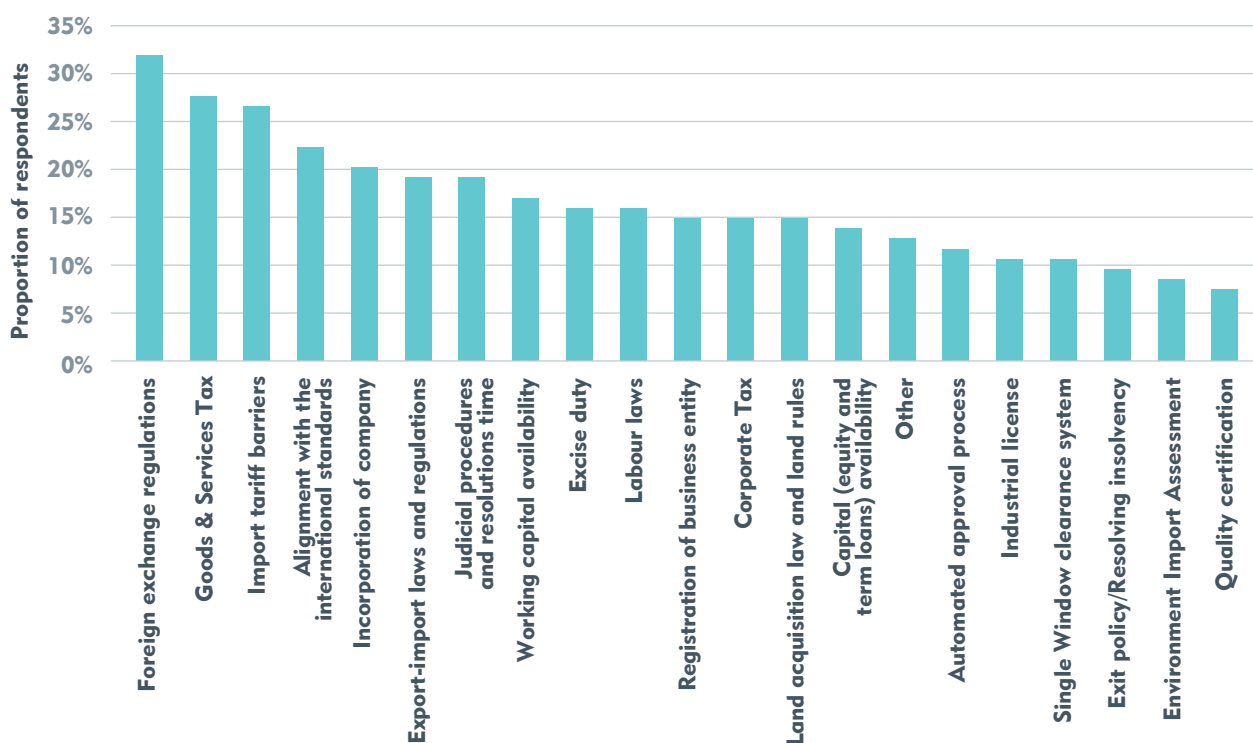
These barriers are problematic across the world, so although not unique to India are acutely relevant. In 2017, India introduced the Goods and Services Tax (GST) to bring uniformity to the country's tax system. Businesses very much welcomed this reform, but many are still coming to grips with the new systems and processes.

UK investors expect the certainty of a stable tax regime. UK businesses tend not to anticipate that key rules of the game would be changed drastically after their investments have been made. From 2012 onwards, the policy of retrospective taxation has been a dampener in the inflow of foreign capital from the UK and elsewhere into India. Its redressal would remove a significant barrier to do business.

An addition to the Report this year is a closer examination of 'legal and regulatory barriers' due to it consistently being cited as the most significant barrier to doing business in all our *Doing Business in India* reports.

In taking this deeper dive, we discovered that the most pressing impediments were 'foreign exchange regulations', 'goods and services tax', and 'import tariffs'. All three were selected by at least one-quarter of respondents in their top 5. 'Alignment with international standards' and 'incorporation of company' were also notable barriers.

FIGURE 8
MOST PRESSING LEGAL AND REGULATORY BARRIERS

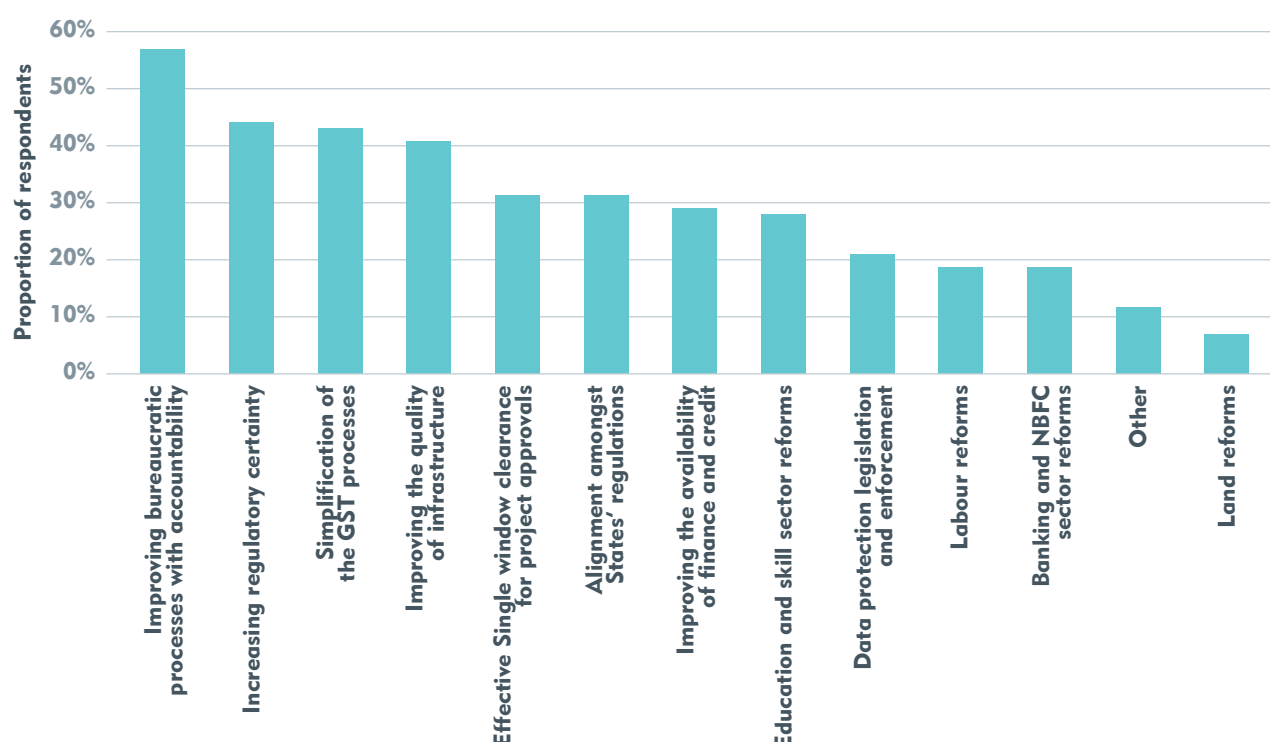


4.3. IMPROVING INDIA'S BUSINESS ENVIRONMENT

To work towards bettering the ease of doing business in India, we sought to substantiate which reforms UK companies working in India would benefit from the most. Feedback from business is critical, as those operating on the ground relay their experience.

More than half of respondents selected 'improving bureaucratic processes with accountability' (57 percent) in their top 5 reforms. 'Increasing regulatory certainty' was the second most popular reform (44 percent), followed by 'simplification of the GST processes' (43 percent) and 'improving the quality of infrastructure' (41 percent).

FIGURE 9
MOST DESIRED REFORMS



In order to improve India's business environment most effectively, it is important to prioritise not only the most underperforming aspects of the business environment, but also the most important and those that can be improved in shorter timeframes.

The Goods and Services Tax is clearly an area to prioritise, with it coming up as the second greatest barrier among legal and regulatory impediments (see figure 8) and as the third most desired reform. The UKIBC believes the introduction of GST has been a positive step and as it is still relatively new and evolving, there has been some disruption in the short-term due to complications in adhering to new tax policy and associated processes. In the medium to long-term, we are confident that it will benefit India by bringing greater alignment between states and union territories.

Similarly, 'improving bureaucratic processes with accountability' and 'increasing regulatory certainty' are unsurprisingly the top two reform priorities for companies, considering that they also told us that legal and regulatory impediments were the number one barrier to doing business, and

rated 'efficiency and effectiveness of government process/quality of bureaucracy' and 'regulatory certainty' as the areas not performing so strongly.

'Alignment amongst states' regulations' and 'effective single window clearance for project approvals' were also highly sought after (both selected by 31 percent), as was 'improving the availability of finance and credit' (29 percent), 'education and skill sector reforms' (28 percent), and 'data protection' (21 percent).

Land, labour, and banking and NBFC reforms turned out to be the relatively less sought-after ones. One reason could be since most UK firms covered in the survey had invested in India earlier and are already in operation, they are well beyond the land and labour issues. This could also be linked to India's economic stimulus response to COVID-19 which has particularly focused on labour laws and liquidity, including collateral-free loans and a partial credit guarantee scheme to increase liquidity for NBFCs.

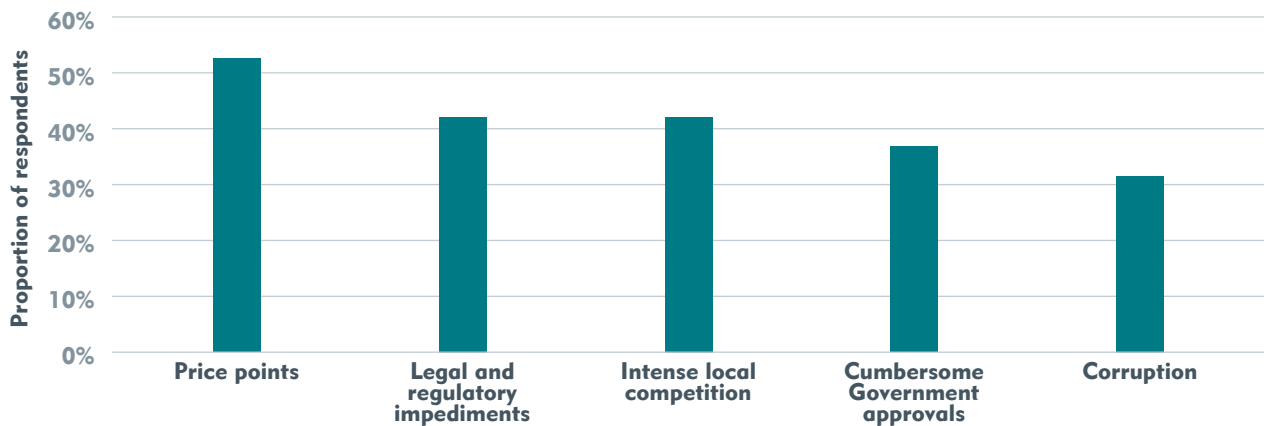
5. SECTOR ANALYSIS

We also looked at the top barriers and reform priorities by sector for six sectors: Advanced Engineering and Manufacturing; Information and Communications Technology; Professional, Financial, and Legal Services; Food and Drink; Energy; and Education and Skills. Although all sectors have been identified as providing opportunity for greater collaboration, looking at the barriers and reform priorities at a sector-level enables us to consider which actions to take to help specific organisations and groups.

5.1. ADVANCED ENGINEERING AND MANUFACTURING

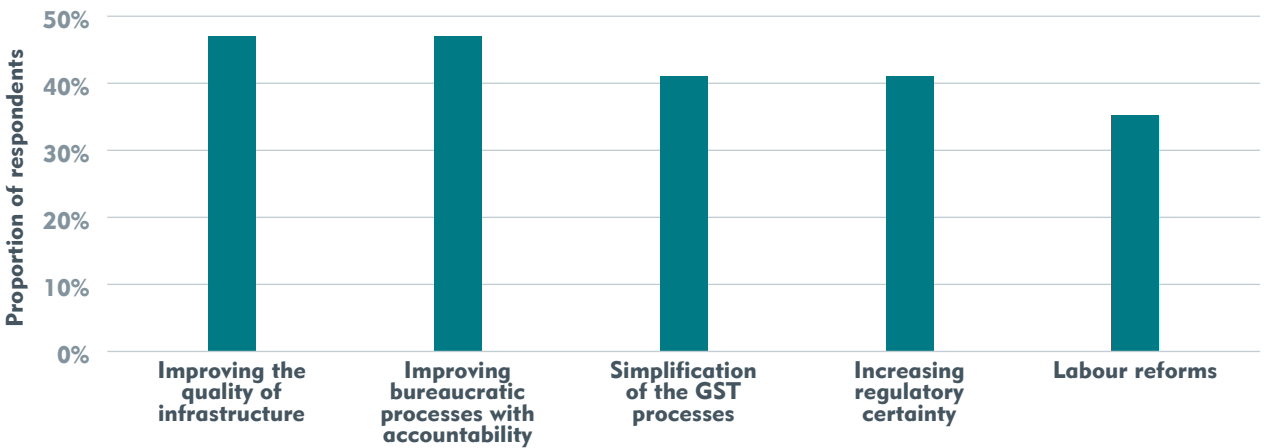
For advanced engineering and manufacturing companies, 'price points' was the greatest barrier to doing business, followed by 'legal and regulatory impediments' and 'intense local competition'. PM Mr Narendra Modi's 'Make in India' campaign has sought to make India the world's manufacturing hub, and has had some worthwhile outcomes; it is therefore not surprising to see local competition a particular barrier here.

FIGURE 10
ADVANCED ENGINEERING AND MANUFACTURING - TOP 5 BARRIERS TO BUSINESS



'Improving the quality of infrastructure' and 'improving bureaucratic processes with accountability' were the most desired reforms.

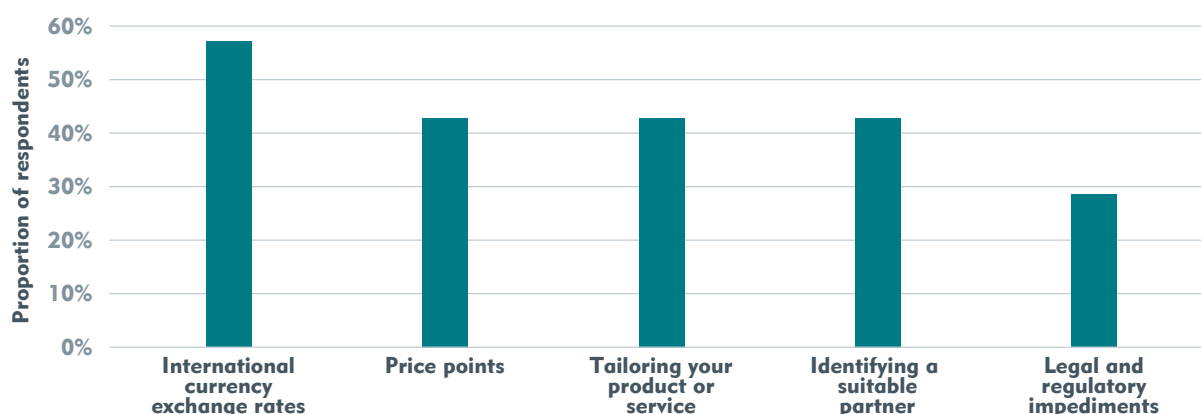
FIGURE 11
ADVANCED ENGINEERING AND MANUFACTURING - TOP 5 REFORM PRIORITIES



5.2. INFORMATION AND COMMUNICATIONS TECHNOLOGY

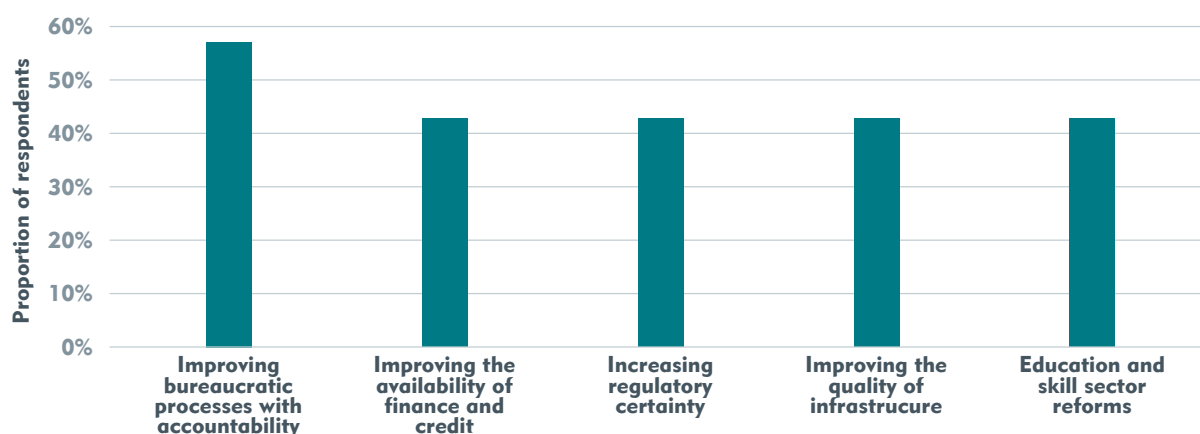
For ICT companies, 'international currency exchange rates' were selected as the most significant barrier as a large component of their business is in foreign currencies, especially in case of IT-ITeS companies. 'Price points', 'tailoring your product or service' and 'identifying a suitable partner' were also frequently selected.

FIGURE 12
ICT - TOP 5 BARRIERS TO DOING BUSINESS



'Improving bureaucratic processes with accountability' was the most sought-after reform. Four reforms were the next most popular, namely 'improving the availability of finance and credit', 'increasing regulatory certainty', 'improving the quality of infrastructure', and 'education and skill sector reforms'.

FIGURE 13
ICT - TOP 5 REFORM PRIORITIES

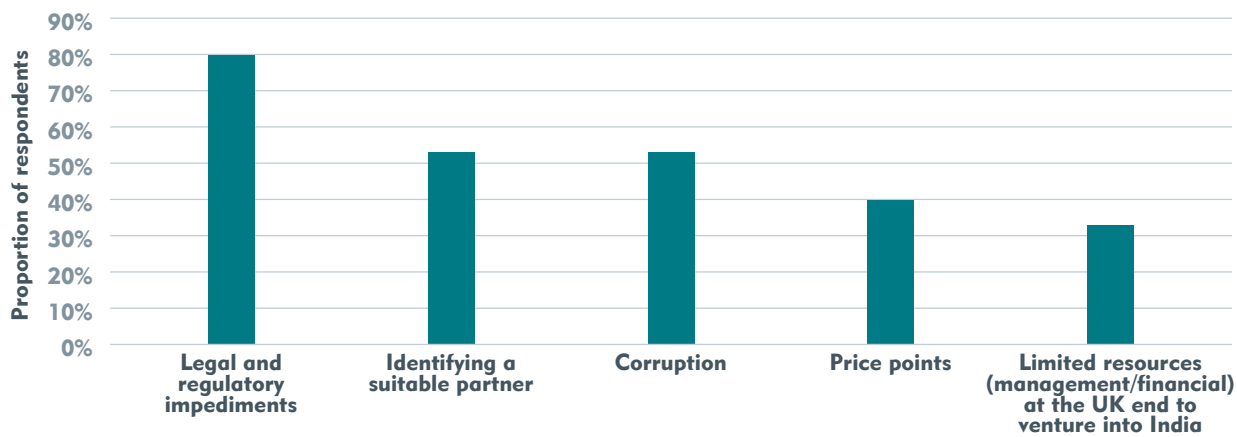


It has been India's goal, and indeed most countries around the world, to improve the roll out of digital infrastructure and skills. The selection of infrastructure and education and skill sector reforms by ICT firms provides constructive feedback to India to ensure its population are well educated, appropriately skilled and digitally literate.

5.3. PROFESSIONAL, FINANCIAL AND LEGAL SERVICES

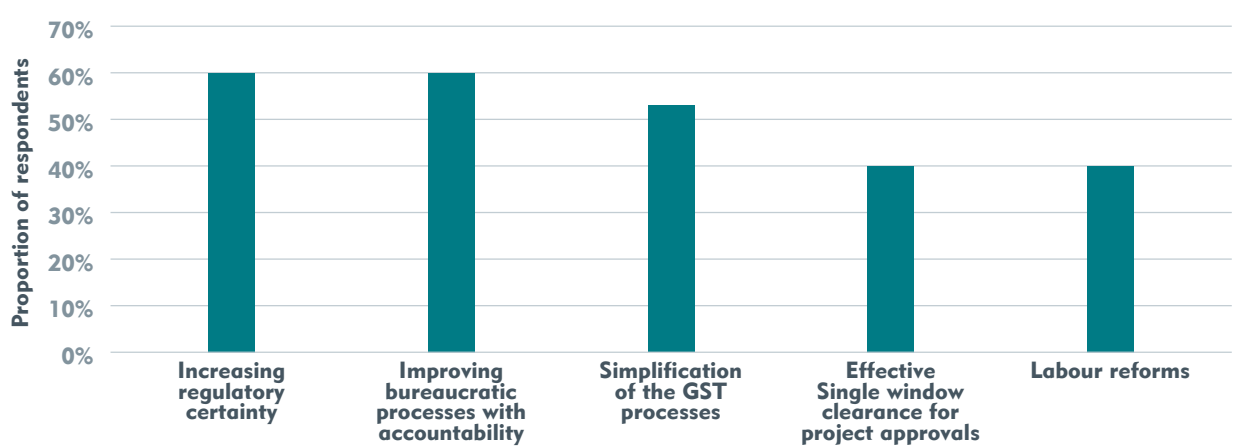
'Legal and regulatory impediments' was clearly the most problematic barrier for professional, financial and legal services. 'Identifying a suitable partner' and 'corruption' were also frequently highlighted.

FIGURE 14
PROFESSIONAL, FINANCIAL AND LEGAL SERVICES - TOP 5 BARRIERS TO BUSINESS



'Increasing regulatory certainty', 'improving bureaucratic processes with accountability' were jointly the most desired reform. 'Simplification of the GST processes' was also emphasised.

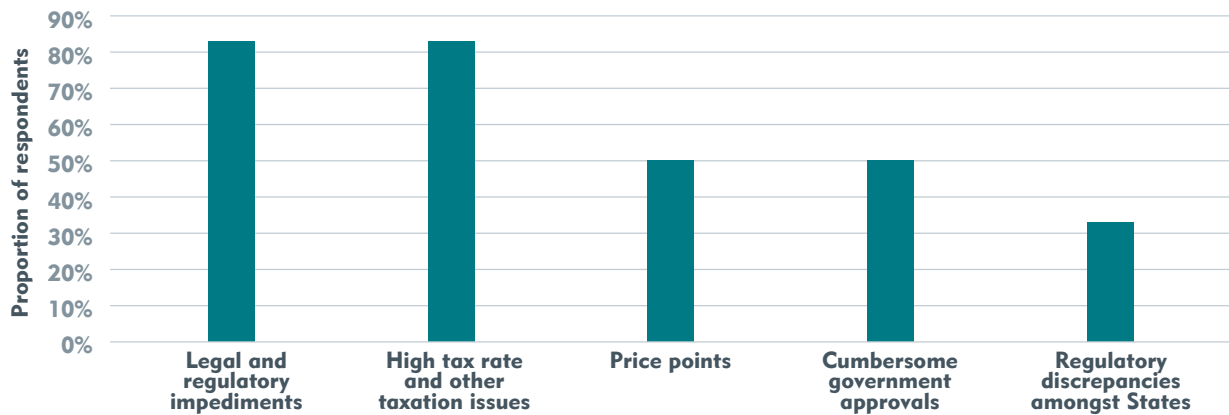
FIGURE 15
PROFESSIONAL, LEGAL AND FINANCIAL SERVICES - TOP 5 REFORM PRIORITIES



5.4. FOOD AND DRINK

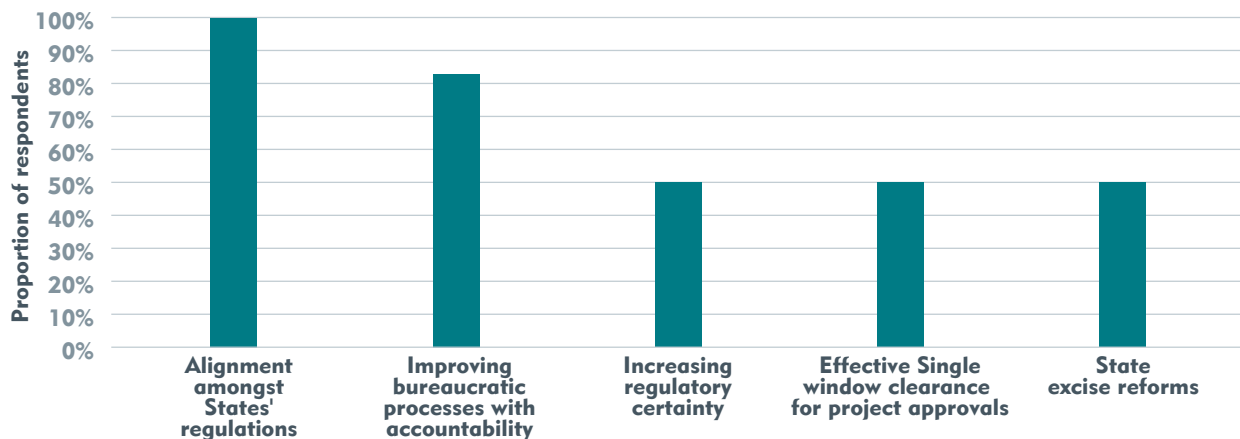
Given the nature of their manufacturing and trading business in India, two barriers were the focus of food and drink companies, namely, 'legal and regulatory impediments' and 'taxation'.

FIGURE 16
FOOD AND DRINK - TOP 5 BARRIERS TO BUSINESS



Every food and drink company surveyed selected 'alignment amongst states' regulations' in their top 5 reform priorities, sending a clear message given the huge variation among Indian states on this front. 'Improving bureaucratic processes with accountability' was also a sought after reform.

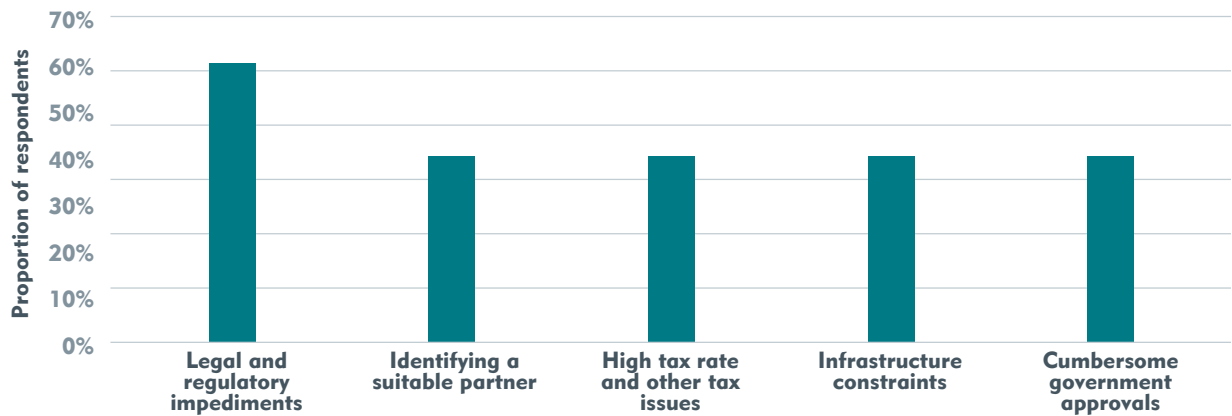
FIGURE 17
FOOD AND DRINK - TOP 5 REFORM PRIORITIES



5.5 ENERGY

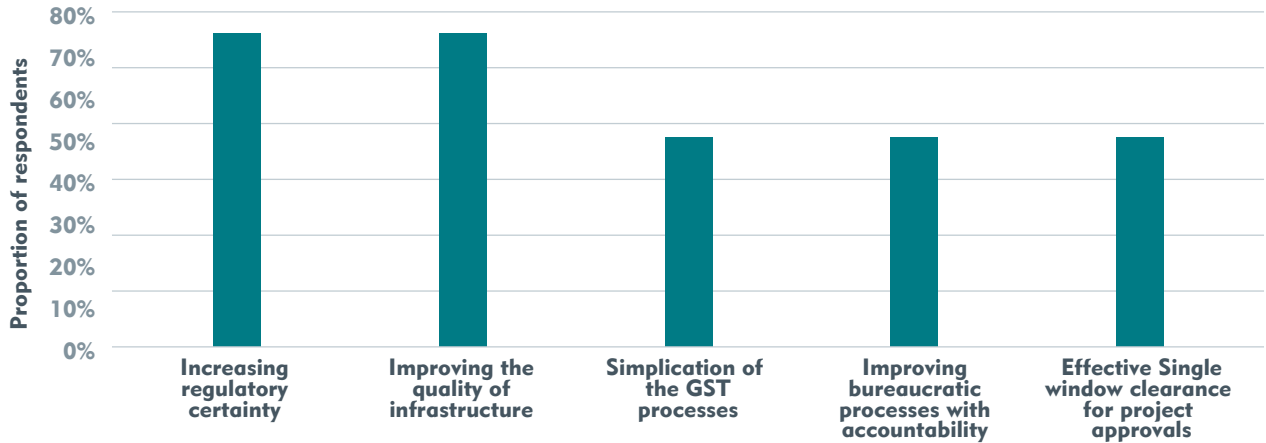
Since the energy sector entails huge capital outlay with a clear expectation of regulatory certainty, 'legal and regulatory impediments' were stated as the main barrier to doing business. 'Infrastructure constraints' and 'identifying a suitable partner' were among the next most selected barriers to doing business.

FIGURE 18
ENERGY - TOP 5 BARRIERS TO BUSINESS



'Increasing regulatory certainty' and 'improving the quality of infrastructure' were the most desired reforms for energy companies.

FIGURE 19
ENERGY - TOP 5 REFORM PRIORITIES

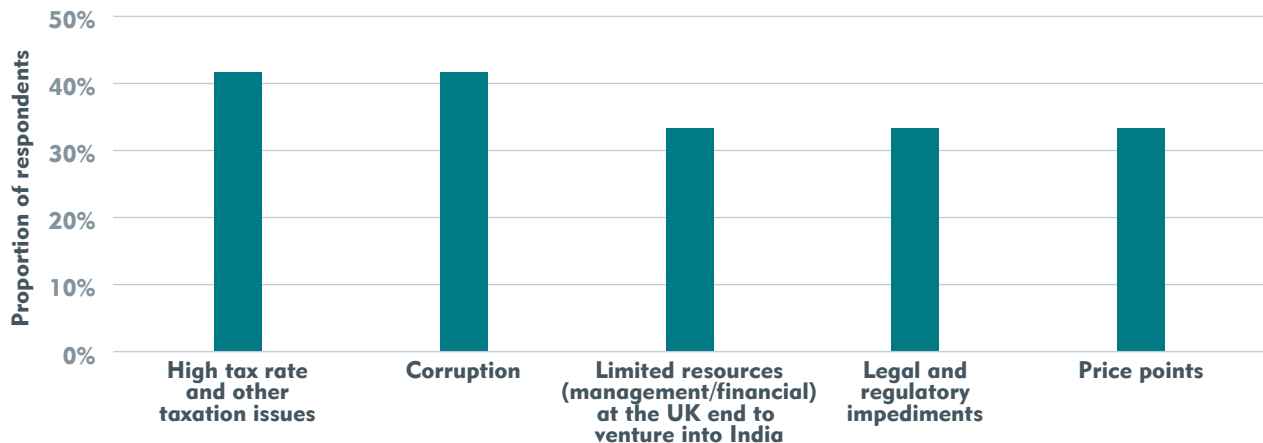


The combination of 'infrastructure constraints' among the barriers and desire for better quality in reform priorities reveals clear feedback from those in the energy sector for infrastructure improvements.

5.6. EDUCATION AND SKILLS

'Taxation issues' and 'corruption' were highlighted by higher education institutions as the most pressing barriers to doing business in India. 'Limited resources (management or financial)' and 'price points' were also mentioned as holding back HE institutions from entering India or doing more business with India.

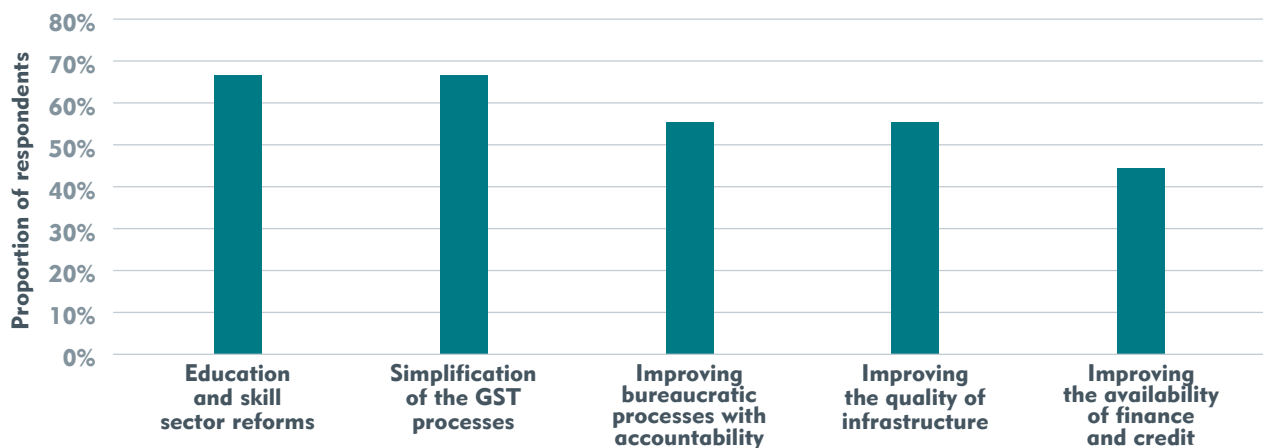
FIGURE 20
EDUCATION AND SKILLS - TOP 5 BARRIERS TO BUSINESS



Unsurprisingly, 'education and skill sector reforms' were the most selected reform priority.

There have been significant reforms, and progress, in recent times. India's new National Education Policy commendably puts emphasis on enhancing quality, equity, universal access, social inclusion, flexible degrees, teacher training, skill development, research and embedding technology in all aspects of education. It also opens up greater opportunity for international collaboration, including allowing certain foreign universities to set up campuses in India.

FIGURE 21
EDUCATION AND SKILLS - TOP 5 REFORM PRIORITIES

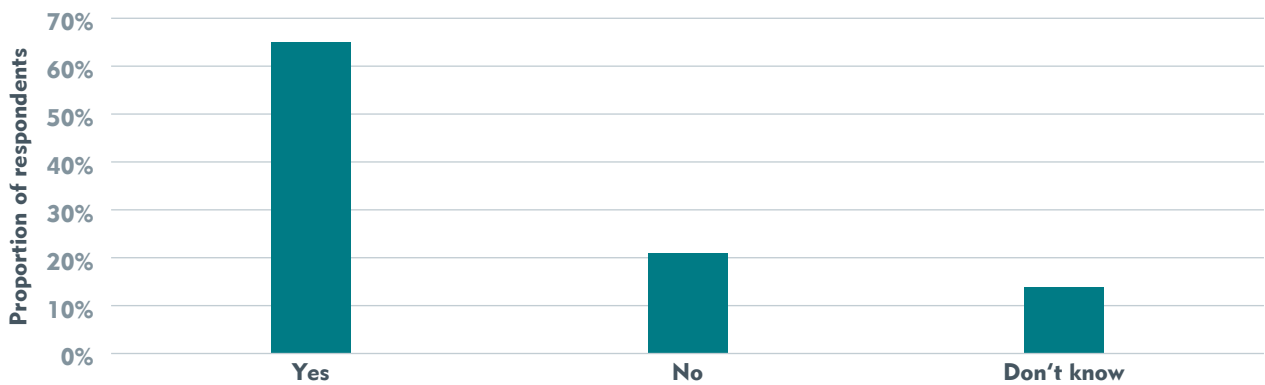


6. IS IT GETTING EASIER TO DO BUSINESS IN INDIA?

Results so far suggest that India’s business environment is improving, in light of the increased scores of individual factors (see section 4.1). To confirm this outlook, we asked respondents explicitly what they think.

UK companies overwhelmingly agreed that it is getting easier to do business in India, with 66 percent saying so. Although, 21 percent were in disagreement and the remainder were not sure.

FIGURE 22
IS IT GETTING EASIER TO DO BUSINESS IN INDIA?



We heard wide-ranging reasons as to why companies were, or were not, optimistic of the ease of doing business in India.

For those more positive, they are largely in agreement that the Government of India, led by Prime Minister Mr Narendra Modi, is pro-business, and they have, through their own experience, felt the support of Government in progressive policy making and economic reforms.

Moreover, improvements to the country’s infrastructure, including the focus on digitalisation, have been beneficial, according to several respondents.

On the other hand, those who were not optimistic felt that reforms have been slow, and policy and regulations have been inconsistent.

7. NEW CHALLENGES - OR OPPORTUNITIES - TO DOING BUSINESS

7.1. BREXIT

With the transition period ending on 31 December 2020, we asked companies whether Brexit would impact their business with India, a question we first introduced in our 2019 report.

A very positive result found that for the majority (69 percent) it will have no impact. Moreover, for 31 percent it has caused the company to plan to do more business with India. On the other hand, like last year, no companies plan to do less business with India as a result of Brexit. Therefore, on an overall basis, Brexit is likely to have a favourable impact on the business footprint of UK firms in India.

FIGURE 23

WILL THE UK'S EXIT FROM THE EU IMPACT YOUR BUSINESS WITH INDIA?



The UK is well placed to collaborate and provide support to India across numerous sectors, from advanced manufacturing to healthcare and higher education, with the UK's technological proficiencies a key advantage to the trade and investment relationship.

If these opportunities are supported by improvements in the ease of doing business, we should see cooperation between the UK and India continue to grow the already significant relationship that both countries share.

At the Joint Economic and Trade Committee (JETCO) deliberations in July 2020, the UK and India committed to an Enhanced Trade Partnership, seen as a roadmap to a future Free Trade Agreement (FTA). The immediate priority is to tackle market access barriers, which will not only expand bilateral trade and investment, but build confidence and momentum towards a free trade agreement (FTA). As this report has demonstrated, it is not just Government but UK companies that are committed to India, and will continue to be so in 2021 and beyond.

7.2. COVID-19

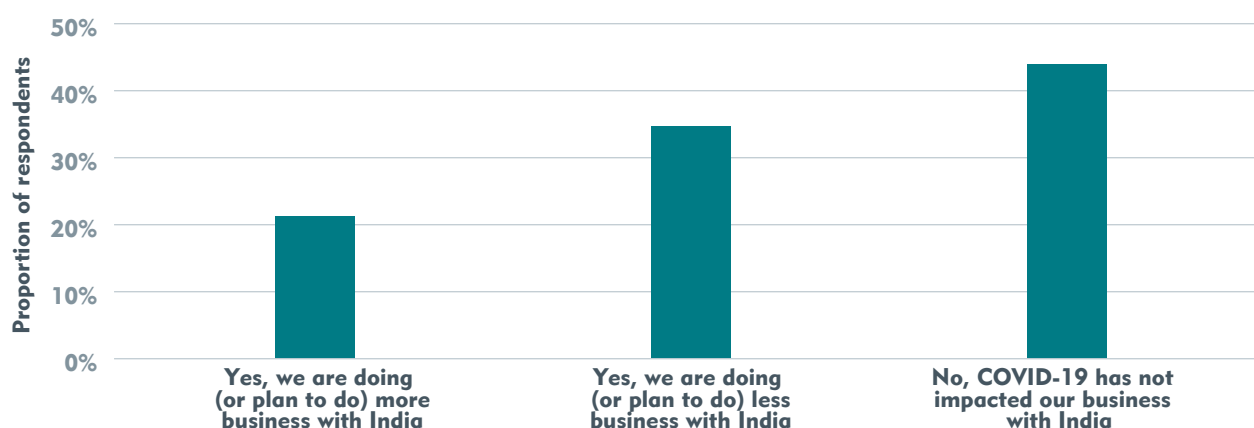
The COVID-19 pandemic has affected all walks of life since its onset in early 2020. Around the world, economies have been forced to shut down as the world navigates the all-pervasive challenge. In absolute terms, the global economy had shrunk in size with negative GDP growth in the UK and India in the first six months of the financial year 2020-21.

One impact of the pandemic has been the increased reflection by companies on global supply chains. UK firms, like many multi-nationals, have started looking at diversifying their supply chains as a result of the pandemic, and India, with its already large and growing market, presents an attractive destination.

The most common response from our cohort was that COVID-19 has not impacted their company's business with India, as indicated by 65 percent. In fact, for around 1/3 of those, their company is, or plans to do, more business with India as a result of COVID-19.

For 35 percent, however, they are doing (or plan to do) less business with India. Understandably, this was for multiple reasons, including interruptions to work, especially due to travel restrictions, the negative financial impact that some companies have felt, the demand recession, and the continued uncertainty that has caused some to pull back on certain areas of work.

FIGURE 24
IMPACT OF COVID-19



UK industry has long invested in India across sectors and it is not just the shift to reducing reliance on China or other areas that will see that grow, but directly the rapid improvement in the operating environment in India and the growing opportunities as the Indian economy continues to achieve its full potential on the world stage.

COVID-19 has created further incentive in both the public and private sectors to diversify supply chains. The Government of India has responded by outlining its Atmanirbhar Bharat mission which we take a look at it in the next section of this report.

7.3. ATMANIRBHAR BHARAT (SELF-RELIANT INDIA)

In May 2020, Prime Minister Mr Narendra Modi urged his people to go 'vocal for local' and support indigenous business by buying Indian products and services as part of the promotion of his Government's Atmanirbhar Bharat mission.

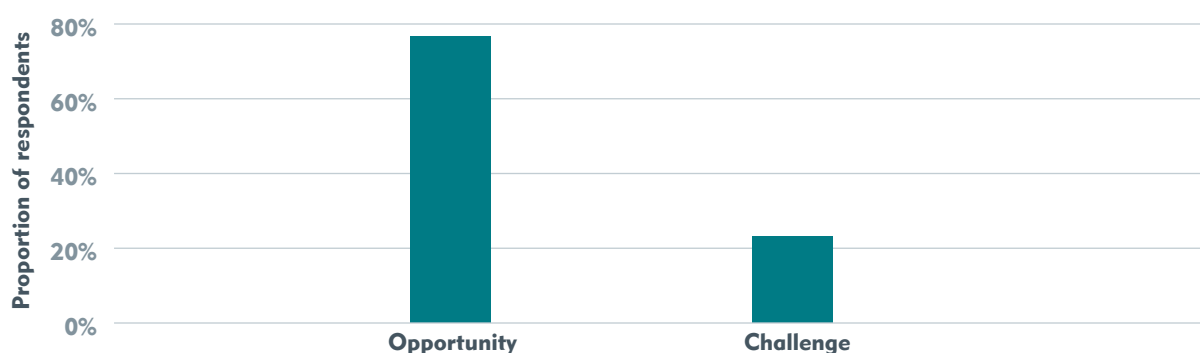
Thankfully, the Government of India later clarified that local does not only mean products made by Indian companies, but also those manufactured in India by multinational companies. Furthermore, India's Finance Minister has clarified that Atmanirbhar Bharat would mean more integration, rather than isolation, for India's industrial economy with global businesses.

So, the Government of India has confirmed that Atmanirbhar Bharat will not cause India to turn away from international collaboration, but what is the consensus among business?

We asked UK companies whether they thought Atmanirbhar Bharat was an opportunity or a challenge to trade and investment in India. More than three quarters of respondents (77 percent) were positive, believing it is an opportunity for UK companies to do more business in India.

FIGURE 25

IS ATMANIRBHAR BHARAT AN OPPORTUNITY OR CHALLENGE?



The positive results are unsurprising considering that UK companies are already deeply integrated across India. There is enthusiasm amongst UK companies to be a part of and support India's self-reliant mission and the Government of India recognises the benefits of continued UK-India collaboration.

Mr Modi has determined five pillars for achieving self-reliance: 1) quantum jump in the economy, not incremental growth; 2) investments in infrastructure; 3) technology-driven services; 4) demographic dividend; and 5) reforming the supply chain.

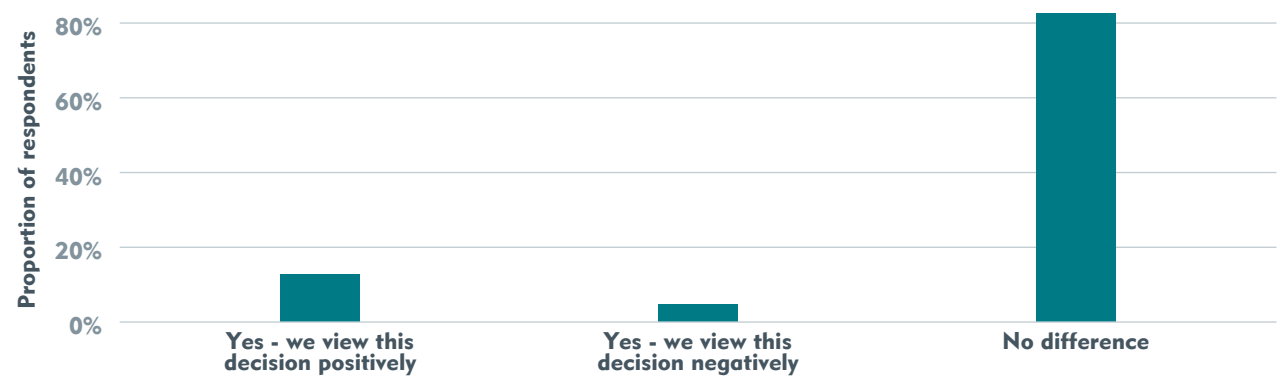
These pillars should help to attract foreign investment to support indigenous growth. If India is to develop into the USD 5 trillion economy and a geopolitical superpower it aims to become, international collaboration, trade and investment will be essential. In particular, trade in goods and services needs to continue to flow. Our findings here strongly confirm that UK companies are on board and approve of PM Modi's objectives, viewing it as an opportunity.

One of the Indian Government’s reforms as part of this overarching mission has been the decision not to compel government organisations to undertake global bidding for procurement tenders worth up to INR 200 crore (GBP 20 million).

We asked respondents whether that had an impact on their work in India.

For the vast majority (83 percent), it makes no difference. Of those who are impacted by the decision, most (13 percent) were in favour of the policy, with just 4 percent viewing the decision negatively.

FIGURE 26
IMPACT OF GOI DECISION NOT TO COMPEL GOVERNMENT ORGANISATIONS TO UNDERTAKE GLOBAL BIDDING FOR PROCUREMENT TENDERS



India has made great progress in terms of economic development since opening up to international markets in 1991 and the ambition to become the world’s manufacturing powerhouse is indeed appropriate. But to do so, India will need imports and technology and knowledge transfers if it wants to be a competitive exporter. UK businesses remain committed to India and want to be part of and support India’s Atmanirbhar Bharat mission.

8. DOING BUSINESS AT STATE LEVEL

We have already looked at why UK companies are in India (see section 3). Yet, India is made up of 28 states and 8 union territories. Each one is distinct, with variations in languages, cultures, outlooks, laws and regulations. Accordingly, we took a deeper dive to look at why companies are in certain states in India due to the highly different environment in each.

8.1. LOCATION PULL FACTORS

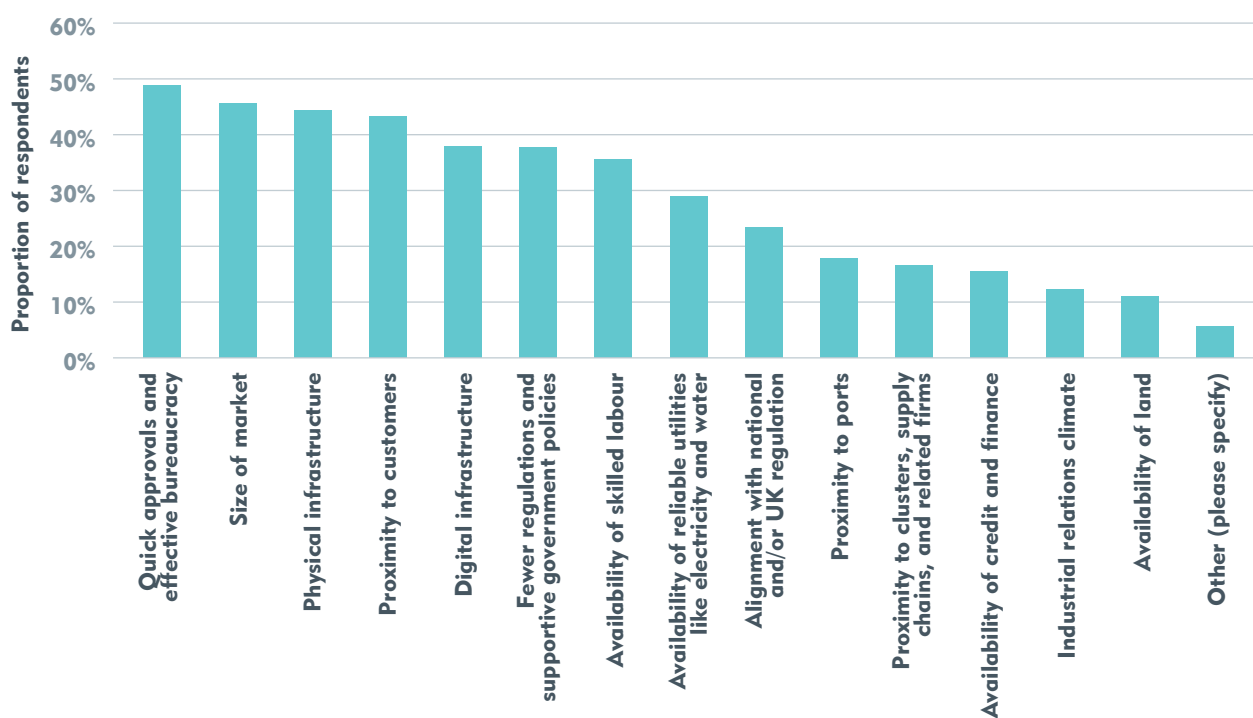
We asked companies what they look for when determining where to do work in India in order to find out why companies locate where they do and to help Indian states to identify investors' priorities.

These factors are a mixture of those pertaining to the ease of doing business, like approvals and regulations, and market attractions, such as size of the market and available labour force.

We found that the most important reason, on average, for UK companies in deciding where to locate in India was 'quick approvals and effective bureaucracy', as selected by 49 percent. Size of market (46 percent), physical infrastructure (44 percent) and proximity to customers (43 percent) were the next most frequently cited factors.

Other significant factors included digital infrastructure (39 percent), fewer regulations and supportive government policy (38 percent), and availability of skilled labour (36 percent).

FIGURE 27
LOCATION FACTORS



State governments are the main architects of their own business environment, due to each having autonomy over many regulations, as well as differing views and priorities. The success of UK and other international businesses working in India can consequently depend on where in India a company chooses to operate.

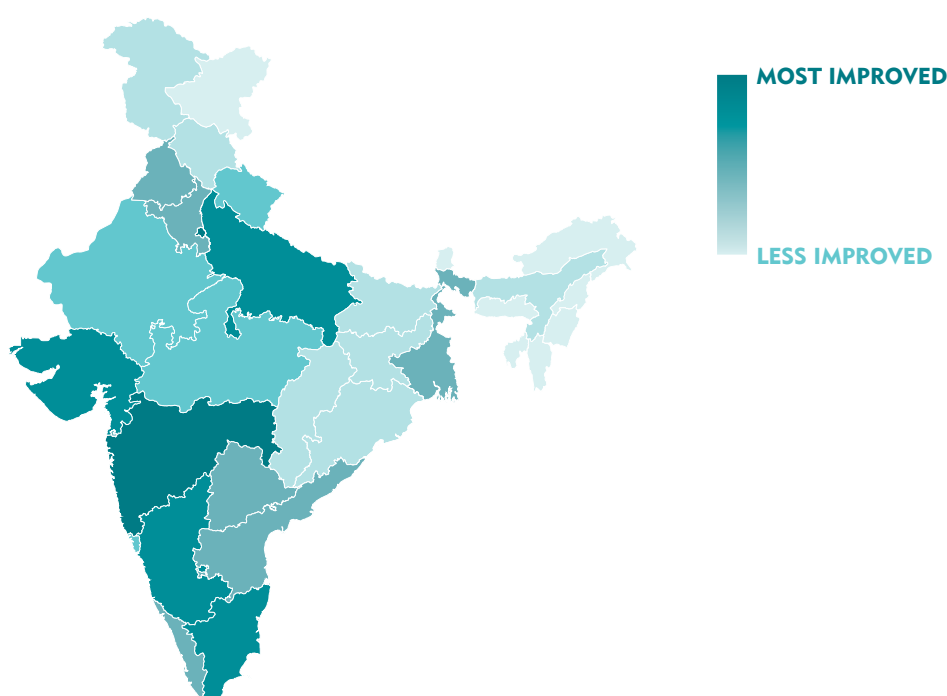
Although the Government of India is pushing its own centralised agenda to develop India and create a better business environment, it has also pro-actively encouraged state governments to improve the business environment at the state level. This has led to competition between states to attract investment, which in turn creates more jobs, economic activity and tax that can be re-invested into state infrastructure such as education, healthcare and physical infrastructure. We recommend that Indian states should align their development plans with national policy to attract international investment, while also playing to state strengths.

8.2. STATE PROGRESS

So which states do our UK respondents think have made the most improvement on its business environment?

FIGURE 28

INDIA'S STATES AND UNION TERRITORIES BY IMPROVEMENT TO EODB



For the third year running, Maharashtra came out as the most improved state, after it was selected by 24 percent of organisations. Karnataka was second, selected by 20 percent.

Delhi (16 percent), Gujarat (12 percent), and Tamil Nadu (12 percent) were all viewed favourably too.

Telangana (9 percent), Uttar Pradesh (9 percent), Andhra Pradesh (8 percent), Chandigarh (7 percent), and Haryana (7 percent) complete the top ten.

In the next section, we take a look at several states in depth to consider the variability between states and look at the range of reforms that states have taken in the last year to develop their business environments.



8.3. MAHARASHTRA

Maharashtra is the largest of India's states in economic terms, representing nearly 15 percent of India's GDP, 23 percent of India's exports, and receives 30 percent of FDI inflow into India. Being an industrial powerhouse, the state is always at the forefront of prospective investors from both within and outside the country.

The state offers a rich talent pool, growing digitisation, robust infrastructure and a progressive policy ecosystem. Having one of the strongest port infrastructures in the country, it maintains its position as a powerful export hub and the top-performing state under the Export Preparedness Index 2020 "transport connectivity" pillar, attributed to well-established air-cargo facilities, multimodal logistic hubs, and inland container depots.

Maharashtra provides a mature industrial ecosystem for sectors including: Automobile and Auto-Components; Biotechnology and Pharmaceutical; Chemicals; Electronic System Design and Manufacturing; Engineering; Food Processing; Information Technology; and Textiles and Garments.

Maharashtra Industrial Development Corporation (MIDC) is the nodal investment promotion agency under the Government of Maharashtra. It administers the investment lifecycle in the state from outreach to aftercare and handholds investors for support and facilitation. MIDC has built over 289 industrial areas spread across nearly 250,000 acres of land, equipped with 24/7 utilities, and strong connectivity.

The state has recently launched progressive initiatives under Magnetic Maharashtra 2.0:

- Plug and play infrastructure: MIDC will offer ready-to-move in factory environment complete with advanced utilities, and affordable pricing structure to be made available with sectoral tailoring. Nearly 40,000 acres of land in key industrial areas has been made available for greenfield and brownfield investments, with one-quarter of total greenfield area also developed for rental basis.
- Relationship managers and relationship executives: In lieu of proposed investments, and the state's intent to reiterate its support to every investor, MIDC has initiated the 'Investor First Programme' for closer handholding.
- Maha Parwana: A single-window clearance system to fast track industrial permissions as quickly as 24 hours. All FDI and investment proposals exceeding INR 50 crore will receive an assurance letter from the government to start construction and production without seeking certain permits.
- Maha Jobs: Ready access to unskilled, semi-skilled and skilled talent. In parallel, it will also allow youth of the state to list skillsets on the portal across 17 sectors and 950+ job roles.

The USP of Maharashtra to UK businesses:

In July 2020, the Government of Maharashtra and UKIBC signed an MoU to further deepen the strong economic ties between UK businesses and Maharashtra and to deliver investments, jobs and economic growth for both countries.

There is tremendous potential to expand existing cooperation to previously unexplored areas. The state has identified many thrust sectors that will be at the centre of policy incentives for the near future. Many of these like engineering, defence, automotive and, industry 4.0 are also incumbent strengths of the UK.



8.4. KARNATAKA

Karnataka is a leading state in India with a strong industrial base growing at 9.6 percent per annum. The state is ranked first in NITI Aayog's India Innovation Index and Bengaluru, the state capital, is the fourth largest technology cluster in the world.

With more than 400 R&D and innovation centres, the largest number of technical and medical institutions and the highest number of start-ups in Asia, Karnataka is a powerhouse of innovation.

Karnataka has prioritised nine key sectors: Aerospace and Defence; Capital goods and Machinery; Software and IT services; Electronics; Auto Manufacturing; Pharmaceuticals; Food processing; Toys; and Textiles.

In the last year, the state has taken several measures to improve the ease of doing business.

Over the last few months, the state's Government has taken steps to simplify labour laws, providing flexibility in employment contracts, longer validity period and auto renewals for licenses, and overtime limit per quarter being increased to 125 hours (from 75 hours) among other reforms.

The state's new Industrial Policy (2020-25) offers attractive incentives and support to investors:

- Land investment: 100 percent reimbursement of land conversion fee; 100 percent reimbursement of stamp duty; 0.1 percent concessional registration charges
- Investment promotion subsidy of up to 2.25 percent of annual turnover for 6-10 years with a ceiling of 40-60 percent Value of Fixed Assets

The state has also relaxed its labour laws to aid investors, including:

- Longer validity period and auto renewals for labour licenses
- Flexibility in employment contracts
- Overtime limit per quarter increased from 75 to 125 hours with the amendments to the Factories Act, 1948
- Exemption limit for Industrial Disputes Act increased from 100 to 300 workers
- Exemption limit for Contract Labour Act (seeking licenses) increased from 20 to 50 workers

The state is amending the Karnataka Industries (Facilitation) Act to enable investors to commence operations early. This is in addition to setting up a single-window for investors and handling grievances in a time bound manner. Amendment to the facilitation act for improving ease of doing business include approvals relaxed by introduction of a moratorium, 3 years long moratorium period, with 7 departments covered. Along with transparent and convenient processes entailing a single portal for all approvals and clearances, spanning across multiple departments, and time-bound grievance handling.

Karnataka heralds key USPs for UK businesses:

The state has a readily available industrial ecosystem, a wealth of skilled labour supported by eased labour norms, as well as a well-connected and efficient logistics network. This attractive proposition is supported by Karnataka's revamped processes to facilitate the ease of doing business, with multiple financial incentives to create a favorable environment for investors.



8.5. GUJARAT

Gujarat is the manufacturing powerhouse of India and is one of the leading industrialised states, achieving economic growth of over 10 percent in the past 15 years. Gujarat accounts for the highest industrial output in the country with around 17 percent of total output in Annual Survey of Industries.

In FY 2019-20, Gujarat saw the highest national increment of 240 percent in FDI inflows from previous year as against a growth of 14 percent in FDI in India. This can be attributed to the state's policy driven business ecosystem. Today, the state is home to around 100 Global Fortune 500 companies.

Gujarat has performed among the top states in the Exports Preparedness Index by the Government of India and is also ranked first in the Logistics Performance Index of the Government of India.

Gujarat ranks first in the total output for chemical and chemical products, coke and petroleum products and textiles in the country. The state also has the highest number of factories and ranks second in the total output for production of both rubber and plastic products and basic metals. The state also is home to the highest number of pharmaceutical companies in India and has the second highest output in electric equipment and food products.

The Government is looking at Aerospace and Defense; Electric Vehicles, Electronic System Design and Manufacturing, IT/ITeS, and Banking, Financial Services, and Insurance as emerging sectors to build upon in the state.

Recent initiatives of the State government to support businesses include:

- Investor facilitation portal and centralised inspection system: The Government of Gujarat has set up an online investment facilitation portal that provides online approvals for around 200 business related applications relating to 16 government departments. From its inception in 2017, the portal has given over 550,000 online approvals. The state has also initiated the process for streamlining central inspection system to facilitate transparency and ease of doing business.
- First production then permission: As per the Gujarat Micro, Small and Medium Enterprises (Facilitation of Establishment and Operation) Act, 2019, any new MSME that wishes to set up operations in the state is exempted for 3 years from taking state related approvals.
- Gujarat Industrial Policy 2020: The state government has launched the Gujarat Industrial Policy 2020 in order to support businesses in the state. As part of this policy, large manufacturing units will be able to avail capital subsidies up to 12 percent of their fixed capital investments without any upper ceiling. The state provides government land on long term lease at 6 percent of market rate. The policy also provides provision for "relocation incentives" for industries planning to relocating their businesses from other countries to Gujarat.

USP of the State to UK businesses:

Key opportunities for UK companies include machine tools, electric power equipment, automation equipment, aircraft, motor vehicles and parts, electronics and communications equipment, metals, chemicals, petroleum, paper and paper products, food processing, textiles, clothing, other consumer goods, and renewable energy.

To facilitate the potential investment from UK to Gujarat, the state has set up a dedicated United Kingdom Desk at the Industrial Extension Bureau (iNDEXTb).



8.6. WEST BENGAL

West Bengal is the fourth largest state economy in India with a GSDP of USD 155.32 billion. The state is the 4th largest contributor to India's services GDP and 6th largest contributor to India's manufacturing GDP. With a consumer base of over 90 million, West Bengal is also a strategic gateway to South East Asia.

West Bengal offers a well-developed transport network consisting of India's third largest road network (3,15,404km), vast rail network (4000km) including the second largest Metro Rail network in the country and waterfront of 950km. The state is well connected through three airports. With two existing ports, two upcoming Deep-Sea Ports, a wide coastal front and vast network of inland waterways, representing 15.8 percent of India, the state is all establishing a big push in the maritime and hub for logistics sector.

Focus sectors for investment in the state include: Manufacturing Clusters; Engineering; Infrastructure; Power and Energy; Textiles and Apparels; Tourism; Transport and Logistics; IT and ITeS; Agro and Food Processing; and Social Infrastructure (Health, Education and Skills).

The State has introduced a number of industry-friendly policies and offers numerous industry specific and multiproduct growth centres and industrial parks with plug and play infrastructure available for investments. Exclusive centres exist for electronics, export processing and software technology, as well as 13 textile parks under Project TexPro. The Scheme for Approved Industrial Parks (SAIP) supports the private sector to set up industrial parks with government support, leading to 5 SME parks being developed across 550 acres of land.

In terms of ease of doing business, any statutory permission, from issuing of trade licenses to sanctioning building plans, conversion and mutation of land, environmental clearances, fire licenses, power connection and water permit, is now delivered within prescribed time lines of 15 to 60 days.

The state is proactive in developing the business environment; three recent initiatives to support business include:

- Time bound delivery of services enacted under Right to Public Services Act
- Single window system for Business enacted through the Single window Act
- Self-declaration and self-clarification introduced

UK businesses can benefit from the state's business environment alongside its USP for UK business:

The UKIBC signed an MoU with the State of West Bengal to boost business and industrial development in the state by proactively developing the business environment and strengthening collaboration with British businesses in West Bengal. This builds on important MoUs signed during Bengal Global Business Summit (BGBS) 2019, the flagship event of the State Government for Investment promotion in the state, for which the UK has been the partner country for BGBS 2016, 2017, 2018 and 2019. These include between UKIBC and State of West Bengal to increase co-operation, collaborate and share information that can help facilitate interactions and improve connections between UK businesses and businesses in the state of West Bengal, as well as with selected UK universities and between Urban Development & Municipal Affairs Department and Transport for London (TfL), UK.

9. CONCLUSION

The results of our survey suggest that India's business environment continues to improve. For UK companies and higher education institutions this presents a welcome development, expanding the scope for UK-India collaboration, trade and investment.

On the other hand, this presents a positive outlook and constructive feedback for the Indian government and domestic businesses who have actively worked to improve the country's business environment.

It has been positive to see the commitment from UK businesses, which, in spite of Brexit, COVID-19 and previous concerns around Atmanirbhar Bharat, have expressed their optimism towards the Indian growth story.

It is widely agreed that India is already establishing itself as an important global player, both economically and geopolitically, and that that journey is moving forward. In the not too distant future, India will be the largest country by population and the third largest in terms of the size of its economy.

Understandably, businesses want to be a part of that growth journey. From a UK perspective, that thought process is intensified by Brexit, in which the UK is forging new trading relationships, and COVID-19, which has caused firms to reevaluate global supply chains.

To attract foreign investment, India must continue to expand on its recent progress on the ease of doing business and address issues like retrospective tax which continue to be a dampener.

Should the feedback presented here from UK companies be taken on board, we would see UK trade and investment in India continue to grow, spurred on by an increasingly attractive market and an easier place to do business.

Contributors

Jayant Krishna, Group Chief Executive Officer
Kevin McCole, Managing Director
Kealan Finnegan, Manager
Abhay Sen, Senior Manager

Design

teammagenta

UK INDIA

BUSINESS COUNCIL

WHO ARE WE?

The UK India Business Council strengthens UK-India bilateral trade and investment ties through policy advocacy & strategic advisory services for business success; and supports governmental deliberations in both countries.

GET IN TOUCH

UK INDIA BUSINESS COUNCIL LONDON

15th Floor, Citibase, Millbank Tower
21-24 Millbank London SW1P 4QP
enquiries@ukibc.com
Tel: +44 (0)20 7592 3040

UK INDIA BUSINESS COUNCIL NEW DELHI

WeWork DLF Forum, Cyber City,
Phase III, Sector 24,
Gurugram – 122 002
Delhi NCR
enquiriesindia@ukibc.com
Tel: +91 (0) 124 502 6059

DOING BUSINESS IN INDIA HELPLINE

For support call +44 (0)20 7592 3040

WEBSITE

www.ukibc.com