Sterling access

UK companies supporting India's growth

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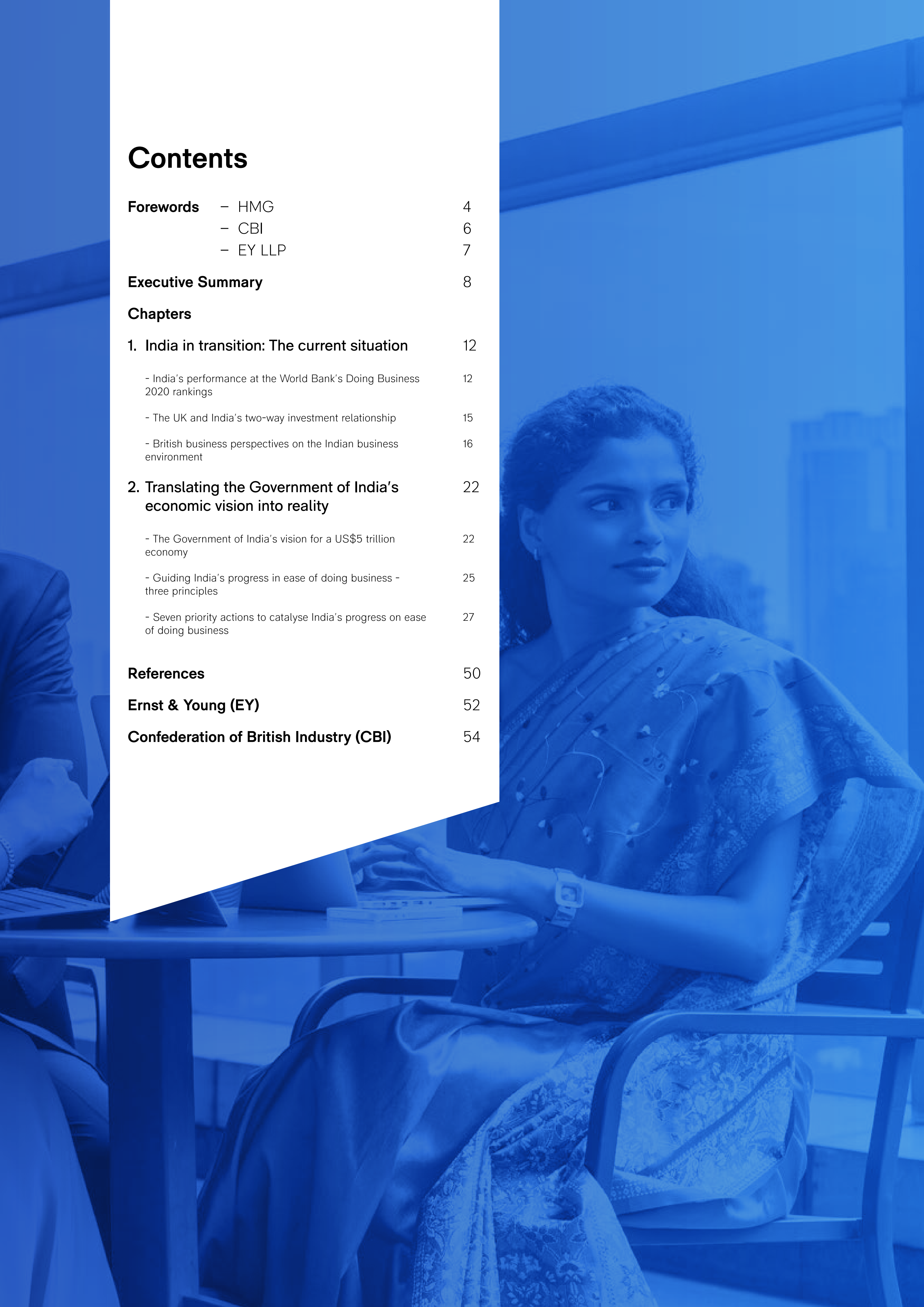
International Trade

Contents



Foreword HMG

It gives me great pleasure to introduce and support the *CBI-EY Sterling Access: UK companies supporting India's growth*, the first CBI white paper on Ease of Doing Business in India. This paper is the culmination of a survey of over 80 businesses across seven states over the past 12 months and is designed to inform both CBI members and the wider British industry.

This paper is timely, coming at a moment when the Government of India is focussed on reducing cost, time, documentation and procedures for the easier conduct of business in India. I am positive that the 'Three Guiding Principles' and 'Seven steps to catalyse India's progress on ease of doing business' identified within this report will support India in its goal to transform itself into a truly global investment destination.

Following the MoU signed between the UK and Indian Governments in 2016 to collaborate on Ease of Doing Business in India, we have completed a series of targeted projects as part of a three-year programme of technical co-operation. We will be delivering the programme through three distinct delivery models: first, through a Service Delivery Partner that has been selected following a competitive bidding process, second, through a partnership that began in April 2019 with the International Finance Corporation (IFC) under the World Bank Group and, third, through direct exchanges between UK Government Departments and their Indian Government counterparts. I am confident that this diversified delivery model will meet the varied opportunities emanating from Central and State Government departments of India.

Going forward, our programme can be split into three broad policy pillars – Better Regulation, Tax Administration and Trade Facilitation & Standards. Embedded into each of these work strands are the core World Bank Indicators that constitute the greatest opportunity for the UK and India to develop global benchmarks. We will pay particular attention to these indicators: Paying Taxes, Enforcing Contracts, Trading across Borders, Starting a Business, Registering Property and Resolving Insolvency. In addition, we aim to support India's ambition to develop a modern regulatory environment, helping to create a level playing field for both domestic and international businesses.

The UK-India relationship is crucial and continues to go from strength to strength. Between 2015 and 2018 - our bilateral trade has risen a significant 27%, demonstrating the interest from mutual industries and the vast potential of the Indian market. Businesses are the engine rooms of economic growth, job creation and prosperity - SMEs are at the core of this. A stable regulatory regime and 'ease' of business environment is vital to SMEs and start-ups: giving them the certainty they need to succeed and grow.

As the UK and Indian Governments work towards these mutual goals, it is important that we also look to provide the right frameworks to ensure our businesses are good employers and responsible corporate citizens: nurturing their ability to drive innovation, create skilled jobs, and boost economic growth.

As Prime Minister Modi has said – if we can make doing business easier, we will also make people's living standards better. As governments, that is our common aim and I am confident we can achieve this together.

Crispin Simon
HM Trade Commissioner South Asia
Department for International Trade

Foreword CBI

India's ambition to create a US$5 trillion economy and its striking improvement in the World Bank's Ease of Doing Business rankings from 142 in 2014 to 63 in 2020 inspire growing confidence among UK investors in India. This has encouraged them to look at deepening their presence in India and expanding future horizons.

The CBI in India, in partnership with EY, has conducted a deep-dive analysis in the last 12 months on the perspectives of British investors on current business conditions and what can be done to improve them still further. UK businesses suggest three principles to guide India's progress and identify seven key actions to catalyse rapid results.

We found that CBI members highlighted other issues which may or may not fall under World Bank parameters in their Ease of Doing Business rankings.

This white paper is by no means exhaustive. It seeks to support the commendable work already done by the Government of India on improving the ease of doing business in the country. We have tried to keep our focus sector-agnostic, by capturing macro-trends across sectors, which if resolved, would cascade improvements across the economy. We have highlighted a few case studies as examples.

We hope that this white paper will provide clarity and lay the foundation for future work as we continue to tackle barriers to trade and work together to achieve the US$5 trillion target.

Tackling the barriers that we identify here won't just benefit UK companies, but will benefit all companies operating in India, both Indian and foreign, and will benefit the whole Indian economy.

We thank our member partners EY for their excellent collaboration on the ground. We are grateful to all our members and the British High Commission in India for their continued support and guidance.

Shehla Hasan
Country Director
CBI India

Foreword EY

Trade and Investment have always been of great priority for governments and continue to grow in importance for emerging markets across the globe.

'Ease of Doing Business' has gained the attention of governments in these markets, as it has a direct bearing on the attractiveness of a particular country as an investment destination.

We wish to acknowledge the work being undertaken by the World Bank Group, particularly their 'Doing Business' report and the Department for Promotion of Industry and Internal Trade of the Government of India for its 'Business Reform Action Plan'.

In association with Confederation of British Industry, the UK's premier business organisation, we consulted with UK businesses operating in India to understand if the present reforms are meeting their requirements and what more can be done for British companies to enhance their investments and encourage other British businesses to invest in India.

The EY's Economic Development Advisory team is working with many state governments, the central government, the World Bank group and industry. Recommendations given here are based on the experiences of the EY team on these assignments as well as the analysis of other research work available.

The impetus given to improving the Ease of Doing Business in India in the past couple of years has sensitised many in the country's regulatory ecosystem. Many new online systems have been developed and regulations amended across India.

This new trend is encouraging. However, this is still work-in-progress and it will be some time before the full impact of these government efforts is felt.

Yours sincerely,

Adil Zaidi
Partner - Economic Development Advisory
EY LLP

Executive Summary

India's recent improvement in the World Bank's 'Ease of Doing Business' rankings from 142 in 2014 to 63 in 2020 has been encouraging. It has risen 79 places over the last six years. However, it has not been able to rise to the 50th spot, a target personally set by Prime Minister Narendra Modi.

It is hoped that the recommendations in this white paper will further support the Government of India's efforts to accomplish this target.

According to the latest World Bank's Doing Business 2020 report released on 23 October 2019, India rose 14 places compared to previous year's rankings, to feature among the top 10 performers on the list of 190 economies for the third time in a row. India scores highest in South Asia and is on the third spot among BRICS nations.

India improved its rank in 7 out of 10 World Bank indicators and has moved closer to international best practice (Doing Business Score) on 8 out of the 10 indicators.

Exhibit 1 List of Top 10 Performers in World Bank DB 2020 report

			Reforms making it easier to do business									
Economy	Rank	Change in DB score	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Saudi Arabia	62	7.7	✓	✓	✓		✓	✓		✓	✓	✓
Jordan	75	7.6					✓		✓			✓
Togo	97	7.0	✓	✓	✓	✓	✓					
Bahrain	43	5.9		✓	✓	✓	✓	✓	✓	✓	✓	✓
Tajikistan	106	5.7	✓				✓			✓		
Pakistan	108	5.6	✓	✓	✓	✓			✓	✓		
Kuwait	83	4.7	✓	✓	✓	✓	✓	✓		✓		
China	31	4.0	✓	✓	✓			✓	✓	✓	✓	✓
India	63	3.5	✓	✓						✓		✓
Nigeria	131	3.4	✓	✓	✓	✓				✓	✓	

Source: Doing Business database

This 79-place improvement has taken place owing to the commitment of the Government of India to carry out comprehensive and complex reforms demonstrating tangible progress. The Department for Promotion of Industry and Internal Trade (DPIIT) and other government departments have implemented various reforms to significantly cut the cost, time, documentation and procedures for the conduct of business in the country.

According to the Economic Survey 2018-19 published by the Indian Finance Ministry, India's objective to become a US$5 trillion economy requires a sustainable growth of about 8% from 2019 to 2025. To achieve this, securing greater foreign investment will be crucial.

British investors identify three principles that should guide the Government of India's future approach to improving the business environment, and seven more specific recommendations that could support immediate improvements in the ease of doing business.

The three principles to guide the Government of India's approach to further business reform are:

1. The time is now

A stable majority and strong political capital enjoyed by the government has created an opportunity to build consensus on further reforms to improve the ease of doing business. For example, beginning consultation with business and state governments on land and labour – building on the model used during the design and implementation of the Goods and Services Tax (GST) – would be welcomed by UK businesses.

2. Prioritise reforms which have a multiplier effect

The Government of India should prioritise reforms which have a multiplier effect, and which would have a big impact on specific indicators in the Ease of Doing Business Rankings.

The administrative burden of compliance could be significantly reduced. The adoption of self and third-party certification or deemed approvals in low-risk industries should be a rule across sectors. This would confine inspections by the government to high-risk categories of industries. The Government of India could undertake a risk- mapping exercise for compliance in cross-cutting areas such as pollution control approvals, labour regulations and metrology legislation. This would reduce the compliance burden in low and medium risk industries and free government resources to concentrate inspections on high risk, harmful industries.

3. Harmonise domestic standards with international standards to reduce technical barriers to trade:

While the WTO encourages all countries to adopt international standards to facilitate international trade, it allows countries to frame their own standards on the basis of scientific evidence, i.e. regulations should be implemented only to the extent necessary to protect animal, human or plant life or health. Ease of doing business issues arise when national technical standards become barriers to trade.

In some Indian industries, such as in the manufacture of boiler components, standards mandated by the government regulator differ from the international market. These standards restrict imports which may serve to make the Indian domestic manufacturing sector less competitive and less able to emerge as a strong player in global value chains.

For India to transform itself into a truly global investment destination, it would be best to harmonise domestic standards and processes with international ones.

Seven key actions to catalyse India's progress on ease of doing business

1. Rationalise the number of regulators.

2. Develop a clear policy for Special Economic Zones with streamlined administration and alignment to other policy areas including Software Technology Parks.

3. Take a risk-based approach to regulation instead of inspecting all companies, activities and goods.

4. Build on recent labour reforms by removing obsolete labour law, reducing the number of inspections and expanding digital tools.

5. Make sterling a currency for trading across India's borders by adding GBP to the denominations of the Asian Monetary Unit.

6. Simplify the regulation of metrology by removing the renewal requirement on all licences, digitalising compliance processes and allowing inspection and certification by third parties.

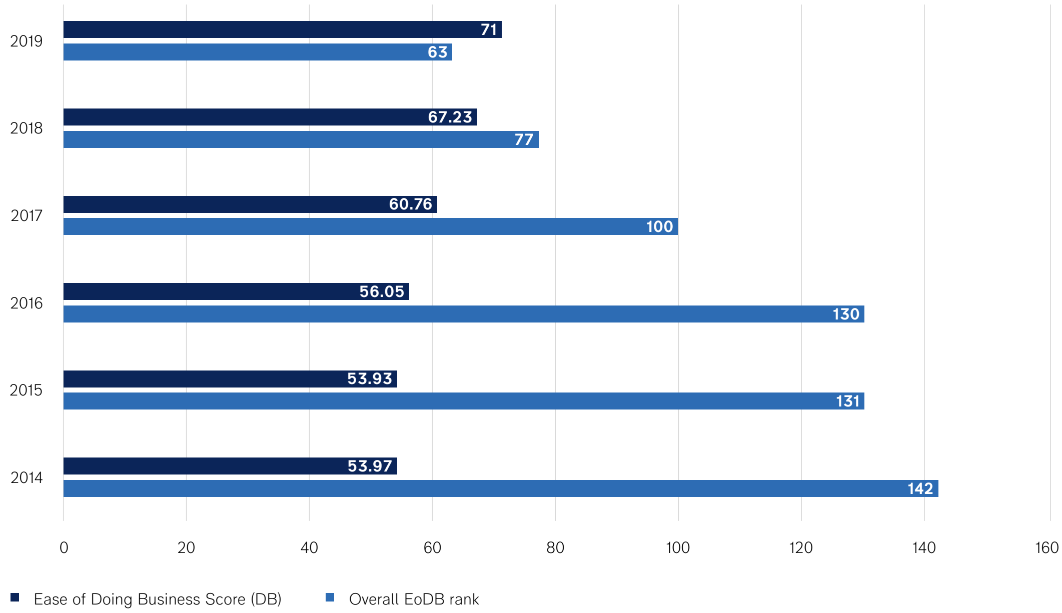
7. Start work on a UK-India bilateral Social Security Agreement, to make it easier for British employees in India

India in transition: The current situation

India's performance at the World Bank's Doing Business 2020 rankings

In the last six years, India has risen 79 places to achieve 63rd place among 190 countries. This placement compares India's performance on reform with the performance of 190 national economies against ten parameters affecting a business through its life cycle.

Exhibit 2 India's Doing Business ranking journey 2014-2019



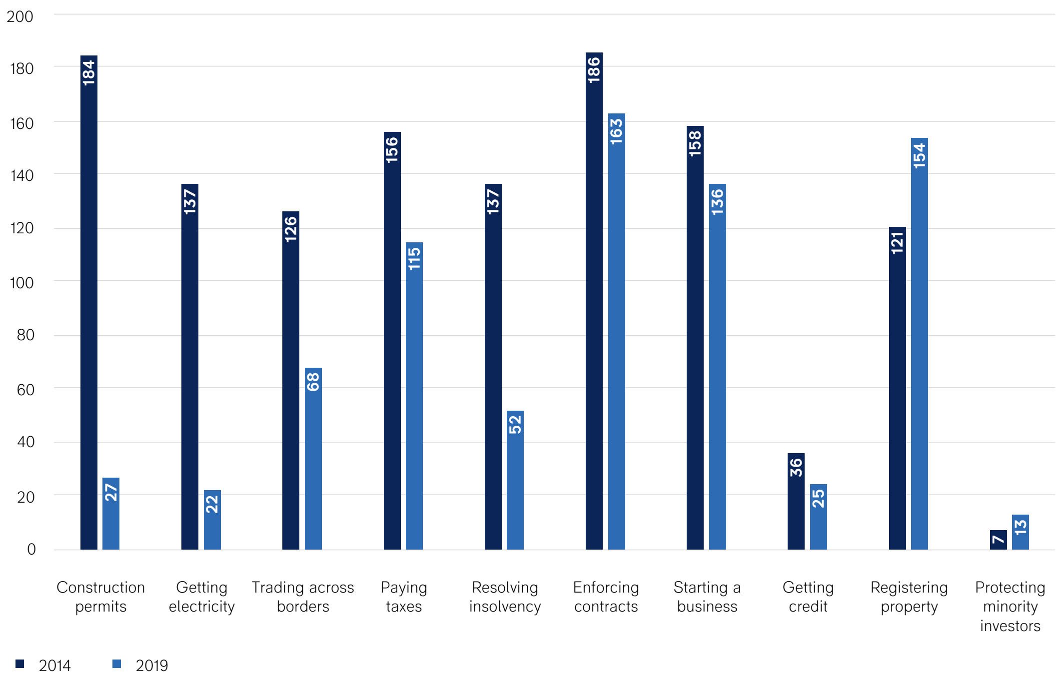
Source: World Bank Doing Business Report 2020

These ranks are based on Ease of Doing Business Score (DB), a score that shows the gap between an economy to the global best practice. The chart above shows India's growth in overall ease of doing business ranks and the DB parameter in the last six years. According to the World Bank report, India improved in 7 out of 10 parameters with significant improvements in four key areas — starting a business, dealing with construction permits in India, trading across borders and resolving insolvency.

One of the key issues that is of concern to businesses is contract enforcement. This has also been raised as a key obstacle to ease of doing business in the Economic Survey published by the Finance Ministry earlier this year. India's position remains unchanged at 163 on this parameter for a second year in a row.

Below is a snapshot of India's rank on specific doing business parameters in 2014 and 2019.

Exhibit 3 India's comparative performance on specific parameters



Source: World Bank Doing Business Report 2020

The 14 places jump by India between 2019 and 2020 rankings on the World Bank's Ease of Doing Business rankings was possible due to the following reforms:

Starting a business

India made starting a business easier by abolishing filing fees for the SPICe (Simplified Proforma for Incorporating a Company electronically) incorporation for electronic Memorandum of Association and Articles of Association. This reform applies to both Delhi and Mumbai.

Dealing with construction permits

India (Delhi) streamlined the process, reduced the time and cost of obtaining construction permits, and improved building quality control by strengthening professional certification requirements. India (Mumbai) streamlined the process of obtaining a building permit and made it faster and less expensive to get a construction permit.

Trading across borders

India made trading across borders easier by enabling post clearance audits, integrating trade stakeholders in a single electronic platform, upgrading port infrastructures, and enhancing the electronic submission of documents. This reform applies to both Delhi and Mumbai.

Resolving insolvency

India made resolving insolvency easier by promoting reorganisation proceedings in practice. India also made resolving insolvency more difficult by not allowing dissenting creditors to receive as much under reorganisation as they would receive in liquidation. This reform applies to both Delhi and Mumbai.

Source: World Bank Doing Business Report 2020

The UK and India's two-way investment relationship

India has been one of the most attractive investment destinations for UK companies since 2000.

The UK and India have remained the top 5 investors in each other's economies since 2010. There are over 400 UK companies in India, employing nearly 450,000 people directly – and creating 50,000 of these jobs within the last 2 years. An equal number of indirect jobs have also been created by UK companies in India between 2000 and 2018, taking this number to over 800,000.

The UK invested US$1.35 billion in FY 2018-19. From April 2000 to June 2019, British investments were 6.2% of the total cumulative inflows received by India, reaching a value of US$27.08 billion.

According to the CII Grant Thornton Britain Meet India tracker 2019, there are now a record 842 Indian companies operating in the UK, with combined revenues of almost £48 billion (£46.4 billion in 2018). Together, they paid over £684 million in corporation tax (up from £360 million in 2018) and employed 104,783 people.

While challenges remain, it is evident that India is progressing towards even greater attractiveness for investment, both foreign and domestic. However, more needs to be done so that government steps further back and acts more as an 'enabler' for business rather than a direct 'facilitator'. A level playing field should be the long-term target.

As the UK prepares to leave the European Union, it has been looking to reset its ties with India. Although India does not figure in the first tranche of Free Trade Agreements that the UK is working on, work on market access issues has already accelerated through the Joint Economic Trade Committee (JETCO) process.

Since 2016, both countries have engaged in dialogues which prioritise trade outside of a Free Trade Agreement. For the two democracies - this is a great opportunity to make a fresh start at cooperation, building on the ongoing trade discussions between the two countries. The CBI's priority over the next few years will be to focus on supporting governmental efforts on trade liberalisation outside of a free trade agreement.

India will remain an important partner in the UK's global future. Britain's ambitions after Brexit and the bold economic initiatives taken by India's Prime Minister Narendra Modi are opening new avenues to enrich the already strong relationship.

British business perspectives on the Indian business environment

Between July and September this year, the CBI and EY held direct consultations with key members across India through a three-city roundtable series in Delhi, Bangalore and Mumbai. This was preceded by structured one-to-one conversations with members in Delhi, Mumbai and Chennai between October 2018 and May 2019.

In this section, we highlight the key outcomes from these conversations. The companies we consulted were primarily from the services sector, such as financial services, professional services, telecommunications, IT / ITeS and education. Those from the manufacturing sectors included aerospace and industrial machinery among others. Most of these companies have offices across the states of Delhi National Capital Region, Maharashtra, Karnataka, Tamil Nadu, West Bengal and Andhra Pradesh.

The discussions were focused on understanding the environment for setting up and operating business in India under specific parameters, while comparing them with best practices in the UK. The following section summarizes the key outcomes of these discussions:

Reasons to invest in India

British businesses specified 5 top reasons to invest in India:

- Potential for domestic market growth
- Capacity for technology and innovation
- Proximity to other markets/customers
- Availability of skilled workforce
- Competitive operating costs

Key Barriers to doing business in India

The following critical barriers to doing business in India were identified during the discussions:

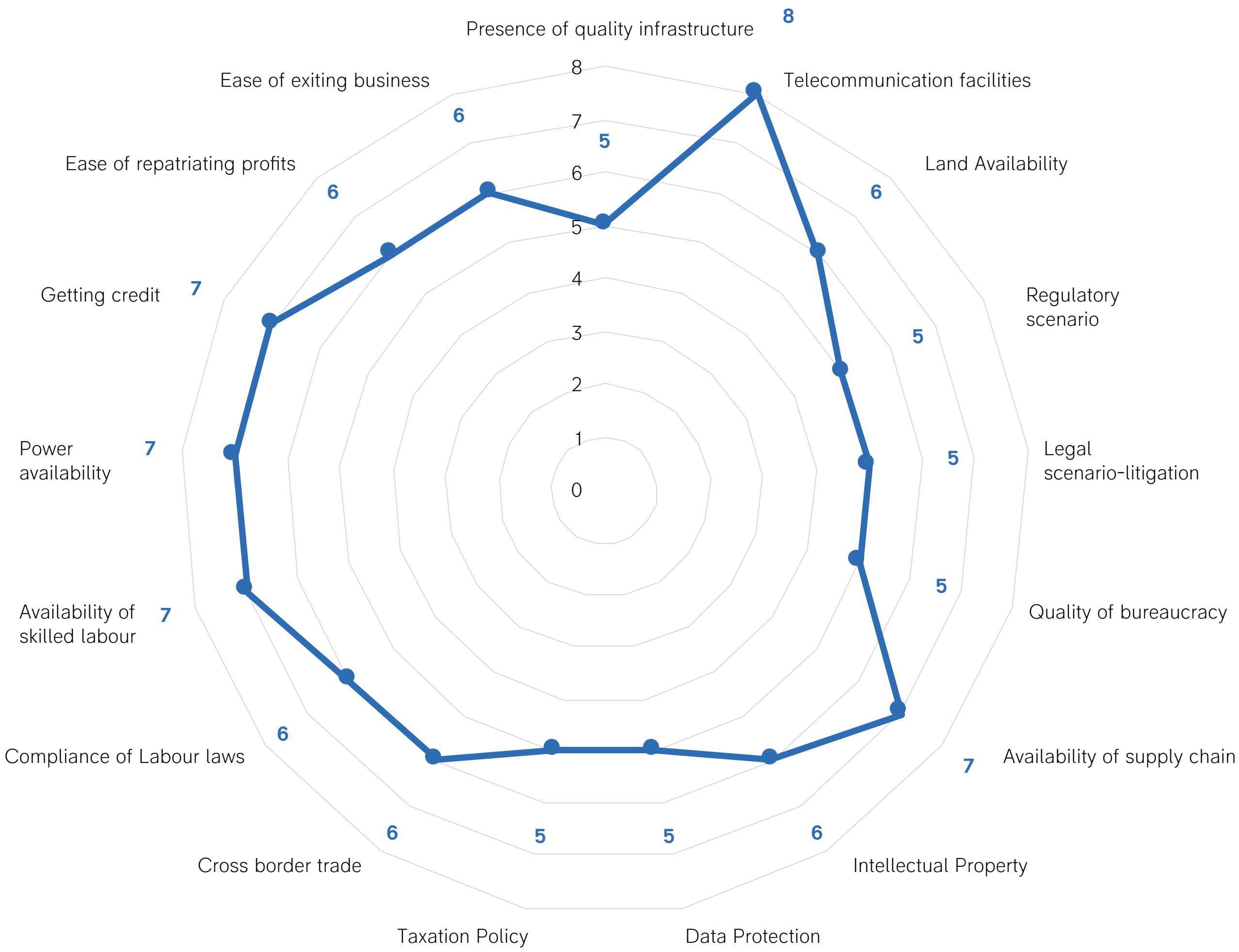
- The regulatory environment is complex. With a large number of competing regulators and regulations at the central and the state level, there is a visible disconnect between the centre and the states with regard to data sharing, leading to significant paperwork for the investors. This creates damaging burdens for business in time and cost. Redundant/duplicating processes need to be rationalised.
- While the Goods and Services Tax (GST) has been one of the biggest tax reforms in India, more needs to be done to increase speed of settlement at the tribunals, improve the handling of legacy cases and strengthen the advance pricing regime. Businesses encourage the use of automation to achieve more accurate assessments.
- The majority of the businesses we spoke to faced issues related to taxation, transfer pricing and arbitration processes. While the issues are common to many emerging markets, the respondents felt that automated assessments would be faster and clearer and avoid disputes.
- The Government of India has made multiple amendments to the FDI Policy of India in the recent past. It has lifted the FDI cap on several sectors. However, the companies we consulted felt that more relaxations of ownership restrictions are required to create a level playing field among local and foreign market participants. In addition, the Foreign Trade Policy should be aligned with sectoral policies.
- Contract enforcement and data protection issues are critical barriers to doing business in India. British businesses have been encouraged by the Government of India's readiness to tackle this issue, including the creation of dedicated commercial courts.

Benchmarking the UK's regulatory best practices

Adoption of best practices from the UK such as efficient timelines on approvals, written clarifications and guidance will help overhaul the regulatory environment and reduce the compliance burden. Simplification and clarification of regulations & guidelines, increased transparency in government functioning, the implementation of third-party certifications, risk profiling of defaulters and reward schemes for compliant organisations will increase the ease of doing business in India.

- Companies across the board have a satisfactory experience of interaction with government officers. A majority of the companies are of the opinion that government officers in India are aware of the latest laws, regulations and online systems. However, they feel that interpretation of government rules or solutions are more often based on the officer's discretion (which tends towards caution) than on the spirit of the governing law/act.
- Companies in India, when faced with restrictive labour laws, choose to circumvent legislation by hiring workers through contractors. CBI member companies see the recent codification of the labour laws as a welcome step. However, businesses still find it difficult to comply with the following:
    - Complex, variable interpretations of the labour laws
    - Provident Fund and Gratuity Scheme provisions
    - New requirements such as creche availability or apprenticeship
- A large number of companies recorded that their experience of getting inspections conducted by government authorities for grant of approvals/ renewals was satisfactory. However, they felt that India could learn from the UK's inspection procedures. In the UK, inspections of compliance requirements are carried out after prior notification, inspectors limit inspection to the official government checklist and government officers are trained to take a helpful approach.

Summary of business feedback: India scores high on telecommunications, skills, supply chain and availability of credit but needs to improve on regulation, taxation bureaucracy and litigation.



Key: Average rating given by the companies interviewed to different aspects of India's Business Environment (10 being the maximum on a scale of 1-10)

British businesses specified 5 top reasons to invest in India:

- *Potential for domestic market growth*
- *Capacity for technology and innovation*
- *Proximity to other markets/ customers*
- *Availability of skilled workforce*
- *Competitive operating costs*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Translating the Government of India's economic vision into reality

The Government of India's vision for a US$5 trillion economy

The Government of India announced its vision for transforming India into a US$5 trillion economy by 2023-24 in the maiden budget speech of the Indian Finance Minister, Ms Nirmala Sitharaman, in July this year.

The Indian Finance Ministry brought out a set of objectives to realise this vision in the 2018-19 Economic Survey published a day prior to the budget.

In order to attain this objective, India needs to sustain an annual real GDP growth rate of 8% mainly through private investment.

The vision is portrayed as a departure from the classical Anglo-Saxon method of viewing economies as being either in a 'virtual' or 'vicious' cycle. The Government of India proposes achieving a self-sustaining virtual growth cycle by adhering to twelve principles:

- Private investment as a key driver of growth, jobs, exports and demand
- Recognizing data as a public good
- Emphasizing legal reforms
- Ensuring policy consistency through quality assurance certification of government processes
- Using behavioural economics and communications to nudge people towards behaviour leading to positive social change
- Supporting medium, small and micro enterprises to enhance productivity and job creation
- Reducing capital costs
- Reducing risks on return on investment
- Gender equality
- Improving health care and provision for India's ageing population
- Tackling pollution (the "beautification of India" agenda)
- Tax compliance instead of tax evasion

Other items in the roadmap relevant to this white paper include:

- Highlighting contract enforcement and dispute resolution as a fundamental obstacle to ease of doing business and higher GDP growth in India
- Redesigning a minimum wage system in India for inclusive growth
- Enabling inclusive growth through affordable, reliable and sustainable energy
- Use of technology for welfare schemes

This target looks ambitious. India has seen nine successive quarters of decline in the rate of growth. It is hoped that the vision plan published will inspire the private sector to invest in critical areas like infrastructure and technology.

The Indian Finance Minister declared that the following conditions need to be met in order for India to meet the US$5 trillion target:

- India's real GDP needs to grow faster than 7.5 % each year, the average annual pace of growth in the last five years.
- Inflation needs to be at 4% to ensure a commensurate increase in purchasing power. Inflation in the last five years was 4.5% and settled at 3.4% in 2018-19.
- The fixed investment rate needs to increase from the current 29% to 36% in the next five years, with some depreciation of the rupee.
- Higher levels of investment, driven by the private sector, a larger presence in the global markets, and a lower level of public debt.

Some economists predict that headwinds related to currency fluctuation may risk achieving this objective. If the rupee depreciates against the US dollar, it will be difficult to accomplish the target of a nominal GDP of US$5 trillion (as opposed to GDP on a purchasing power parity basis). The average annual depreciation of the rupee against the US dollar in the last five years was 2.9%, with a larger depreciation in 2018-19.

The rupee exchange rate is exposed to several external factors such as geopolitical risks, crude oil prices, capital flows to emerging market economies, and global trade tensions, as well as depending on the fundamentals of the Indian economy.

As the table below shows, if the rupee depreciates by at least 10% in the next five years, Indian GDP may reach US$4.4 trillion by 2023-24 (overtaking the UK's GDP in the process).[1]

Exhibit 4 India's predicted growth rate and GDP value 2018-19 to 2023-24

Year	Nominal GDP (₹ trillion)	Nominal GDP growth (%)	Real GDP growth (%)	CPI Inflation (%)	₹ per $	Nominal GDP ($ trillion)
2018-19	190.1	11.2	6.8	4.4	69.17*	2.7
2019-20	211.0	11.0	7.0	4.0	69.17	3.0
2020-21	235.5	11.6	7.3	4.3	69.17	3.4
2021-22	263.5	11.9	7.5	4.4	69.17	3.8
2022-23	295.9	12.3	7.8	4.5	69.17	4.3
2023-24	333.2	12.6	8.0	4.6	69.17	4.8
10% rupee depreciation					76.09	4.4

*FIBIL reference rate as on March 29, 2019

Source: Hindu Business Line 30 July 2019

Guiding India's progress in ease of doing business – three principles

1. The time is now

UK businesses feel that a stable majority and the strong political capital enjoyed by the government in India, currently makes now an ideal time to build political consensus with states on several contentious issues. This will expand the scope to push forward critical reforms to improve ease of doing business further.

It is felt that this is the time to start an 18-month nationwide consultation between the central government, businesses and state governments on the two most contentious issues affecting private investments: land and labour. Achieving consensus on these issues is critical for the success of the Government of India's 'Make in India' programme.

The model of consultation should be similar to the one used during the design and implementation of the Goods and Services Tax (GST).

2. Prioritise reforms which have a multiplier effect

The Government of India should prioritise reforms which have a multiplier effect, and which would have a big impact on specific indicators in the Ease of Doing Business Rankings.

The administrative burden of compliance could be significantly reduced. The adoption of self and third-party certification or deemed approvals in low-risk industries should be a rule across sectors. This would confine inspections by the government to high-risk categories of industries. The Government of India could undertake a risk-mapping exercise for compliance in cross-cutting areas such as pollution control approvals, labour regulations and metrology legislation. This would reduce the compliance burden in low and medium risk industries and free government resources to concentrate inspections on high risk, harmful industries.

3. Reduce technical barriers to trade: harmonise domestic standards with international standards

The success of 'Make in India' depends on India's ability to produce high-quality products and services. One way of ensuring that products and services meet certain standards is through mandatory compliance with technical regulations. If badly implemented, however, regulations have the potential to become trade barriers. Currently, India is strengthening its regulatory framework for products by making compliance mandatory for a growing number of technical standards. For India to achieve the status of a global manufacturing hub, it should embrace and adapt to international certifications and standards, as they represent a global consensus and are codified best practices.[2]

Businesses, therefore, encourage the Government of India to engage in international regulatory dialogue to promote and contribute to developing international standards. This will progressively strengthen the competitiveness of Indian Industry and support the integration of India in global and regional value chains.[3]

India has already made progress in harmonisation in certain sectors. Notable examples are:

Accounting: The financial reporting landscape in India has undergone significant change in recent years as the Government of India has brought local standards closer to global arrangements. Indian Accounting Standards (Ind AS) are now harmonised with IFRS Standards, with modifications to suit Indian market conditions.

Food Safety: The Food Safety and Standards Authority of India (FSSAI) has harmonized standards for many food additives, in line with the international Codex standards. Work is underway to implement these in other food categories.

Seven priority actions to catalyse India's progress on ease of doing business

This section covers some of the broader themes around Ease of Doing Business which emerged during our interactions with more than 80 UK companies in India.

Discussions focused on what is happening in India under the 'World Bank Group's 'Doing Business' (DB) Report and the Department for Promotion of Industry and Internal Trade's 'Business Reform Action Plan' (BRAP).

However, CBI members also wanted to highlight issues which may not be covered in the current World Bank parameters. In the recommendations below, we have focused on some of the key issues faced by members in a sector-agnostic manner.

1. Rationalise the number of regulators and government departments having authority over business

The presence of **multiple regulatory agencies** makes the pace of rule change slow and increases confusion over compliance. Regulations sometimes work at cross purposes, causing delays. The main sectors where this challenge is seen are insurance and re-insurance, mining, pharmaceuticals and banking.

Here is a table of some sectors with multiple regulators:

Exhibit 5 Business sectors with multiple regulators in India

No	Sector	Regulator/Government authority
1.	Insurance and Re-insurance	Insurance Regulatory and Development Authority of India (IRDA); Reserve Bank of India (RBI); Ministry of Finance
2.	Pharmaceuticals	Patent Office; Department of Commerce; Department of Pharmaceuticals; Ministry of Health and Family Welfare; Central Drugs Standard Control Organisation,
3.	Banking	Securities and Exchange Board of India (SEBI); Reserve Bank of India; Ministry of Finance
4.	Mining	State mining department; Department of Revenue; Directorate General of Mine Safety; Ministry of Forest, Environment and Climate Change; National Green Tribunal; Courts

In this section, we have done an in-depth analysis of the issues faced in the insurance and re-insurance sector and have cited examples of international benchmarks from the UK and Singapore and made targeted recommendations.

Case Study 1:

Insurance and re-insurance sector - Need for a single regulating authority

Along with the Insurance Regulatory and Development Authority of India, the Reserve Bank of India and the Union Finance Ministry regulate the insurance and re-insurance sectors in India.

In insurance and re-insurance alike, contradictory rules by IRDAI and RBI's FEMA regulations cause confusion especially in procurement of funds from the parent company. Regulatory agencies should work in tandem with each other. Regulations framed by different agencies should align and not contradict, which is sometimes the case.

UK businesses call for a credible, responsible and friendly regulatory regime.

The main issue with regulation is the compliance burden, with mandatory requirements of multiple disclosure from several authorities. This makes it difficult to run day-to-day business.

Regulators need efficient and innovative tools to identify non-compliance. They need to be outcome-based and not determined by input policing.

The second issue is the quality of regulation. For example, the IRDAI regulates expense management for insurance companies. Foreign insurance companies in India spend a lot of time considering spending limits and how to manage expenses to stay within the IRDAI prescribed limits. Such concerns distract businesses from their core activities.

The third issue is lack of management control. Ideally, foreign insurance companies should be able to own 100% equity in Indian insurance companies. At the very least, the cap on foreign ownership should be at par with restrictions in the banking sector i.e. 74%. Around five years ago, the Government of India lifted the FDI cap in insurance from 26% to 49%.

India opened up the insurance sector 19 years ago. However, insurance penetration in India currently stands at 3.69%, which is one of the world's lowest. Hamstrung by multiple regulators and regulations, the number of products offered is also quite limited and focused on life insurance.

International benchmarks

United Kingdom

The UK government has no direct involvement in regulation of the insurance and re-insurance industry and the Financial Policy Committee (FPC) of the Bank of England is responsible only for macro-prudential supervision to maintain financial stability, with no direct powers over individual institutions. The regulation of insurers and reinsurers (including other financial service providers) is divided between two authorities: the Prudential Regulation Authority (PRA); and the Financial Conduct Authority (FCA).

The overall regulation scenario in the insurance and re-insurance sector in the UK is encapsulated in the FCA's mission statement which reads: 'Enhancing trust in markets; Improving how markets work; Delivering benefits through a common approach to regulation; Working to prevent harm from occurring; and helping put things right when they go wrong'.

Singapore

The Monetary Authority of Singapore (MAS) has been a game changer for financial services in Singapore. The Monetary Authority of Singapore has aligned with the best international standards to ensure that its approach is appropriate to the risks prevalent in the domestic markets. The level of supervision is based on the risk profile and impact on individual institutions. Regulations are focused on outcomes rather than adhering to prescribed checklists and are implemented in a way that seek to minimize the compliance burden. The mission statement of MAS commits the regulator 'to promote sustained non-inflationary economic growth, and a sound and progressive financial centre'.

Singapore offers a common, nation-wide legal and regulatory framework for both onshore and offshore business (including retail lines of business). Almost all international insurers, reinsurers and brokers have established a presence in Singapore and primarily use it as a hub for the Asia Pacific region.

The legal system in Singapore is based on English common law and a well-established judicial system. The principles-based regulatory framework is transparent and consultative and commercially minded. Singapore is therefore considered an arbitration "friendly" environment and a leading international centre for arbitration services.

Recommendations

From the above examples it is evident that while the focus of the authority in India is to regulate exhaustively, approaches in the UK and Singapore are oriented towards market growth.

The Government of India should improve the legislative framework and create a globally benchmarked regulatory authority, mandated to ensure a fair and outcome-based framework that drives efficiency and growth.

A single regulator and better quality of regulations are required to support the growth of industry. Regulators must be seen as enablers and not be responsible for monitoring the day-to-day running of business.

The government needs to take a forward-looking approach by focusing on risk rather than absolute compliance. Freed from the rigours of regulatory micromanagement, businesses will be better able to realise the growth potential of the Indian economy.

2. Develop a clear policy for Special Economic Zones with streamlined administration and alignment to other policy areas including Software Technology Parks

UK companies have highlighted three specific issues relating to Special Economic Zones in India.

i. Policy uncertainty

There is some concern among UK ICT and telecom companies that the Indian Budget for 2019-20 made no mention of a policy for special economic zones (SEZ).

The SEZ benefits are slated to end in March 2020, and there is no clarity on the new SEZ policy or any indication of alternatives.

Business also wants better policy alignment. For example, benefits for the aerospace industry listed under the Civil Aviation Policy 2016 (CAP) of India, are not included under the Foreign Trade Policy 2015-20.

Para 18Ae of Civil Aviation Policy allows foreign aircraft brought to India for Maintenance, Repair and Overhaul (MRO) to stay for up to 6 months. But there is no provision for such allowance in the Foreign Trade Policy of India. This contradiction leads to confusion and loss of competitiveness of products and services made in India for the international market.

ii. Administrative burden

Businesses point out that there is a heavy administrative burden in SEZs, which makes investment and leasing decisions a challenge. Companies are required to process up to 25 registration documents. These include land acquisition papers, Permanent Account Number (PAN papers), Tax Deduction and Collection Account Number (TAN papers) and up to 2-3 separate SEZ registrations.

Delays leading to a liquidity squeeze

Banks receiving a remittance on behalf of exporters are required to upload the Export Proceed Realization Certificate (EPRC) on the Directorate General of Foreign Trade (DGFT) portal for claiming benefits under the various schemes of the Foreign Trade Policy and realisation of offset claims under Defence Procurement Policy/ Procedures. According to feedback from companies, it takes about 30 days for banks to upload the EPRC, resulting in delay in the realisation of incentives by the exporters. This time lag often leads to a liquidity squeeze for businesses.

Customs duty payment issues

It is mandatory for companies to have an account with a state-owned Indian bank for the payment of customs duty. Foreign companies generally have their accounts in international banks and are forced to open an account in a state-owned bank in India. This leads to duplication in financial systems and extra costs.

iii. Better alignment of Special Economic Zones[4] and Software Technology Parks[5] to maximise industry incentives

Companies face challenges in realising the incentives provided under the Service Exports from India Scheme (SEIS) in the Foreign Trade Policy of India.

Special Economic Zones (SEZ) and the Software Technology Parks of India (STPI) need to work together and enable the industry to receive maximum incentives. For example, services created in a STPI and embedded into a physical product not created in an SEZ lose the benefits they received in the STPI simply because the finished product wasn't created in a SEZ.

Recommendations

- There should be a continuation of existing SEZ arrangements or a new scheme from April 2020 to support new or existing investments.
- The registration processes in SEZs need to be simplified to improve the ease of doing business for companies and build a comparative advantage for India as a global exporter of services.
- Incentives under sectoral policies need to be aligned to the overarching Foreign Trade Policy of India. Such discrepancies lead to policy confusion and delays which make India less competitive than other investment destinations.
- The Directorate General of Foreign Trade (DGFT) should create a co-ordination process between SEZ and STPI to promote the value and volume of export through the better implementation of incentive schemes. Most of the procedures should be digitalised and the physical touch points should be disposed off.

3. Take a risk-based approach to regulation rather than inspecting all companies, activities and goods

Businesses feel that the ease of doing business in India could be better managed by risk profiling and monitoring high-risk activities/products rather than inspecting all companies, activities and goods. Companies want certification, reward and recognition for fully complying with the regulations and a grading system to distinguish between defaulting firms and highly compliant firms.

India has a large industrial base which makes it difficult for government departments to carry out inspections at every location. To rationalise the process of inspection, the Department for Promotion of Industry and Internal Trade (DPIIT) announced the state level Business Reform Action Plan (BRAP).

Under this plan, state government departments overseeing factories, labour issues, urban development, commercial taxes, and the State Pollution Control Board (SPCB) need to define a risk-based criterion (high, medium and low), so that inspection requirements can be based on the risk profile of industries.

Since these reforms have been recently introduced, state officials are still getting used to these new ways of supporting business and there is limited awareness within the industry. Moreover, issues still persist, despite reforms.

Two case studies below, on State Pollution Control Boards and on inspection and certification processes for boiler component manufacturing, highlight the need for risk-based supervision.

Case Study 2:

State Pollution Control Boards (SPCBs) and risk-based supervision

According to the BRAP, the State Pollution Control Boards of several Indian states have created mechanisms to identify establishments that need to be inspected, based on computerized risk assessment. Many states have introduced the provision of self-certification for industries classified as low risk and third-party certifications for industries classified as low to medium risk.

However, businesses feel that there is a gap between the introduction of reforms and implementation on the ground.

UK businesses feel that the introduction of self-certification and third-party risk assessment are steps in the right direction. However, these mechanisms lack teeth when compared to the powers of SPCBs for random inspection and imposition of penalties.

Disincentives for self-certification and third-party inspections: Instead of having regular departmental inspections, low-risk industrial units have the option of self-certification. Industries with low to medium level risk also prefer third-party inspections rather than having inspections by government officers. However, the SPCB can still conduct random inspections even after self-certification and third-party clearance. Any minor discrepancy invites penalties. As a result, many companies decide to play safe. Instead of opting for self-certification or third-party inspections, they let the department officers undertake inspections to avoid the risk of penalties.

To ensure the success of self-certification and third-party inspections, SPCBs should take the following steps:

Partnership with industry: SPCBs and industrial associations/ trade bodies should pro-actively collaborate with businesses and seek timely feedback and resolution. This will ensure that reforms are being felt on the ground. The SPCBs need to increase awareness of the scope for self and third-party inspections among businesses. This may be done through improved communication channels such as regular information mailshots, periodic workshops, updating the website with latest rules and regulations and providing pop-ups of key provisions on the SPCB portal.

Perception change: A change in the perception of inspectors by industry is needed. Inspectors need to be seen as facilitators rather than disruptors. Re-training and capacity building of officers is, therefore, required to bring about change in the mindset on both sides.

Periodic review of provisions: The SPCBs need to review existing provisions and procedures for self and third-party inspections on a regular basis and undertake revisions, as required. Revising the clause on heavy penalties would encourage industry to undertake self and third-party inspections. This will ensure that the system is user-friendly, giving enough reason and confidence to the industry to opt for change.

Recommendations

Proper risk assessment needs to be undertaken. As the diagram shows, compound risk may be calculated using two indicators: 'Level of Hazard' and 'Likelihood of harm'.

Inspections may be made necessary only for the highest categories based on compound risk. For the rest, provisions of self-certification and third-party inspections, without surprise inspections by SPCB officials needs to be the norm.

Risk map

Likelihood of harm

Level of hazard	Very low	Low	Medium	High	Very high
High	Lower medium	Upper medium	Upper medium	High	High
Upper medium	Lower medium	Lower medium	Upper medium	Upper medium	High
Lower medium	Low	Lower medium	Lower medium	Upper medium	Upper medium
Low	Low	Low	Lower medium	Lower medium	Upper medium

Source: Regulatory Delivery, UK Government

The risk map should be made available in the public domain, including the methodology used for the calculation of risk category. Awareness initiatives need to be undertaken to ensure that businesses are acquainted with the new assessment and methodology of inspection of SPCBs.

Industries need to be acquainted with the risk category they belong to in order to be aware of the frequency at which inspections will take place.

Inspections need to be scheduled automatically by the system based on the risk profile of the industry. This will help ensure that the frequency of inspections is set according to the risk assessment and methodology defined by SPCB.

An automatic change in risk category due to a history of non-compliance or other negative factors needs to be introduced.

A new mechanism is needed to allow industrial units to provide feedback after inspections.

Case Study 3:

Inspection and Certification of Boiler Components

The Central Boilers Board (CBB) constituted under Section 27A of the Indian Boilers Act 1923 (5 of 1923) is responsible for making Indian Boiler Regulations (IBR) which establish the standards for materials, design, construction, registration and inspection of boilers. The Board comprises representatives of the central and state governments, union territories, Bureau of Indian Standards, coal industry, boiler manufacturing industry, boiler ancillaries, steel manufacturers, users of boilers and other interests connected with the boiler Industry.

Industry Consultations

Delays due to multiple approvals:

- Yearly approval by individual state government departments which takes an average of four to six weeks.
- Every boiler component needs individual testing and certification.
- The approval of a product series requires multiple physical inspections by boiler inspectors.
- Some state governments allow only five products to be tested at a time.
- Products in a series that vary in size are required to get separate approvals from the inspectors. This requires extra time and paperwork and adds to the cost of manufacturing.
- There are further delays since testing is done in a given city and approval is issued from state capital.
- Some states, particularly in the eastern region, do not accept the IBR certificates issued by government approved third-party organisations for product design and manufacturing. Manufacturers are required to get their products re-certified for sale from state government agencies in these states.

Restrictions on implementation of new technologies in India

Manufacturers need to import certain boiler equipment as producing them in India may not be technically or economically viable. This is especially the case when importing equipment certified by international agencies or regulations such as the Pressure Equipment Directive (PED), Europe and the American Society of Mechanical Engineers (ASME). While such products with international certifications are accepted in many sectors in India, their use is not allowed in boiler/ steam systems.

Manufacturers can only procure components and raw materials for production from IBR approved vendors. There are globally approved vendors which are not IBR-certified. These vendors prefer not to sell their material to the Indian market as the process involved in obtaining IBR certification is cumbersome. Sometimes Indian manufacturers are required to get the necessary IBR certification on behalf of foreign manufacturers supplying the boiler/ components. This increases the cost of manufacturing.

Boilers certified by CBB-approved third parties are often not mentioned in tender notifications. This renders third party certified boiler/ components ineligible to bid.

When a certain category of business is approved to make a range of products by other government agencies, IBR authorities should not restrict the number of products.

IBR can classify foundries as 'well-known'. This allows these foundries to clear their finished castings through a process of self-certification. The IBR should extend the same concept to steam accessories/ component & boiler manufacturers. This will eliminate the 100% inspection by the IBR authorities.

IBR should follow the example of the Bureau of Indian Standards (BIS) which established a self-certification scheme decades ago. All products sold with Indian Standards Institution (ISI) logo are not 100% tested by Bureau of Indian Standards (BIS). BIS only carry out periodical/ surprise checks to verify the product quality.

International benchmarks: International certification bodies like PED, CE Marking, ASME (American Society for Mechanical Engineers), API (American Petroleum Institute), have stringent standards. However, they don't inspect 100% of all products. They only verify the documentation during their audit process. If they find any shortfalls, they disqualify the manufacturer. There are many examples of both Indian and global agencies following a transparent and simplified approval process & allowing self-certification. The IBR should do the same.

Recommendations

Third party certification or capacity building of state government departments: CBB should streamline the processing of applications in batches to avoid duplication, extra cost and delay, either through provision of third-party certifications or capacity building of state government functionaries.

Introduction of an online testing and certification process: The complete application and certification process should be made online without physical touch points. Successful inspection should automatically lead to certification. This online application-approval system should also include approval by CBB approved third parties. Timelines for renewal should be revisited.

Avoidance of dual fees: Dual fees charged in case of third-party inspection, either by the third party or by the government should be waived off.

International and Indian certifications need to be reconciled: CBB should explore the scope to apply international certifications for the manufacturing of boilers and the procurement of raw material and components. The CBB needs to collaborate with international agencies and allow the import of internationally certified raw materials, boilers and their components. Regularizing the import of boiler components would support manufacturing activity in India.

4. Build on recent labour reforms by removing obsolete labour laws, reducing the number of inspections and expanding digital tools

The Government of India, through the Ministry of Labour & Employment (MoLE) has recently undertaken a slew of labour reforms and has made several amendments to existing regulations in order to improve the ease of doing business. UK companies have welcomed this move by the government.

These reforms include **governance reforms** through the use of e-governance measures and **legislative reforms** by simplifying, amalgamating and rationalizing the existing labour laws into four labour codes.

According to the recommendations of the 2^{nd} National Commission on Labour, the Ministry of Labour & Employment has amalgamated forty-four existing labour laws into four codes covering:

- Wages
- Industrial Relations
- Social Security & Welfare
- Occupational Safety, Health & Working Conditions

Some recent labour amendments include:

- The Labour Ministry has streamlined 56 Registers/Forms under 9 Central Labour Laws and Rules into 5 common Registers/Forms under the notification 'Ease of compliance to maintain registers under various labour law rules 2017'.
- A Model Shops and Establishments (RE&CS) Bill, 2016, provides freedom to operate an Establishment for 365 days in a year without any restriction on opening/closing time and enables employment of women during night shifts, if adequate safety provisions exist.
- Under the Industrial Employment (Standing Orders) Act, 1946, the category of Fixed Term Employment, with all Statutory Benefits, has been extended to all sectors to allow greater flexibility to recruit staff to meet fluctuating demand, through the Industrial Employment (Standing Orders) Central (Amendment) Rules, 2018.
- The ministry has also streamlined the number of forms/returns under 3 Central Acts/ Rules from 36 to 12 by reviewing redundant and overlapping fields under the notification Rationalization of Forms and Reports under Certain Labour Laws Rules, 2017.
- The ministry has also developed a dispute portal to make it easier for industrial employees to file complaints through SAMADHAN (Software Application for Monitoring and Disposal, Handling of Apprehended/ Existing Industrial Disputes). The online portal also allows more transparent monitoring of the status of disputes and quicker retrieval of information. The SAMADHAN portal was launched in February this year and five pilot projects are currently running in Delhi, Rajasthan, Odisha, Karnataka and Chhattisgarh.

While UK businesses welcome the recent moves by government to simplify labour law, they are looking for a uniform application of these reforms, both in letter and spirit, in all states and union territories of India.

To take reforms to the next level, India should continue to look at the best international practices. Here are two examples, from the UK and Denmark which could be used as guidelines to further labour reforms.

International benchmarks

United Kingdom

According to the World Bank Ease of Doing business reports, the United Kingdom embarked on a series of labour reforms between 2009 and 2014. These include:

- Increase in mandatory paid annual leave.
- Increasing the severance payment obligation applicable in cases of redundancy dismissals.
- Increasing the redundancy costs of the severance pay applicable in cases of redundancy dismissals.
- Increasing the cap on the weekly wage provided to employees on the severance payment and the minimum wage.

Denmark

Denmark's famous labour market model - Flexicurity - is known for its ability to meet the needs of employers while, at the same time, safeguarding the welfare of employees. The model has three core elements:

- Employers can hire and fire at will, without excessive costs for dismissing employees. Litigation surrounding dismissals is uncommon.
- Employees who join and pay subscription fees to an A-kasse (unemployment insurance fund) get up to two years' *Dagpenge* (unemployment benefit) after losing their jobs.
- The Danish government runs education and retraining programs and provides counselling services to get unemployed people back to work as quickly as possible.

The Danish government provides subsistence payments for people who lose their livelihood due to illness, divorce or unemployment, and who do not qualify under other social welfare schemes such as pension or unemployment benefit.

Recommendations

- A Goods and Services Tax-style consultation with states on labour reforms so that the central government and all twenty-eight states arrive at a basic consensus.
- Government should undertake a regular review of the existing labour laws and should replace obsolete provisions.
- Remaining labour codes need to be passed at the earliest opportunity.
- The government should reduce the number of inspections or surprise inspections and conduct joint inspections for all the laws at one time.
- The government should adopt web-based electronic inspections where the physical presence of the officer is not required.
- The SAMADHAN portal should be speedily expanded to include all states and union territories in the country.
- The government should consider faster implementation of the One Unit One Identifier – Labour Identification Number (LIN). This eases the process of registrations and submitting returns for businesses.
- Businesses need to be updated about recent changes in labour laws and feedback generated should be used for further reforms. Government should conduct regular workshops across the country to educate companies including MSMEs about the latest reforms.
- Social security schemes should be linked to employment and productivity.
- All employees in the country should be covered under a single act. This should include non-workmen i.e white collar workers.
- A portal for career counselling (National Career Service) has been launched by the Ministry of Labour & Employment. However, very few individuals are using the services offered through the portal. Government should increase awareness of the portal amongst students and job seekers.

5. Make sterling a currency for trading across India's borders by adding GBP to the list of Asian Monetary Units

UK companies face increased currency risk in India because the currency basket used by the Asian Clearing House (ACU) for trading across borders in the South Asian Association for Regional Cooperation (SAARC) countries does not use the UK pound as a denominator.

The ACU was established in 1974 at the initiative of the United Nations Economic and Social Commission for Asia and Pacific (ESCAP), for promoting regional co-operation between Iran and the participating eight SAARC nations - Bangladesh, Bhutan, India, Maldives, Myanmar, Nepal, Pakistan and Sri Lanka.

Currently, the Asian Monetary Unit (AMU) is the common unit of account for Asian Clearing Union (ACU) and is denominated as 'ACU dollar' and 'ACU euro', with transactions in euros currently suspended. UK-headquartered companies that trade in the South Asian region need to open a separate US dollar bank account to trade through ACU resulting in extra administration and costs.

British businesses that invest in India also cater to the wider South Asian and Asia-Pacific market and would like to make India their exporting hub in Asia. The geographical advantage which India offers to access the wider South Asian and South East Asian markets needs to be tapped by British companies.

In order to facilitate trading across borders for UK companies, the British pound should be included as one of the common units to settle these multilateral transactions. This will help attract more British investors to India and simplify exports to other Asian and South Asian nations

The main objective of the ACU is to facilitate payments among member countries to economize the use of foreign exchange reserves and transfer costs.

Recommendations

- UK businesses request the government of India to consider adding GBP to the list of Asian Monetary Units.
- UK businesses request the British High Commission in India to take this up on a government to government level.

6. Simplify the Legal Metrology Act by removing the renewal requirement for licences, digitalising compliance processes and allowing inspection and certification by third parties

Companies dealing with all weights and measures and the equipment of measuring have to seek approvals under the Legal Metrology Act, 2009 (Weights & Measures) before setting up a business in India. A company is required to obtain registration of importer approval from the Ministry of Consumer Affairs, Food & Public Distribution, Government of India. Another approval is required under the same Act from the state government for the verification of certificates, licenses for weights and measures equipment and registration of packers, manufacturers and importers.

In most Indian states, the weights and measures division have developed online platforms to receive digital approval certificates and facilitate approvals, payments, and tracking applications. Industry welcomes a number of recent business-friendly reforms such as the introduction of self-certification, risk-based inspection modules, defining timelines for granting of approvals and uploading of inspection reports.

However, businesses still face some challenges in obtaining approvals and ensuring compliance during their operations.

UK companies have highlighted some key issues in the legal metrology regulations

Yearly renewal of licenses and verification of certificates

It is mandatory to renew licences on a yearly basis. The cost and time incurred in getting renewal of licenses or verification of certificates is significant due to the long process.

In the case of measuring equipment, each machine is required to be stamped on manufacture and again when installed, and thereafter, the licence for the model is required to be renewed every year. Due to shortage of officers and the time-consuming nature of this activity, there are delays which affect commercial activities.

Compliance requirements under Legal Metrology Act

As well as ensuring compliance during physical inspections, businesses are required to periodically submit hard copies of compliance documents to the weights and measures division in several states. This leads to delays and irregularity in submission and hinders proper maintenance of records. Delays lead to incorrect dates and times being fed into the computerized risk assessment module which has been developed by states for scheduling inspections. The incorrect data then adversely affects companies' compliance and risk profile.

Need for an online case management system for offences

Businesses have raised concerns over the awareness levels of the inspecting officers. In some cases, the inspectors do not follow the standard inspection checklist as defined by the board. This leads to arbitrary inspections and potential disruption for industrial units. Discretionary powers given to field officials without accountability makes the industry vulnerable to the application of criminal liability even for the slightest/technical offence.

Avoidance of litigation

Businesses have faced challenges with the Act. Due to a lack of clarity on compulsory guidelines, companies have been served with notices about trivial issues from the inspection authorities. The companies have felt that some relaxation of unnecessary declarations should be applied. For example, in the education publishing sector – relaxation/ clear guidelines on the number of declarations in a book, with which the publisher must comply.

Need for regulatory uniformity

Regulators governing the Legal Metrology Act for similar products are generally not on the same page. Clarity of rules and guidelines should be improved to avoid ambiguity.

Recommendations

- Introduction of a provision for the extension or elimination of a renewal requirement for all licences & verification of weights & measures. As a first step, a short feedback form should be attached to the application form to assess applicants' interest in whether renewal can be replaced with retention.
- Involvement of third parties for testing, recalibration and stamping. Inspection and certification by third parties is already allowed for other equipment, not covered by Legal Metrology Act. The working of third parties can be regulated by the government.
- The compliance submission process should be fully digitalised and automated. A compliance checklist should be uploaded on the industry's dashboard as the universal set of requirements for the industry. To automate this process and reduce ambiguity, the system should be designed in such a manner that inspectors can input real-time observations from their physical inspections onto a pre-designed inspection report digitally. This will increase transparency and effectiveness of the procedure and ensure compliance with the defined government checklist.
- The digital system should send automatic reminders to the businesses 15 days before the compliance document is due for submission. This would enable businesses to log into their account and upload required documents with an automatic time stamp. This would also enable department officers to do an online verification and help in risk assessment of the unit.
- In order to minimise unnecessary legal action against businesses under the Legal Metrology Act, an Online Case Management system should be established. This will enable investors to settle their defaulter/offender status case with the department in a transparent manner. In cases of infringement under the Legal Metrology Act, imprisonment should be replaced by fines and penalties (similar to the recent decriminalisation of offences under non-compliance with CSR rules).

7. Start work on a UK India bilateral Social Security Agreement to make it easier for British employees in India

Government pension fund contributions are a common requirement in many countries, and India has a social security fund for employees of both domestic and foreign employers. Every business establishment in India that employs more than 20 workers must register with the national social security system and make mandatory contributions toward retirement and insurance benefits.

UK businesses have pointed out that the UK does not have a social security agreement with India. Therefore, UK nationals working in India cannot withdraw their EPF contribution before they attain 58 years of age.

The Employees' Provident Funds and Miscellaneous Provisions Act, 1952 (EPF Act) is the welfare legislation enacted to provide social security to employees in the form of retirement or old age benefits under the following three schemes:

- Employee Provident Funds (EPF) Scheme, 1952 (Provident Fund Scheme);
- Employee Pension Scheme (EPS), 1995 (Pension Scheme); and.
- Employee Deposit Linked Insurance Scheme, 1976.

In 2008, the social security registration and contribution requirements were extended to international workers (IW) in India, whether employed by a foreign company or a business domiciled in India. An IW is a foreign national working in India for an employer registered with the Employees' Provident Fund Organisation (EPFO).

Accordingly, all employees holding a foreign passport and Indian employees working abroad or going to work in a foreign country with which India has a social security agreement (SSA) and to whom the EPF applies must become a member of the provident fund (PF) from the first date of his/her employment. There is no minimum period of stay in India for activation of PF compliance.

At present, India has SSAs with 19 countries, out of which 18 are in effect. These are Belgium, Germany, Switzerland, Luxembourg, France, Denmark, Republic of Korea, Netherlands, Hungary, Finland, Sweden, Czech Republic, Norway, Austria, Canada, Australia, Japan and Portugal

The Provident Fund (PF) contribution rate for foreign workers registered with EPF (or IWs) is 12%. The PF rate is calculated on the full salary of the IW irrespective of whether the salary is remunerated in India or outside India, and whether there is split payroll, or multiple country sources. The employer contributes an equal amount, with the sum of the PF contribution being 13.61% of the total wages of the employees.

An employer needs to deposit the PF contribution by the 15th of the next month following the salary. The details of the payees also need to be provided monthly in a prescribed form.

There is no cap on the salary on which contributions are payable by the employer as well as the employee. An IW can claim an income tax deduction on an EPF contribution of upto INR 150,000 (US$2,168).

An international worker may withdraw the accumulated balance in the EPF account in one of the following situations:

1. Retirement from service or after attaining 58 years of age, whichever is later.
2. Retirement on account of permanent and total incapacity to work due to bodily or mental infirmity as certified by a prescribed medical officer/registered practitioner.
3. When suffering from certain diseases detailed in the terms of the scheme such as cancer, leprosy, or tuberculosis.
4. On ceasing to be an employee of a covered establishment, where the international worker is from an SSA country.

The right to receive a PF refund on the date of completion of Indian employment is not available for IWs belonging to non-SSA countries.

This makes it challenging for expatriates belonging to a non-SSA country and working in India, as their provident funds are locked-in until they attain 58 years of age. Besides, IWs can only withdraw the funds to an Indian bank account, post retirement – which makes the process more difficult.

Recommendation

The Indian and UK governments should initiate a bilateral discussion concerning the establishment of a Social Security Agreement, which would enable expat British workers to withdraw their Employee Provident Fund when they leave the country.

Conclusion

Having engaged with members in seven states (Maharashtra, Delhi, Uttar Pradesh, Haryana, Tamil Nadu, Bangalore and Telangana), the CBI and EY have developed an acute understanding of UK business' capability to support the priorities of India's vision to accomplish a US$5 trillion economy. The conclusions and recommendations are outcomes of primary research based on conversations with UK companies over the course of one year.

This evidence underpins a seven-point action plan guided by three principles to give businesses the environment and support to operate successfully, thereby making India a strong player in the global value chain.

UK businesses have a deep and a long-term commitment to India and its growth. The recent announcement of a cut in corporate tax rates from 29% to 22% has further added to India's attractiveness as a destination for their overseas investments.

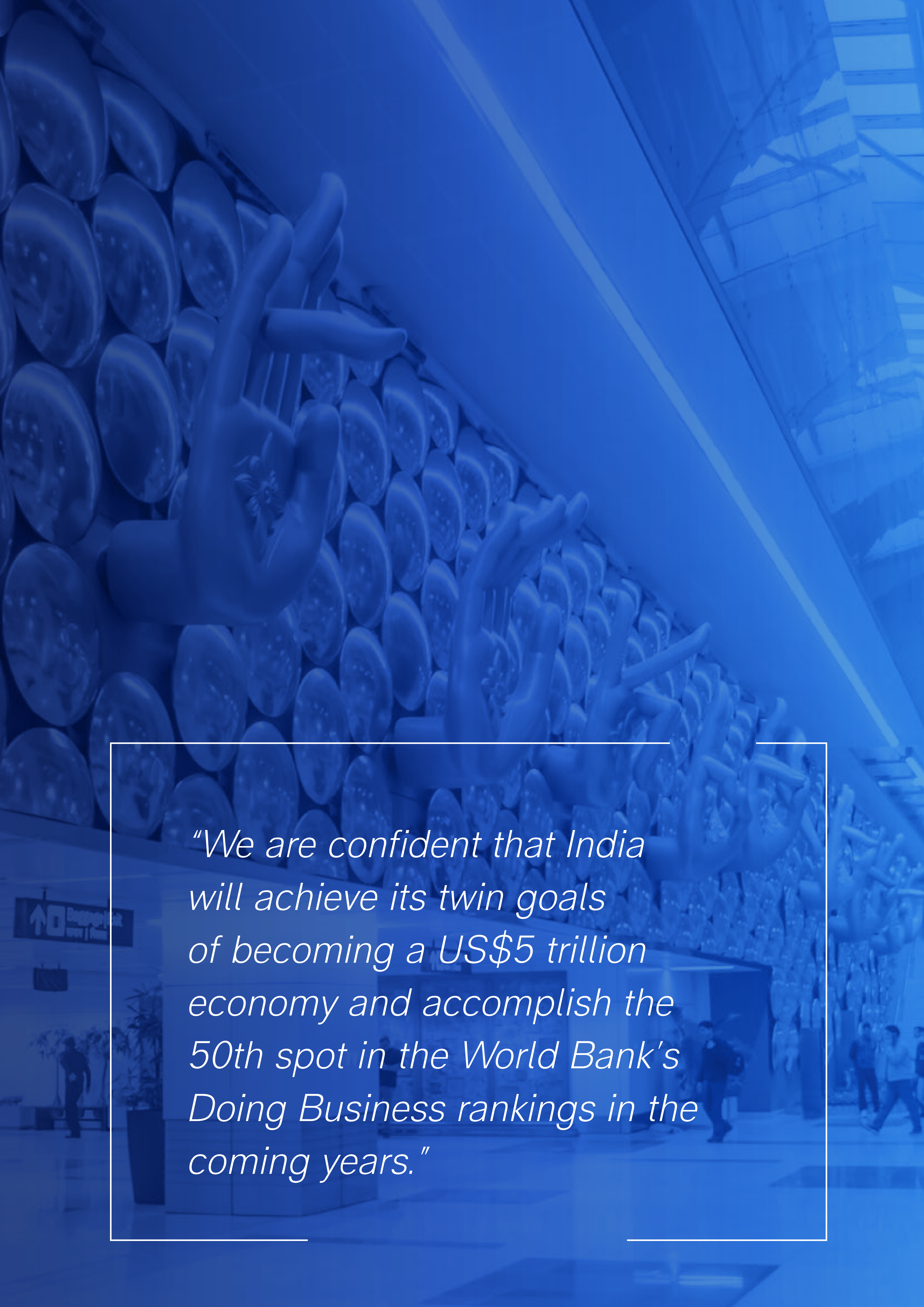
This white paper presents a set of practical suggestions, calling for the following:

1. A risk and outcome-based supervision across sectors
2. Self-certification and use of third-party approvers in low-risk industries
3. Reducing technical barriers to trade
4. Reducing compliance burden in legal metrology and Special Economic Zones
5. Aligning regulations of multiple authorities and undertaking labour reforms
6. Expanding the currency basket to include the sterling (GBP) for trading across India's borders.
7. Working on a bilateral social security arrangement

Taking a sector-agnostic approach, the CBI and EY believe that the recommendations in this white paper will help the government make changes that will bring about a step change in the country's overall regulatory landscape. This will ensure a winning partnership between the Government of India and UK businesses to unleash India's economic power.

We are confident that India will achieve its twin goals of becoming a US$5 trillion economy and accomplish the 50th spot in the World Bank's Doing Business rankings in the coming years.

The CBI is committed to supporting the Government of India and the British High Commission in their trade policy work and the JETCO process. Through white papers such as these, the CBI looks forward to providing the business view in future government-to-government deliberations.



"We are confident that India will achieve its twin goals of becoming a US$5 trillion economy and accomplish the 50th spot in the World Bank's Doing Business rankings in the coming years."

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2 ORF Issue Briefs June 2018- Quality Rules in India: Trade, Technical Regulations and Consumer Protection- Philip Grinsted, Alok Kesari and Khushwant Singh

3 Ibid.

4 A Special Economic Zone (SEZ) in India is a specifically delineated duty-free enclave and is deemed to be foreign territory for trade operations, duties and tariffs. SEZs are governed under the Special Economic Zone Act, 2005 (SEZ Act) and Special Economic Zone Rules, February 2006 (under the SEZ Act)

5 Software Technology Parks of India (STPI) are regulated and facilitated by the Ministry of Electronics and Information Technology. STPI is implementing the Software Technology Park (STP) scheme and the Electronics Hardware Technology Park (EHTP) scheme for the promotion of IT/ITES industry. The STP Scheme is designed to promote the software industry and the growth of start-ups and SMEs without any locational constraints

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We are global leaders in assurance, tax, transaction and advisory services and the only Big 4 firm integrated around each of our four strong areas — Americas; EMEIA, which includes Europe, Middle East, India and Africa; APAC and Japan.

EY in India

EY in India was established in 1995, and currently operates from eleven cities in India, with a workforce of over 41,000 people and over 450 partners. We have a strong focus on the Government and Public sector (GPS) in India, working with almost all the key Central Ministries and State Governments on significantly large mandates.

In the field of Ease of Doing Business, EY has worked with most of the states on the Business Reform Action Plan of the Department for Promotion of Industry and Internal Trade (DPIIT), Government of India, working across all key Departments at the State level. At the Central level, we are currently engaged with the DPIIT for providing assistance for State & District level reforms.

EY also supported The World Bank in evaluating India on 'Trading across the Borders' Parameter of Doing Business rankings for DB-2018 Report.

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team up to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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Confederation of British Industry (CBI)

Across the UK, the CBI speaks on behalf of 190,000 businesses of all sizes and sectors which together employ nearly 7 million people, about one-third of the private sector-employed workforce. With offices in the UK as well as representation in Brussels, Washington, Beijing and Delhi, the CBI communicates the British business voice around the world.

The CBI India office is based in New Delhi.

Brief background of CBI India

The CBI set up its full-time office in India in July 2012 and has over 150 member companies, from a range of sectors and sizes.

The CBI in India offers its members the following services:

Information and advice

- The CBI's New Delhi-based office provides members with independent, on-the-ground, economic, business and political analysis of the key policy issues facing companies in India
- Members receive the CBI's monthly newsletter India Update
- Company-specific advice is provided through email, in-market and on visits to the UK

Policy/regulatory issues

- The CBI provides a voice to members in India on business matters, in meetings with Indian government officials and by feeding into UK lobbying activities

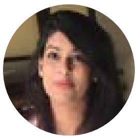
Events and networking

- Quarterly briefing of CBI members by the British High Commissioner to India
- Company-specific workshops, business breakfasts and ministerial roundtable meetings with UK and Indian ministers in India and the UK
- Joint activity and events in partnership with the Foreign and Commonwealth Office, Department of International Trade, UK India Business Council, FICCI, British Business Group, CII and Department for Promotion of Industry and Internal Trade (DPIIT), Government of India
- Special forums to help members with specific in-market needs

India-related projects in CBI

- CBI Director General Dame Carolyn Fairbairn is part of the UK India CEO Forum
- Sterling Assets India flagship publication — UK FDI creating Indian jobs
- India is part of the international itinerary for the CBI's Leadership Programme
- The India signature event — India Banquet in London
- Mini-India events in the UK regions
- Running the UK India Women's Leadership network

For more information:



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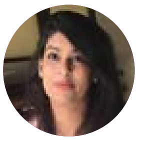

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