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PRESS RELEASE

NCAER releases its STATE INVESTMENT POTENTIAL INDEX: The 2017 N-SIPI

Gujarat and Delhi lead again; Haryana and Telangana make rapid gains

New Delhi (Wednesday, July 19, 2017): The National Council of Applied Economic Research, **NCAER**, released the NCAER State Investment Potential Index (N-SIPI 2017) at a launch workshop inaugurated by Ramesh Abhishek, Secretary, Department of Industrial Policy and Promotion (DIPP). Covering 20 States and the Delhi Union Territory, this is the second edition of the annual N-SIPI released by NCAER that ranks states' on their competitiveness in business and their investment climate. As in 2016, Gujarat and Delhi again top the list of states, while Haryana and Telangana have moved rapidly up the ranks to finish among the top five.

NCAER launched the first NCAER State Investment Potential Index (N-SIPI 2016) in March 2016. N-SIPI 2016 is a pioneering effort to provide metrics of economic governance, competitiveness and growth opportunities at the state and regional levels. The Index is designed to provide a systematic and reliable “go-to” reference for policy makers, existing businesses and potential domestic and overseas investors.

While delivering the keynote remarks at the launch of N-SIPI 2017, **Mr Ramesh Abhishek**, Secretary, Department of Industrial Policy and Promotion, complimented NCAER for its perceptive and insightful study on the investment potential of India's states. He said, *“The Government takes studies like the NCAER State Investment Potential Index and its findings very seriously and are using the procedural and perceptions-related parameters in both N-SIPI 2016 and this second edition in 2017 for informed policymaking. We are glad to say that the states are also supporting us in our endeavour to improve the business climate across the country.”*

He suggested that studies like NCAER's N-SIPI are aiding state governments in improving the business climate, making their states more attractive for investors. Already the inflow of FDI in the country has gone up from \$45 billion to \$60 billion over the last two years, though a lot more still needs to be done. He remarked, *“The world is looking at India with tremendous enthusiasm and interest as a viable business destination, and we need to facilitate greater participation of investors across all states in the country. This NCAER Index opens up immense possibilities for taking this effort forward. There are several interesting pointers in the NCAER survey, especially in terms of the six pillars that will determine future policies in this sphere. I am sure N-SIPI will add another feather to NCAER's cap, helping businesses to augment investment and helping Indian states to improve their attractiveness as business destinations.”*

Dr Shekhar Shah, Director-General, NCAER, remarked that *“India remains the fastest growing economy in the world and a highly desirable investment destination. The 2017 AT Kearney Foreign Direct Investment Confidence Index ranks India 8th globally, up from 11th place in 2015 and above Australia, Singapore, Spain, and Switzerland. With the third largest market in the world, the prospects for growth and*

investment are truly outstanding.” He further said that “Investment opportunities are expanding in India in all sectors. The GST will weave India’s states together in ways that has not been possible before. Now, more than ever, there is a need to provide a systematic and reliable “go-to” reference focusing on India’s states for potential domestic and overseas investors. N-SIPI 2017, NCAER’s second edition in the annual series of states’ rankings, is an evidence-based index that will help build continuity, consistency and rigour in ranking investment targets for investors. As importantly, it will help state policymakers measure their state’s performance against that of others.”

What does the 2017 N-SIPI do?

Building on the success of N-SIPI 2016, N-SIPI 2017 ranks the competitiveness of Indian states on six pillars: land, labour, infrastructure, economic climate, political stability and governance, and business perceptions. These six pillars are classified under four broad categories: factor driven (land and labour), efficiency driven (infrastructure), growth driven (economic climate and political stability and governance), and perceptions driven (ranking of business climate built on firm surveys). A unique feature of the N-SIPI index is the integration of industry perceptions of the investment potential and business climate of a state along with the fundamentals likely to drive investment decisions in that state. Another unique feature of the 2017 N-SIPI is the explicit inclusion of the land pillar, data for which were not available in time for inclusion in the 2016 N-SIPI.

Against the backdrop of the implementation of India’s long-awaited goods and services tax, which is expected to create an integrated common market and promote competitive and cooperative federalism, the focus of many policy reforms is shifting to the states. Given the growing state-level investment opportunities, N-SIPI 2017 is hence uniquely positioned to enable decision makers to assess the business potential offered by each state and develop each state in accordance with its strengths and limitations. N-SIPI 2017 nicely complements the World Bank’s Ease of Doing Business (EOD) surveys and DIPP’s assessment of progress made by states on business reforms. It is much broader and more representative than the EOD ratings and at the same time more concise and focused than the DIPP progress assessment.

While introducing N-SIPI 2017, the lead author of the study and Visiting Senior Fellow at NCAER, **Dr Indira Iyer**, remarked, “N-SIPI 2017 is unique in that it measures investment potential with both a five-factor index along with a perception-based survey (the sixth factor). As with N-SIPI 2016, corruption remains the most pressing problem for business, though the severity of this problem appears to have decreased. Business sentiment is found to be optimistic and, strikingly, the next five years may see more churn in cross-border investments”.

Key 2017 N-SIPI Findings

The key findings of the 2017 N-SIPI show that Gujarat, Delhi, Andhra Pradesh, Haryana, Telangana and Tamil Nadu are the top six states for business investment potential. At a greater level of detail, Gujarat also tops the rankings for the 4th N-SIPI pillar on economic climate and the 6th pillar on perceptions. Delhi is second overall and tops the ranking on infrastructure but loses out on governance and political stability. Compared to 2016, Haryana and Telangana have made the most rapid gains moving up 12 and 8 spots to finish among the top five states in terms of their investment potential. The 2017 N-SIPI ranking of states and the relative shifts compared to 2016 are in Figure 1 and Table 1 below.

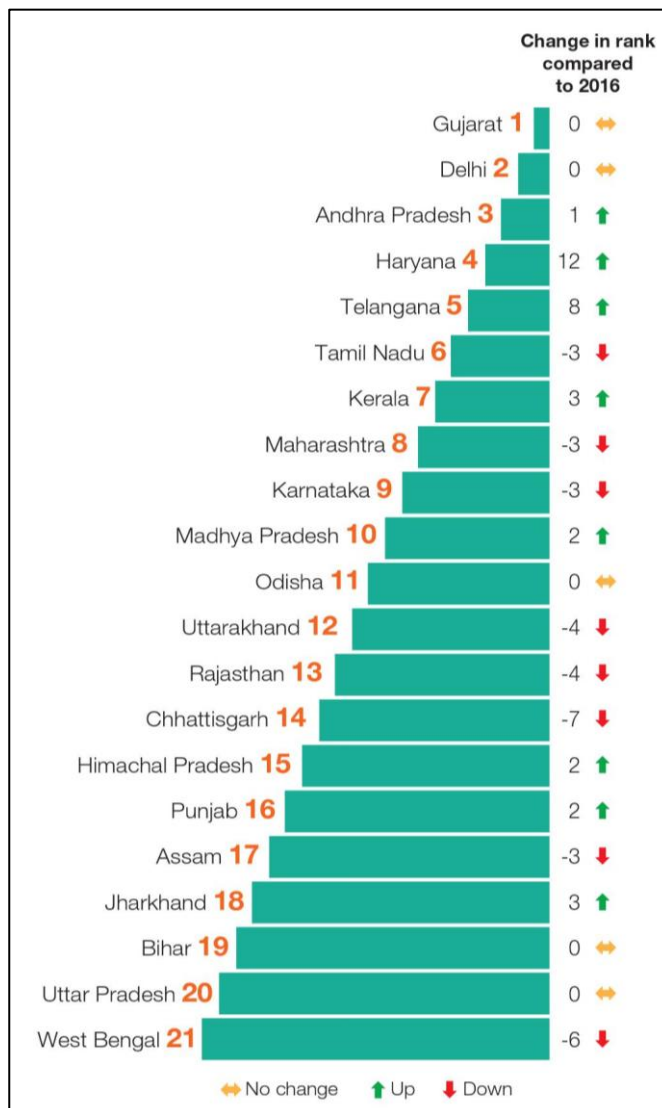
Although Bihar, Uttar Pradesh and West Bengal are ranked among the least favourable states for investment, they rank higher under individual pillars, with Bihar doing better on the labour pillar, Uttar Pradesh on the land pillar, and West Bengal on the economic climate pillar. Odisha maintains its rank from last year at 11th position. On the infrastructure pillar, Maharashtra, Karnataka and Odisha moved closer to the frontier, while Uttarakhand and Assam moved further away. West Bengal made the most gains on the economic climate and governance pillars, while Telangana, Punjab, Haryana and Kerala made significant gains under the perceptions pillar.

As noted by Dr Indira Iyer, the team leader for the 2017 N-SIPI, corruption continues to be the number one constraint faced by businesses, as found in the N-SIPI 2016 and 2017 surveys. But perceptions of corruption may be changing: the 2017 N-SIPI reports a decline in the percentage of respondents citing corruption as a constraint to conducting business from 79 percent in 2016 to 57 percent in 2017. Getting approvals for starting a business is still the second-most pressing constraint faced by businesses in 2017 as was the case in 2016, but, again, the percentage of firms reporting this has decreased from 72 percent to 53 percent.

The 2017 N-SIPI perception survey shows that the availability and quality of skilled labour, access to finance and tax policy are the other major issues of concern to businesses. These happen to be the focus areas of government action under the National Skill Development Mission and the *Jan Dhan Yojana*, and with the implementation of the GST from July 2017, the problems related to tax policy are expected to become better.

NCAER plans to update this evidence-based index annually. Along with DIPP’s assessment of business reforms and the World Bank’s index on the ease of doing business, N-SIPI should aid governments in policy making as well as allow both Indian and foreign investors to make informed investment decisions.

Figure 1: The 2017 NCAER-State Investment Potential Index Overall Rankings



**Table 1: The 2017 NCAER State Investment Potential Index (2017 N-SIPI)
Changes in State Rankings in 2017 as compared to 2016, Overall and Individual Pillars**
(with the exception of the Land Pillar, which was not included in 2016)

OVERALL		LABOUR		INFRASTRUCTURE		ECONOMIC CLIMATE		GOVERNANCE/ POL STABILITY		SURVEY	
Haryana	▲ 12	Bihar	▲ 10	Maharashtra	▲ 5	West Bengal	▲ 11	West Bengal	▲ 6	Telangana	▲ 13
Telangana	▲ 8	Maharashtra	▲ 7	Karnataka	▲ 4	Uttarakhand	▲ 7	Kerala	▲ 5	Punjab	▲ 12
Jharkhand	▲ 3	Haryana	▲ 6	Odisha	▲ 4	Gujarat	▲ 3	Haryana	▲ 4	Haryana	▲ 10
Kerala	▲ 3	Uttarakhand	▲ 6	Rajasthan	▲ 4	Jharkhand	▲ 3	Punjab	▲ 4	Kerala	▲ 10
Rajasthan	▼ -4	Kerala	▼ -5	Punjab	▼ -2	Assam	▼ -4	Andhra Pradesh	▼ -4	Tamil Nadu	▼ -8
Uttarakhand	▼ -4	Madhya Pradesh	▼ -5	West Bengal	▼ -4	Odisha	▼ -4	Madhya Pradesh	▼ -5	Maharashtra	▼ -9
West Bengal	▼ -6	Odisha	▼ -7	Assam	▼ -5	Rajasthan	▼ -5	Rajasthan	▼ -6	Rajasthan	▼ -11
Chhattisgarh	▼ -7	West Bengal	▼ -8	Uttarakhand	▼ -9	Andhra Pradesh	▼ -9	Delhi	▼ -9	Uttarakhand	▼ -12

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Established in 1956, NCAER is India's oldest and largest independent, non-profit, economic policy research institute. NCAER's work falls into four thematic areas: Growth, macro, trade, and economic policy; investment climate, industry, infrastructure, labour, and urban; agriculture and rural development, natural resources, and environment; and poverty, equity, human development, and consumers. The focus of NCAER's work in these areas is on generating and analysing empirical evidence to support and inform policy choices. It is also one of a handful of think tanks globally that combine rigorous analysis and policy outreach with deep data collection capabilities, especially for household surveys. NCAER is celebrating its 60th anniversary in 2016. For more information, please visit www.ncaer.org.

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