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NITI Aayog Launches India's First Investment Friendliness Index 2026 to Strengthen State-Level Investment Ecosystems and Competitive Federalism

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Recent Developments:

- **NITI Aayog** released the **first-ever Investment Friendliness Index (IFI) 2026** on **17 July 2026** as a comprehensive framework to assess the investment readiness of **28 States and 8 Union Territories**.
- The **Investment Friendliness Index** was announced in the **Union Budget 2025–26** following the directions issued during the **9th Governing Council Meeting of NITI Aayog (2024)** to develop an **Investment-Friendly Charter** for States and UTs.
- The Index seeks to promote **competitive and cooperative federalism**, strengthen **State-level investment ecosystems**, and contribute towards the vision of **Viksit Bharat @2047**.

Introduction:

Investment Friendliness Index (IFI):

- **Investment Friendliness Index (IFI) 2026** is India's first **home-grown investment benchmarking framework** developed by **NITI Aayog**.
- The Index evaluates the ability of **States and Union Territories** to **attract, facilitate and sustain** both **domestic** and **foreign investments**.
- Unlike earlier business reform rankings, the IFI provides a **continuous, evidence-based assessment** of investment ecosystems instead of merely evaluating procedural reforms.
- The framework recognises that while the **Union Government** establishes the overall economic policy direction, **States** play the decisive role in determining the actual investment climate through infrastructure, governance, regulation and institutional capacity.

Need for a State-Level Investment Index:

Need for IFI:

- India aims to become a **developed economy by 2047**, requiring sustained high investment-led growth.
- According to the **World Bank India Country Economic Memorandum (2025)**, India needs to maintain nearly **7.8% average annual real GDP growth** over the next two decades to achieve high-income status.
- India's **investment rate** remains around **29.9% of GDP (FY25)**, significantly below the **40% or more** achieved by countries such as **Japan, South Korea and China** during their industrialisation.
- The **RBI KLEMS Database** indicates that **capital formation** has contributed more than half of India's economic growth since the **1991 economic reforms**.
- Nearly **85% of India's FDI inflows** are concentrated in **Maharashtra, Karnataka, Gujarat, Delhi and Tamil Nadu**, indicating substantial regional disparities.
- Increasing the competitiveness of all States can broaden the country's industrial base and create more balanced regional development.

- As public finances become increasingly constrained, **private investment** and **State-led reforms** will become the principal drivers of future economic expansion.

Investment Friendliness Index (IFI):

Genesis and Evolution:

- The concept originated during the **9th Governing Council Meeting of NITI Aayog (2024)**.
- It was formally incorporated into the **Union Budget 2025–26** as a major reform initiative.
- The framework replaces dependence on the discontinued **World Bank Ease of Doing Business Index** by introducing an **India-specific investment assessment model**.
- The Index has been designed through consultations involving governments, industry stakeholders and investment experts.

Objectives:

- **Benchmark** investment readiness across States and UTs.
- **Promote** competitive and cooperative federalism.
- **Encourage** continuous policy reforms.
- **Improve** investor confidence.
- **Support** evidence-based policymaking.
- **Facilitate** higher domestic and foreign investment.
- **Accelerate** the achievement of **Viksit Bharat @2047**.

Methodology of the Index:

Assessment Framework:

- The Index evaluates **28 States** and **8 Union Territories**.
- Assessment is based on a **Composite Score of 100**.
- The framework incorporates **84 objective indicators**.
- Evaluation combines:
- **Secondary data** collected from official sources.
- **Primary investor perception surveys**, ensuring that actual investor experiences complement statistical performance.
- The combined methodology enables both **quantitative assessment** and **qualitative evaluation** of investment ecosystems.

Eight Pillars of Investment Assessment:

Infrastructure:

- Assesses **transport connectivity, logistics efficiency, reliable electricity supply, industrial infrastructure and digital connectivity**.

Business Climate:

- Evaluates **single-window clearance systems, ease of project implementation, administrative responsiveness and operational continuity**.

Resources:

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- Measures **availability of industrial land, skilled workforce, natural resources and raw material accessibility**.

Government Policy:

- Examines **policy stability, predictability, investment promotion policies and long-term industrial vision**.

Regulatory Ease:

- Assesses **regulatory simplicity, compliance burden, approval timelines and bureaucratic efficiency**.

Institutional Environment:

- Evaluates **institutional capacity, transparency, accountability, grievance redressal and administrative responsiveness**.

Financial Health:

- Measures **fiscal discipline, debt sustainability, revenue mobilisation and macroeconomic stability**.

Environmental Resilience:

- Assesses **environmental sustainability, climate resilience, ecological compliance and sustainable industrial development**.

Performance Classification:

State Categorisation:

- **Top Performers:** Score above **50**.
- **Frontrunners:** Score between **45–50**.
- **Emerging Performers:** Score between **40–45**.
- **Aspiring States:** Score below **40**.

Major Findings of IFI 2026:

Overall Top Performers:

1. **Gujarat – 56.6**
2. **Maharashtra – 53.7**
3. **Tamil Nadu – 53.3**
4. **Goa – 53.1**
5. **Odisha – 52.4**

Category-wise Leaders:

- **Large States:** Gujarat, Maharashtra, Tamil Nadu.
- **Hilly & North-Eastern States:** Uttarakhand, Assam, Himachal Pradesh.
- **Union Territories & City States:** Delhi, Chandigarh.

Reasons Behind Gujarat's Leadership:

- Efficient **port infrastructure**.
- Reliable **power sector**.

- Strong **manufacturing export performance**, contributing nearly **31% of India's merchandise exports**.
- Lowest **Fiscal Deficit-to-GSDP ratio** among States during FY2024.

Reasons Behind Maharashtra's Strong Performance:

- Largest share of **Private Equity and Venture Capital investments**.
- Strong entrepreneurial ecosystem.
- Highest number of **Atal Tinkering Labs**.
- Highly developed industrial and financial ecosystem.

Reasons Behind Tamil Nadu's Success:

- Strong industrial infrastructure.
- Nearly complete **MoU-to-investment conversion**.
- Excellent export performance.
- Stable manufacturing ecosystem.

Reasons Behind Goa's Performance:

- High investment in **skill development** and **healthcare**.
- Strong **renewable energy share**.
- Efficient regulatory framework despite geographical constraints.

Significance of the Investment Friendliness Index:

Economic Significance:

- Encourages greater **private investment**.
- Improves India's global investment attractiveness.
- Supports balanced regional industrialisation.
- Strengthens domestic manufacturing competitiveness.
- Promotes sustainable long-term economic growth.

Administrative Significance:

- Creates measurable benchmarks for State Governments.
- Facilitates evidence-based governance.
- Encourages policy innovation.
- Enables inter-State learning through best practices.
- Improves accountability in investment facilitation.

Federal Significance:

- Strengthens **competitive federalism** through healthy competition.
- Promotes **cooperative federalism** by encouraging policy sharing among States.
- Aligns State reforms with national economic priorities.
- Reinforces the concept of **Viksit Rajya for Viksit Bharat**.

Challenges in Attracting Investments Across States:

Macroeconomic Challenges:

- **Regional concentration of investment:** Nearly **85% of India's Foreign Direct Investment (FDI)** is concentrated in **Maharashtra, Karnataka, Gujarat, Delhi and Tamil Nadu**, leaving several States with

limited access to private capital.
- **Wide performance disparities:** The difference between the highest-ranked **Gujarat (56.6)** and the lowest-ranked **Lakshadweep (24.5)** exceeds **32 points**, reflecting significant variations in infrastructure, governance and institutional capacity.
- **Persistent investor concerns:** Investors continue to identify **delayed approvals, limited industrial land availability, shortage of skilled labour, regulatory uncertainty and infrastructure gaps** as major investment barriers.
- **Excessive reliance on incentives:** Fiscal incentives alone cannot sustain investment unless supported by **transparent governance, predictable regulations and efficient institutions**.
- **Scope for improvement remains universal:** Even the highest-performing State scored below **60**, indicating that every State has considerable room to strengthen its investment ecosystem.

State-Level Structural Challenges:

- **Human capital, talent migration:** Several States continue to experience shortages of industry-ready skilled workers, while migration of qualified labour reduces local industrial competitiveness.
- **Weak single-window systems:** In some States, manual approvals continue despite digital platforms, reducing efficiency and increasing compliance costs.
- **Law and order, investor confidence:** Concerns regarding security, dispute resolution and administrative responsiveness continue to influence investment decisions.
- **Fiscal stress:** High public debt, elevated fiscal deficits and rising interest payments reduce States' ability to invest in infrastructure and industrial support.
- **Digital infrastructure, connectivity:** Uneven broadband penetration, weak mobile connectivity and inadequate digital public infrastructure constrain technology-intensive investments.
- **Environmental challenges:** Air pollution, climate risks, floods and water scarcity reduce industrial productivity and increase business uncertainty.
- **Logistics bottlenecks:** Poor last-mile connectivity, inadequate warehousing, congested transport corridors and limited airport connectivity increase logistics costs.
- **Delayed incentive disbursement:** Slow release of subsidies and weak inter-departmental coordination reduce investor confidence.

Region-Specific Challenges:

- **Hilly and North-Eastern States:** Difficult terrain increases infrastructure costs, limits market access and constrains industrial expansion.
- **Large States:** Administrative complexity and regional disparities often delay project implementation and policy execution.
- **City States and Union Territories:** Limited land availability and natural resource constraints restrict large-scale industrial development despite relatively better urban infrastructure.

Measures to Improve Investment Competitiveness:

Accelerate Land and Labour Reforms:

- Simplify land acquisition and allotment procedures.
- Modernise labour regulations while protecting workers' rights.
- Expand industry-oriented skill development through **Skill India Mission**, **PM Kaushal Vikas Yojana (PMKVY)** and **National Apprenticeship Promotion Scheme (NAPS)**.

Strengthen Single-Window Clearance Systems:

- Fully integrate approval mechanisms under the **National Single Window System (NSWS)**.
- Eliminate manual approvals wherever feasible.

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- Reduce project approval timelines from several months to **30–60 days** through digital governance.

Adopt Sector-Specific Industrial Policies:

- Promote targeted incentives under the **Production Linked Incentive (PLI) Scheme**.
- Encourage State-specific industrial strategies based on comparative advantages.
- Develop specialised manufacturing ecosystems similar to semiconductor, electronics, automobile and renewable energy clusters.

Follow an Infrastructure-First Approach:

- Expand industrial corridors under the **PM Gati Shakti National Master Plan**.
- Accelerate projects under the **National Industrial Corridor Development Programme (NICDP)**.
- Strengthen multimodal logistics through industrial parks, ports, railways, airports and dedicated freight corridors.

Improve Business Climate:

- Reduce regulatory compliance burdens.
- Simplify licensing procedures.
- Promote transparent governance through digital public services.
- Strengthen grievance redressal mechanisms.

Ensure Fiscal Sustainability:

- Improve revenue mobilisation.
- Rationalise public expenditure.
- Maintain prudent debt management.
- Create fiscal space for infrastructure and industrial investments.

Bridge Infrastructure Gaps:

- Strengthen electricity distribution under the **Revamped Distribution Sector Scheme (RDSS)**.
- Expand broadband connectivity through **BharatNet**.
- Improve warehousing, cold chains and logistics infrastructure.

Strengthen Institutional Governance:

- Ensure policy stability.
- Improve transparency in land allocation.
- Accelerate environmental clearances.
- Build efficient dispute resolution mechanisms.

Develop Human Capital:

- Promote vocational education.
- Strengthen industry-academia collaboration.
- Encourage continuous workforce upskilling.
- Improve labour productivity through technology adoption.

Promote Climate-Resilient Development:

- Integrate sustainability into industrial planning.
- Implement the **National Action Plan on Climate Change (NAPCC)**.

- Encourage renewable energy adoption and green industrial infrastructure.

Institutionalise the Investment Friendliness Index:

- Publish the Index regularly.
- Enable States to benchmark progress.
- Promote peer learning and policy innovation.
- Track long-term reform outcomes through measurable indicators.

Investment Friendliness Index and Ease of Doing Business:

Major Differences:

Investment Friendliness Index (IFI)

Ease of Doing Business (EoDB)

Home-grown Indian framework

Developed by the World Bank

Measures overall investment readiness

Focused mainly on business regulations

*Uses **84 indicators** with investor surveys*

Relied primarily on regulatory indicators

Evaluates long-term investment ecosystem

Emphasised procedural reforms

Includes sustainability and fiscal health

Limited environmental assessment

Supports continuous benchmarking

Global ranking discontinued in 2021

Promotes cooperative and competitive federalism

Primarily compared countries globally

UPSC Relevance:

Prelims Perspective:

- **Released by: NITI Aayog**
- **Year: 2026**
- **Coverage: 28 States and 8 Union Territories**
- **Assessment: 84 indicators**
- **Total Score: 100**
- **Evaluation Pillars: 8**

- **Highest Ranked State: Gujarat**
- **Objective:** Promote **investment competitiveness** and **competitive federalism**.

Mains Perspective:

- Demonstrates the increasing role of **States in economic governance**.
- Highlights the importance of **investment-led growth** for achieving **Viksit Bharat @2047**.
- Illustrates the relationship between **good governance, institutional quality and economic development**.
- Strengthens themes relating to **cooperative federalism**, **competitive federalism**, **ease of doing business**, **industrial policy** and **regional development**.
- Can be cited while discussing **GS-II (Governance and Federalism)** and **GS-III (Economic Development, Investment and Infrastructure)**.

Way Forward:

Policy Priorities:

- Shift from **reform announcements** to **effective implementation**.
- Strengthen institutional capacity across all States.
- Improve coordination between the **Centre**, **States** and industry.
- Promote balanced regional industrialisation by focusing on lagging States.
- Integrate investment promotion with **logistics**, **digital infrastructure**, **green growth** and **human capital development**.
- Encourage periodic monitoring through data-driven performance evaluation.
- Align State-level industrial strategies with national priorities under **Viksit Bharat @2047**, **Make in India**, **Digital India**, **PM Gati Shakti** and **Atmanirbhar Bharat**.

Conclusion:

- The **Investment Friendliness Index 2026** represents a significant shift from measuring procedural business reforms to evaluating the overall strength of State-level investment ecosystems.
- By combining objective indicators with investor feedback, the framework encourages evidence-based policymaking, transparent governance and sustained institutional reforms.
- Regular assessment through the Index can improve investor confidence, reduce regional disparities, strengthen cooperative-cum-competitive federalism and accelerate India's transition towards a **developed economy by 2047**.

Value Addition for UPSC:

Relevant Articles:

- **Article 246:** Distribution of legislative powers between the Union and States.
- **Article 262:** Inter-State coordination in matters affecting development.
- **Article 280:** Finance Commission and fiscal federalism.
- **Article 282:** Grants for public purposes.
- **Article 300A:** Protection of property rights relevant to investment.

Institutional Linkages:

- **NITI Aayog**
- **Department for Promotion of Industry and Internal Trade (DPIIT)**
- **Invest India**
- **National Single Window System (NSWS)**

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- **RBI**
- **Finance Commission**
- **GST Council**

Flagship Programmes:

- **Make in India**
- **Startup India**
- **Atmanirbhar Bharat**
- **PM Gati Shakti National Master Plan**
- **National Industrial Corridor Development Programme (NICDP)**
- **Production Linked Incentive (PLI) Scheme**
- **Skill India Mission**
- **PM Kaushal Vikas Yojana (PMKVY)**
- **National Apprenticeship Promotion Scheme (NAPS)**
- **BharatNet**
- **Revamped Distribution Sector Scheme (RDSS)**
- **National Logistics Policy (NLP)**

Important Facts:

- **Real GDP Growth (FY1992–FY2025):** Approximately **6.1%** average annually.
- **Target Growth for Viksit Bharat:** Around **7.8%** annually until **2047**.
- **Investment Rate (FY25): 29.9% of GDP**.
- **Top Five States account for:** Nearly **85% of India's FDI**.
- **Highest IFI Score: Gujarat (56.6)**.
- **Assessment Coverage: 28 States**, **8 Union Territories**, **84 indicators**, **8 pillars**, **100-point composite score**.
- **Core Philosophy: Evidence-based governance**, **competitive federalism**, **cooperative federalism**, **investment-led development**

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