



Embassy of India
Berlin, Germany



MAKE IN INDIA MITTELSTAND!

Rödl & Partner

NEWSLETTER

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Investment Support for German Mittelstand Enterprises



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Economic Overview

October was an eventful month for the Indian economy and its burgeoning relationship with Germany. A significant highlight was the 7th round of India-Germany Intergovernmental Consultations (IGC) in New Delhi, co-chaired by India's Prime Minister and Germany's Federal Chancellor. Under the motto "Growing Together with Innovation, Mobility and Sustainability," the consultations focused on technology, innovation, climate action, and strategic cooperation¹. This meeting marked a new level of Indo-German relations with agreements on triangular cooperation, migration, and mobility, setting the stage for further bilateral cooperation².

The Asia-Pacific Conference in Delhi also reinforced the consensus on Indo-German cooperation and highlighted Germany's de-risking strategy for its economy. Furthering this, the German government adopted a strategic paper titled "Focus on India"³ on 16 October 2024. This policy document aims to elevate the strategic partnership, focusing on reducing bureaucracy, easing visa processes, recognising professional qualifications, and attracting Indian immigrants. The German government acknowledges India's critical role in global efforts to protect the climate, biodiversity, and achieve the sustainability goals of the 2030 Agenda. As India emerges as a stabilising force in the region, Germany seeks to enhance its understanding of India's domestic and foreign policy developments. As the strategic partnership approaches its 25th anniversary next year, Germany is keen to comprehensively gear its cooperation with India towards the future⁴.

In the renewable energy sector, India is poised to become a key exporter of solar modules by 2029. Supported by growing domestic production and favourable government policies, India aims to tap into rising global demand, especially in developing nations. A report by CRISIL projects that India's solar module manufacturing capacity could reach 125 GW by fiscal 2029, positioning the country as a global leader in solar module manufacturing⁵.

The latest economic figures present a mixed picture. The World Bank revised its FY25 growth forecast for India to 7%, citing continued capital expenditure on infrastructure, increased household investments in real estate, and rising private consumption⁶. According to the Department of Economic Affairs' latest Monthly Economic Report⁷, the agriculture and services sectors have performed well, though manufacturing shows some softening. Despite erratic monsoon impacts on vegetables causing a rise in consumer price inflation in September, core inflation remains stable. The external sector is robust with rising capital inflows and foreign exchange reserves exceeding USD 700 billion, although a widening merchandise trade deficit has increased the current account deficit to 1.1% of GDP in Q1 FY25. The labour market remains steady with an unemployment rate of 3.2% for 2023-24, driven by a rising female workforce and increasing manufacturing employment. Overall, the economic outlook for India is positive, supported by a stable external sector, a positive agricultural outlook, expected demand improvements from the festive season, and likely increased government spending. However, global risks such as geopolitical

conflicts and trade policy uncertainties remain. The Indian economy is projected to grow between 6.5% and 7.0% in the current fiscal year.

Germany and India are poised to strengthen their strategic partnership, with significant developments expected in the coming months, further cementing their roles as pivotal players in the global economic and political landscape.

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Maja Yadu, MIIM Project Co-ordinator, Roedl & Partner

Mittelstand In Focus

NPCI and UPI: Revolutionising India's Digital Payments and the Opportunity for Foreign Investors

India's digital payments ecosystem has witnessed a transformative shift in recent years, primarily driven by the National Payments Corporation of India (NPCI) and its groundbreaking Unified Payments Interface (UPI). As India rapidly moves towards becoming a cashless economy, the opportunities for foreign investors in this sector are immense. This article explores the role of NPCI and UPI, their impact on the Indian economy, and the lucrative potential they offer for international investors.

The Role of NPCI in India's Digital Payment Revolution

Established in 2008, the National Payments Corporation of India (NPCI) is an umbrella organisation for operating retail payments and settlement systems in India. The NPCI, created under the guidance of the Reserve Bank of India (RBI) and the Indian Banks' Association (IBA), aims to consolidate and integrate the multiple payment systems within the country, ensuring they work efficiently and in harmony.

NPCI's role includes managing several innovative products and platforms that have made digital transactions more accessible and secure for millions of Indians. Some of the flagship initiatives managed by NPCI include:

- Immediate Payment Service (IMPS)
- Bharat Bill Payment System (BBPS)
- RuPay: India's domestic card payment network
- Aadhaar enabled Payment System (AePS)

However, the crown jewel of NPCI's efforts is the Unified Payments Interface (UPI), which has revolutionised digital payments not just within India, but also on a global scale.

What is UPI?

The Unified Payments Interface (UPI) is an instant, real-time payment system that enables the seamless transfer of funds between bank accounts via mobile devices. Launched by NPCI in 2016, UPI allows users to transfer money 24x7 across a wide range of banks using a simple mobile application. What makes UPI unique is its interoperability—users can make transactions across different banks and payment platforms using a single interface.

Key Features of UPI:

1. **Instant Transfer:** UPI facilitates immediate fund transfers without the need for account details—only a virtual payment address is required.
2. **Interoperability:** UPI works across banks and various payment apps like Google Pay, PhonePe, Paytm, and more.
3. **Low Transaction Costs:** UPI transactions are either free or come with minimal costs, making them accessible for a large section of the population.
4. **Security:** UPI uses multi-layered authentication, ensuring secure transactions.
5. **Scalability:** UPI is not limited to peer-to-peer transactions; it is also widely used for merchant payments, bill payments, and e-commerce transactions.

Since its inception, UPI has grown exponentially and today processes billions of transactions per month. In 2023 alone, UPI processed more than \$1.5 trillion worth of transactions, underscoring its dominance in India's digital payments landscape.

Why Should Foreign Investors Consider NPCI and UPI?

India is experiencing one of the fastest growth rates in digital payments globally, and NPCI, with its UPI platform, is at the centre of this evolution. Here is why UPI and NPCI present a compelling investment opportunity for foreign investors:

1. A Massive and Growing User Base

India has over 600 million UPI users as of 2023, a number that continues to grow as smartphone and internet penetration deepens. UPI's simplicity and accessibility have made it the preferred mode of payment for both urban and rural populations.

Foreign investors can benefit from this massive user base by investing in fintech companies, payment solutions, and technologies that cater to UPI's vast audience. Moreover, as India's population becomes increasingly accustomed to digital transactions, the demand for innovative payment solutions will continue to rise.

2. Expansion Beyond India

NPCI is actively working on taking UPI global. UPI is being integrated with payment systems in countries such as Singapore, the UAE, and Nepal, allowing Indian travellers and residents abroad to use UPI for payments. This global expansion opens opportunities for foreign investors to partner with NPCI and fintech companies to facilitate cross-border transactions and expand UPI's reach internationally.

As UPI continues to expand into international markets, the demand for cross-border payment solutions, currency exchange platforms, and fintech partnerships will increase, offering significant potential for foreign investment.

3. Investment in Fintech Innovation

UPI has spurred an incredible wave of innovation in India's fintech ecosystem. From mobile wallets to payment gateways, lending platforms to investment apps, UPI has created a rich environment for fintech startups to flourish. Foreign investors can tap into this thriving ecosystem by investing in startups and fintech innovations that are built

around UPI's framework.

For instance, opportunities abound in areas such as Artificial Intelligence (AI) driven payment fraud detection, blockchain integration, payment analytics, and financial inclusion solutions. With India's fintech sector expected to reach \$1 trillion by 2030, the growth potential is enormous.

4. Merchant and Consumer Payment Solutions

UPI is increasingly being adopted by merchants for contactless payments, driving cashless transactions across India. The introduction of UPI Lite, which caters to low-value transactions, further widens the scope for small merchants and micro-enterprises.

Foreign investors have the opportunity to invest in payment terminals, POS systems, QR code solutions, and merchant aggregators that help businesses leverage UPI. Furthermore, as e-commerce continues to expand in India, investments in UPI-driven payment solutions for online retail will become even more lucrative.

5. Integration with Government Initiatives

NPCI and UPI have been crucial in supporting the Indian government's vision of a Digital India and financial inclusion. UPI plays a pivotal role in Direct Benefit Transfers (DBT), ensuring subsidies and welfare payments reach beneficiaries efficiently.

Foreign investors can collaborate with government-backed initiatives to develop innovative solutions in areas like public welfare payments, agricultural subsidies, and financial literacy programmes that leverage UPI's capabilities.

Challenges and Considerations

While UPI's growth and NPCI's dominance in the digital payments ecosystem is clear, there are some challenges foreign investors need to consider:

1. **Regulatory Changes:** The Indian government and RBI regularly update policies concerning digital payments and foreign investments. Investors must stay informed about regulatory changes that could impact market dynamics.
2. **Competition:** The Indian fintech space is highly competitive, with both domestic and global players vying for market share. Differentiation through technology and user experience will be key to standing out in this crowded space.
3. **Security Concerns:** While UPI's security features are robust, the rise in digital payments has also seen an increase in cyber threats. Investors must be prepared to address security challenges with advanced technology solutions.

Conclusion


NPCI and UPI have fundamentally changed the way payments are made in India, and their influence continues to grow. For foreign investors, the opportunities presented by UPI's widespread adoption and NPCI's innovation-driven approach are vast. From fintech investments to cross-border payments, the potential for high returns is significant in this dynamic sector.

With India's digital economy on an upward trajectory and UPI expanding its global footprint, the time is ripe for foreign investors to explore and invest in India's digital payments ecosystem. By partnering with Indian companies, leveraging cutting-edge technology, and addressing the evolving needs of this fast-growing market, foreign investors can capitalise on one of the most exciting financial revolutions in the world.

Sources:

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Manish Singh, Deutsche Bank AG
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A summary of the 7th India-Germany Inter-Governmental Consultations' (IGC) Joint Statement

On October 25, 2024, Prime Minister Narendra Modi and Chancellor Olaf Scholz co-chaired the 7th India-Germany Inter-Governmental Consultations (IGC) in New Delhi, marking a pivotal advancement in the strategic partnership between the two nations. The discussions encompassed a comprehensive array of topics, including innovation, technology, climate action, defense, trade, and the enhancement of people-to-people connections, thereby reflecting the multifaceted nature of bilateral relations.

During the consultations, the leaders introduced significant initiatives, such as the India-Germany Innovation and Technology Partnership Roadmap and the Indo-German Green Hydrogen Roadmap, which underscore their mutual commitment to sustainable development and technological progress.

The necessity of reforming the United Nations Security Council was emphasized by both leaders, indicative of their shared vision for a more equitable and representative international order. They also addressed urgent global conflicts, including the situations in Ukraine and the Middle East, jointly condemning terrorism and advocating for coordinated international responses. The partnership highlighted the importance of collaboration in education, research, and defense, particularly in fortifying ties within the Indo-Pacific region.

The IGC reaffirmed a robust commitment to enhancing cooperation in digital public infrastructure, artificial intelligence (AI), digital agriculture, and skill development. This collaboration seeks to strengthen connections between industry and academia. Furthermore, both nations agreed to deepen their research collaboration in disaster mitigation and critical sciences, encompassing fields such as space technology and early warning systems. The launch of the Indo-German Green Hydrogen Roadmap and the GSDP Dashboard exemplifies their joint efforts to expedite progress in the green energy transition and effectively monitor sustainable development goals.

Climate action remained a central focus of the meeting, with initiatives aimed at promoting green urban mobility, expanding renewable energy sources, and addressing climate change. The consultations underscored the importance of increasing bilateral trade, enhancing investment flows, and facilitating skilled migration to adapt to the evolving economic requirements of both countries. New agreements on vocational training, language learning, and cultural exchanges were also highlighted, aimed at cultivating a skilled workforce and strengthening cultural ties.

In recognition of the importance of Micro, Small and Medium Enterprises (MSMEs)/Mittelstand in economic growth and job creation, both sides acknowledged the growth in

bilateral investment and the success of the 'Make in India Mittelstand' Programme, which supports German Mittelstand enterprises seeking to invest and do business in India. In a similar vein, both governments also recognised the key role played by start-ups in fostering innovation, and commended the German Accelerator (GA) for successfully facilitating start-ups to address the Indian market, and welcomed plans to establish its presence in India. Both sides noted that a corresponding programme to assist Indian start-ups in gaining market access in Germany could further enhance economic cooperation between the two countries.

The leaders expressed their satisfaction with the significant progress achieved across various domains and reaffirmed their commitment to expanding this dynamic and strategic partnership. Germany's invitation to host the subsequent IGC reflects a shared determination to build upon these foundations, fostering mutual growth and cooperation in the years ahead.

Upcoming Event

8th MIIM Exchange Platform

06.02.2025 | Berlin

Save the date and register [here!](#)

Upcoming Webinar

**Opportunities for German Banks,
Financial Institutions and Businesses in
Gujarat International Finance Tec-City (GIFT City)**

09.12.2024 | 12:00 - 13:30 CET

Register [here!](#)

About MIIM

MIIM is a market-entry support programme for German Mittelstand and family-owned enterprises launched by Embassy of India Berlin, Germany in 2015; driven by Government of India's national programme, 'MAKE IN INDIA'.

The objective of MIIM programme is to facilitate investments by German Mittelstand and family-owned companies in India and to provide market entry related services.

The MIIM program has enrolled 223 companies which represent a cumulative declared investment of 2.1 bn EUR to India. MIIM has supported and facilitated the establishment of approximately 124 new manufacturing sites and expansions, along with 65 new subsidiaries. The program also offers numerous workshops—both physical and virtual—and networking events that facilitate knowledge exchange, while also serving as catalysts for meaningful partnerships that drive innovation and growth.

As a part of MIIM program members are exposed to a wide range of business support services under a single platform. The program is being implemented with the support of its Knowledge Partner – Rödl & Partner, Facilitation Partners including Central and State Government Ministries in India and also key industry partners who can support the companies in various aspects of market entry into India. Offered services includes Strategy consulting, M&A, operational market entry support, tax & legal support, financial services and other services.





MAKE IN INDIA MITTELSTAND!

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Investment support for German Mittelstand Enterprises

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