Immersive Outlook

First edition

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Foreword

1947–2022: From colonisation to Independence, from an undivided India to one that was partitioned; from the British Raj to a pluralist, sovereign, democratic republic; and more recently, from a predominantly agriculture-based to a services-led economy, and from bricks-and-mortar to digital.

India has come a long way navigating many a crest and trough through three quarters of a century. Today, it is the world's largest democracy with influencer status in the global mindscape.

The country has, undoubtedly, moved the needle on several fronts. The framing of the Indian Constitution underlines our secular spirit. The Green Revolution spelt the start of a self-reliant Bharat. Liberalisation of the economy paved the way for a vibrant India brimming with opportunities; while the launch of its first indigenous satellite and, later, its nuclear programme enabled India to join the league of select countries with such capabilities.

Today, India 2.0 is geared to be both inclusive and Atmanirbhar (self-reliant) with economy, infrastructure, technology-driven systems, vibrant demography and demand as the five pillars of a self-reliant India.[1] Aligned to its vision of achieving a USD 5 trillion economy by 2025 from the current USD 3.1 trillion, the Government is focused on certain reforms pertaining to supply chains (especially for agriculture), rational tax systems, simple and clear laws, capable human resources and a strong financial system.[2]

1 https://www.investindia.gov.in/atmanirbhar-bharat-abhiyaan

2 https://www.investindia.gov.in/atmanirbhar-bharat-abhiyaan

Social investment campaigns are already bearing fruit: a peer-to-peer lending platform aimed at enabling unbanked communities of farmers, artisans and entrepreneurs is a case in point. Yet another encouraging step towards building an inclusive society is the setting up of a family philanthropy network to contribute over a billion dollars to social causes in India. This is to help accelerate India's journey towards the United Nation's Sustainable Development Goals by ensuring over one billion Indian citizens can thrive with equity and dignity.[3]

India's progress report indicates that at the end of March 2022, the overall growth is at 8.7%,[4] unprecedented challenges notwithstanding. The country is digitally empowered with Jan Dhan-Aadhaar-Mobile (JAM) trinity which is proving to be a game changer, helping reach out to those living in remote corners of the country. It is also the seedbed for billion-dollar start-ups, with Indian start-ups having raised USD 8.4 billion in the first quarter of 2022, spelling 22% year-on-year growth.[5] The country's rank on the Global Innovation Index has moved further north to 46 in 2021 from 81 in 2015,[6] with more entrepreneurs and innovators entering the fray.

Besides, India has yet another potential advantage. With its strategic location, large internal market, and a thriving private sector, it could well be the next manufacturing destination. By 2030, this can add more than USD 500 billion annually to the global economy.[7] And this while living up to its commitment to a 500-GW nationally determined contribution (NDC) target of non-fossil energy capacity by 2030.[8]

The country – robust and resilient – thus seems to be in a relatively good spot compared to many others, despite geopolitical tension, inflation, asymmetry and polarisation.

That sets the stage for the launch of the first edition of PwC India's digizine, Immersive Outlook, comprising thought-provoking articles and a video interview. The distinctive perspectives offered in each of these articles are aimed at generating transformational ideas and helping translate them into reality through human-led tech enablement, accelerating our #CommittedIndia journey towards a USD 5 trillion economy.

3 India's journey towards achieving these Sustainable Development Goals

4 https://tradingeconomics.com/india/gdp-growth-annual, https://www.mospi.gov.in/

5 Indian startups raised $8.4 bn in Q1

6 India jumps two spots to 46th rank

7 Indian startups raised USD 8.4 billion in Q1

8 India to achieve 50% clean energy share

The first article, India on the cusp of transformation, by **Venkata Peri**, Head of the Research and Insights Hub, traces some of the hidden cracks that need to be addressed more proactively if we, as a nation, are to break new ground.

Economic Advisory Services Partner and Government sector Leader **Ranen Banerjee's** article, India @2047, is a forward-looking piece that shows how India, over the next 25 years, could exceed a per capita income of USD 26,000 – almost 13 times the current level – by unlocking some key areas that demand both investments and policy interventions. With the right attitude and close collaboration between relevant stakeholders in the ecosystem, Banerjee demonstrates how this could well become a reality.

Addressing the 'tax gap' in India by tax gurus **Akhilesh Ranjan** and **S. Ramesh** underlines the reasons behind India's significantly lower tax-to-GDP ratio despite certain far-reaching tax reforms. They highlight the primary reasons for the 'tax gap' and make recommendations that can help build mutual trust between the taxpayer and the tax department, leading to sustainable compliance and revenue growth.

Climate change, as is evident, has moved from the margins to the centre across the globe. In their article, Moving towards equitable resilience, ESG Leader **Sambitosh Mohapatra** and climate resilience and disaster risk reduction expert **Nidish Nair** focus on the impacts of climate change on the deprived sections of society. They explain how corporates can play a crucial role in navigating these impacts and make a difference to the whole of society.

Last but by no means the least, we have **T. V. Narendran**, CEO and MD of Tata Steel Ltd, in conversation with **Sanjeev Krishan**, PwC India Chairman. As they discuss a range of issues from policy stability to sustainability, they deftly weave in the nation-building story in which all of us have a significant role to play.

As we, a 1.3-billion strong nation, enter the 'amrit kaal' – the last quarter of India's century – transformation is inevitable. The journey may not be smooth; but as they say, tough roads often lead to beautiful destinations. It is therefore imperative to cultivate the right attitude, and nurture an inclusive and growth mindset that could catapult India's status as a developed nation. This brings to mind the practice of kaizen, a Japanese approach for continuous improvement. Kaizen centres around teamwork, discipline, quality circles and incremental change effectuated by each and every individual in the ecosystem to trigger collective transformation. Practising kaizen could catalyse our #CommittedIndia efforts towards building a developed nation.

We hope you find these articles insightful and that the immersive content of this first edition prompts you to watch this space for more. Reach out to us if you would like to have a more detailed discussion on any of the aspects we have touched upon.

Vishnupriya Sengupta
Director, Markets

India on the **cusp of transformation**

At 75, India is defined by her resilience. And while the nation has moved the needle significantly on multiple fronts, there are challenges ahead and new ground to cover

By Venkata Peri

A resilient India in 2022 stands on the cusp of massive transformation. External and internal impediments notwithstanding, India's democratic foundations remain strong and economic fundamentals robust to face challenges and black swan events. The country, despite initial hiccups and challenges in managing COVID-19, has administered more than 2 billion vaccines and delivered another 140 million doses[9] to other countries. It continues to strengthen its infrastructure by building national highways, enhancing the speed and safety of railways, and expanding ports and airports.

India's free-market credentials received a boost with the country moving aggressively to privatise the public sector – (Air India and Life Insurance Corporation being two cases in point) – and embracing the private sector as a key partner in areas such as national defence, transportation and healthcare. Thanks to its rapid digitisation and ease of doing business, 'Destination India' has picked up momentum. The country's efforts to offer credit lines and life-saving supplies to other nations make it a trustworthy ally and partner on the global stage.

9 https://www.wto.org/english/tratop_e/covid19_e/vaccine_trade_tracker_e.htm

These vectors of progress have given India the confidence to assert its point of view while defending its national interests. India's progress – both as a pluralist democracy and as a progressive free-market economy – deserves even more plaudits when viewed from the prism of its geopolitical existence amongst neighbours that, for the most part, have been driven by military and dictatorial caudillos.

While the progress of India is laudable, it must also be acknowledged that the nation still remains a work in progress. Climate crisis and access to clean water, increasing income asymmetry, inadequate healthcare infrastructure, skilling and educating India's youth, making India's defence and security self-reliant and building an effective tax regime are some of the crucial fault lines that can hinder India's progress.

As India attempts to become a USD 5 trillion economy, it is bound to face headwinds – both anticipated and sudden – of various kinds. It therefore needs to strengthen its societal foundations and proactively address some of these fault lines to have enough horsepower to not only navigate the headwinds but also remain resilient and self-reliant.

Provide water security

More than 600 million Indians face extreme water shortages. More than 2 lakh people die every year due to lack of access to safe drinking water[10] and water pollution results in losses worth USD 80 billion (circa 3%) of the GDP annually. NITI Aayog underlines that by 2030, the water demand in India is projected to be twice the supply.[11]

Water scarcity across some states is a major fault line which could have a debilitating impact on the country's health, food security and national security, with inter-state fights looming large over water resources. Equally concerning is India's dependence on groundwater as the most vital source of water, with more than 60% of irrigated agriculture and 85% of drinking water supplies being dependent on it.[12] With Indian farmers using three to five times more water for producing the same amount of crops compared to Chinese, American and Israeli farmers, the country's irrigation efficiency is among the lowest in the world.[13]

India's ability to productively capture just 18%[14] of the received precipitation forces both citizens and farmers to exploit groundwater sources. Inadequate regulatory control over the use of groundwater, distorted water pricing and heavy subsidisation of electricity (often priced at a flat tariff) makes groundwater overuse rampant among farmers. In addition, distribution losses of 35–50% (vis-à-vis 4% in the Netherlands, 6% in Denmark, 7% in Japan, 8% in Germany and 9% in Israel[15]) indicate the dismal state of water supply management. It is evident that while water resources themselves are at risk, there is an urgent need to improve water management to reduce losses and improve efficiencies.

Various Government subsidy programmes have been launched over the years to boost adoption of more efficient technologies such as micro irrigation. The Pradhan Mantri Krishi Sinchayee Yojana which was launched last year for 2021–26 with an outlay of INR 93,068 crore[16] also includes such components. Management of used water is another solution in view of such water resource challenges. The guidelines released recently by the Government under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme for making Indian cities water secure specify 'used water' instead of 'waste water'. This indicates a change in approach to this water source. But there is a long way to go with only 30%[17] of India's waste water being treated.

10 https://www.niti.gov.in/sites/default/files/2019-06/Final%20Report%20of%20the%20Research%20Study%20on%20%20Composite%20Water%20Resources%20Management%20Index%20for%20Indian%20States%20conducted%20by%20Dalberg%20Global%20Development%20Advisors%20Pvt.%20Ltd_New%20Delhi.pdf

11 Composite Water Management Index (CWMI 2019)

12 https://www.worldbank.org/en/news/feature/2012/03/06/india-groundwater-critical-diminishing

13 Composite Water Resources Management 2018: Niti Aayog

14 Central Water Commission Report 2019 | The Financial Express

15 Water Loss In India - The Biggest Challenge 2020

16 Pradhan Mantri Krishi Sinchayee Yojana for 2021-26 | Government of India

17 Composite Water Resources Management 2018: Niti Aayog

As is evident from NITI Aayog's Composite Water Management Index, several states have undertaken laudable efforts both to conserve and make water accessible to common households. The Central Government too has acknowledged the issue of severe water scarcity in Union Budget 2022–23 by allocating INR 86,189 crore[18] to the Ministry of Jal Shakti to deliver water supply to more than 4,300 towns.

Initiatives such as revised guidelines for groundwater extraction, water reuse action plans requested by the National Green Tribunal (NGT) from all states and Zero Liquid Discharge (ZLD) compliance for industries (e.g. tanneries, paper, textile) are helping to improve the waste water treatment levels in India. These guidelines need to be enforced stringently with punitive damages for non-compliance. Further, India could adopt some of the best practices from Israel's[19] success story (producing more than 20% more water than its requirement) that adopts a multi-pronged strategy. This includes developing a national water conveyance system, extensive use of drip irrigation (with 75% of its crops using drip irrigation), significant water recovery through waste water treatment and usage of biofilter projects, along with the extensive use of large-scale water desalination projects, and use of aquifers for water storage.

Ensure people reach home safely, daily

Safe and efficient transport is an important part of the sustainable development goals. As a nation, India has an unenviable record of contributing to 11% of the world's road accidents, more than half of which involve vulnerable road users such as pedestrians, cyclists and two-wheelers.

The Government has acknowledged the imperative to make our roads safer, and the Motor Vehicle Safety Act (Amended) of 2019 is a major step in the right direction. The National Road Safety Policy sets policy initiatives to be undertaken for road safety improvements. However, these acts and policies alone can't have a major impact unless they are supplemented with comprehensive traffic reforms, including training and educating citizens on traffic rules and their enforcement, a world-class traffic police aided by the most advanced technologies to spot violators, real-time adjudication of traffic violations and recertification of driver permits across the entire nation.

In addition, linking insurance premiums to driver performance and punitive damages (such as loss of employment and jail time) for violators will help ensure that drivers take traffic laws seriously. These measures must be supplemented with institutional reforms to continuously train and equip urban planners, traffic engineers and the traffic police.

Traffic reforms and road safety require continuous improvement and transformation. Government agencies – federal and state traffic police – along with scientific bodies (to model the traffic patterns to recommend specific actions to optimise traffic flows) and citizenry must come together to fulfil their collective obligation to keep our roads safe so that people can get back to their homes safely, every day.

Educate and skill India

India has more than 500 million[20] people in the age group of 5–24 years. Their education and skilling should be one of the country's top priorities as education and skilling remain the catalysts for India's transformation. As of May 2022, India has close to 250 million school-going students and 38.5 million in higher education, more than any other country in the world. Indian students have access to 42,343 colleges and 981 universities.[21] Behind these massive numbers lie some of the more problematic statistics. As per NASSCOM (2019), 83% of our graduate engineers were unemployable (12.5 lakh from a pool of 15 lakh remained unemployed) and lack of job skills was identified as one of the primary reasons.

18 Budget 2022: Govt allocates Rs 86,189 crore to Jal Shakti ministry | Business Standard News.

19 https://www.israel21c.org/how-israel-used-innovation-to-beat-its-water-crisis/

20 https://www.ibef.org/industry/education-sector-india#

21 https://www.ibef.org/industry/education-sector-india

According to UNICEF,[22] 29% of students drop out before completing their elementary education and most of them are from the marginally weaker sections of society. Half of the students at the primary school level don't achieve their grade-appropriate learning levels (namely, basic maths, reading and writing). The National Education Policy, 2020 (NEP 2020), launched in July 2020, lays down a vision for comprehensive education reforms starting from early childhood education to higher education.

The NEP 2020 is driven by a focus on teacher training and technology enablement, large-scale onboarding of trained teachers, revamping the curriculum at all levels. This is aimed at introducing a fine balance between academics, life lessons and practical exposure, multidisciplinary higher education and finally, effective triaging at the secondary school level between more formal higher education and vocational training. Similarly, the Skill India initiative launched seven years ago has the Ministry of Skill Development and Entrepreneurship working with its various arms.

India must strengthen vocational and life skills by tapping into the innate and latent vocational talent in India's heartland. From carpentry to masonry, plumbing to electrical works – communities in India are ripe with such pockets of expertise. Formal nurturing and accreditation of their skills can make them a global powerhouse of talent. State and Central governments must work closely to establish regional hubs of vocational training to not only hone and certify the innate vocational skills but also impart a set of language skills to accelerate their productive use globally. These measures will allow India to become the hub for accredited experts of vocational skills amidst an unprecedented phase of global infrastructure expansion.

The formal education sector covering secondary, graduate and postgraduate training also needs a reboot. NEP 2020 is a step in the right direction but needs to be supported with flawless execution of curriculum revamp to reflect the contemporary advancements in science and technology; interdisciplinary training; industry-academia collaborations for more practical exposure and apprenticeship; and a strong culture of innovation and entrepreneurship to encourage and motivate passionate students to solve some of the most pressing societal challenges.

The Indian higher education scene also needs a change. College owners and administrators must be held accountable for at least the basic hygiene – trained faculty, equipped laboratories, strong practical exposure and imparting of life lessons. Failure to comply must attract stringent punishment. The Government should also deploy more research grants and incentives to encourage a strong culture of research, innovation and entrepreneurship amongst the faculty and students; institutes of higher education and learning, on their part, need to transform themselves into cradles of innovation rather than remain conduits of placement to check the flow of talent to Western institutes for higher education and learning.

22 https://www.unicef.org/india/what-we-do/education

Make healthcare affordable and accessible

The pandemic, especially the second wave, exposed India's fault lines in the health sector. Access to healthcare services for those in the rural and remote areas has always been far more challenging than it is for those residing in urban areas, and the pandemic revealed such disparities yet again. While India can draw lessons from other countries, it will need healthcare solutions to address its unique challenges of complexity and diversity.

In rural India, on an average, a sub-centre (SC) covers 5,734 people, a primary health centre (PHC) covers 35,602 people and a community health centre (CHC) covers 163,298 people. In terms of geographic coverage, a CHC typically covers 563 sq km of area encompassing 121 villages, and a patient typically covers 13.3 km to reach a CHC.[23] To address these disparities in healthcare services, the Government launched the Pradhan Mantri Jan Arogya Yojana (PM-JAY) scheme – popularly known as Ayushman Bharat – as part of the National Health Protection Scheme to provide cashless secondary and tertiary care at private facilities.

The dual programmes of PM-JAY (wherein hospital admissions to the tune of over INR 37,000 crore have been authorised to date[24]) and the Aatmanirbhar Bharat Abhiyaan launched several measures for the health system, including Production-Linked Incentive (PLI) schemes for boosting the domestic manufacturing of pharmaceuticals and medical devices have been timely interventions. However, this area needs more attention, investment and innovation.

The country currently has 1.3 hospital beds per 1,000 population. There is also a shortage of skilled health workers, with 0.65 physicians per 1,000 people (the World Health Organisation standard is 1 per 1,000 people) and 1.3 nurses per 1,000 people. An additional 3 million beds will be needed for India to achieve the target of 3 beds per 1,000 people by 2025. Further, another 1.54 million doctors and 2.4 million nurses will be required to meet the growing demand for healthcare in India.[25]

As it is difficult for the Government to bridge the resource and healthcare infrastructure gap on its own steam, it needs to embrace the public-private partnership (PPP) model to support logistics, infrastructure and skilling, among other areas, to meet the demand. PPP models can bring down costs of care (both at the macro level as well as the cost of episode) by scaling up more aggressively and by bringing more skilled labour into the healthcare system.

India also needs to embrace telemedicine to complete last-mile delivery. Telemedicine coupled with efficient triaging of risky populations will enable our healthcare system to be more efficient and proactive as such efforts can help optimise care and capacity.

23 Rural Health Statistics 2020-21 | Ministry of Family and Health Welfare

24 https://economictimes.indiatimes.com/news/economy/indicators/ab-pmjay-successfully-contributed-in-curtailing-out-of-pocket-expenditure-in-country-govt/articleshow/90439800.cms

25 https://www.niti.gov.in/sites/default/files/2021-03/InvestmentOpportunities_HealthcareSector_0.pdf

Our healthcare system also needs to find ways to manage the elderly population. The World Health Organization estimates that 200 million of the 355 million people above 65 years of age are in the developing world.[26] Drawing lessons from the West in managing the pitfalls of expensive healthcare for ageing populations, India must adopt a radically different approach to ensure its own ageing population doesn't receive suboptimal care due to prohibitive costs. Radical innovations resulting in indigenous drug production, home-based and proactive care and timely treatment should be at the centre of our strategy to manage India's ageing population.

Healthcare and health services can be catalysts for economic growth in India. As per estimates by the National Skill Development Corporation (NSDC), healthcare can generate 2.7 million additional jobs in India and over 500,000 new jobs per year. And as a large percentage of nurses are often women, it can also factor in the diversity angle by increasing the ratio of women to men in this sector. In addition, with the right amount of policy changes (adoption of global healthcare protocols, regulatory scrutiny) and global partnerships (with commercial payers and governments globally), India's highly trained workforce of caregivers (doctors, nurses) can make the a country favoured destination for medical value travel.

Promote indigenous research and innovation

Indian policymakers had the foresight to acknowledge that pursuit of science and inquiry is key to a society's progress (the 42nd amendment to the Constitution in 1976 made scientific temper and human inquiry a fundamental duty). The pace at which the COVID-19 virus was detected, analysed, and vaccines developed and mass produced within less than two years since the first case was identified is a testament to human ingenuity and discoveries in fundamental sciences.

A key measure to assess a country's appetite for scientific pursuit is gross expenditure in R&D (GERD) as a portion of its GDP. The USA spends almost 3% of its GDP on R&D. China is aggressively investing in quantum computing and AI, and has spent more than USD 10 billion to build its first quantum computer. India's GERD stands at only 0.65% of its GDP, while the corresponding GERD percentage in Israel is 4.9%, in Korea it is 4.5%, in Japan 3.2%, in Switzerland 3.8%, in Spain 1.2%, in Singapore 1.9%, and in China 2.14%.[27] The lack of private investments in R&D is a cause for concern as the private sector contributes less than 40% compared to 70% in developed nations.

India's desire to be self-reliant is evident in almost every important policy initiative. Opening some of India's most strategic apparatus such as space exploration and defence to the private sector has been a major strategic decision. While these efforts are commendable, both the Indian private sector and academia continue to depend on external expertise for some of the most critical and sophisticated machinery, parts and skills. While our partnerships and purchasing power may permit technology transfer to us, it doesn't offer us the indigenous talent and skill to build them ourselves.

The Government has an important role to play in promoting a culture of innovation, research and discovery, which is critical to promote indigenous innovation and find solutions to India's unique challenges. Efforts of the USA post the Second World War to build agencies helmed by world-class scientists with massive allocation of budgets for scientific discovery and pursuits are good lessons to learn from. These investments helped build some of the finest academic institutions and established a rock-solid foundation for deep scientific pursuit and research.

Valuable scientific discoveries – from integrated circuits to vaccines to space exploration – are fruits of these efforts. India must draw upon such lessons to create the right policy framework to suit its needs. A national science foundation helmed by some of our brightest scientific talent, devoid of red tape and bureaucracy, and with access to funds and resources, will be a commendable

26 World Health Organisation. The world health report 1995: bridging the gaps. Geneva: WHO; 199513

27 https://data.worldbank.org/indicator/GB.XPD.RSDV.GD.ZS

first step. In parallel, the top 50 to 100 institutions of higher learning and research must be transformed to work in collaboration with the foundation to drive substantial research and find innovative and practical solutions to India's problems. The private sector too needs to be brought in to participate with talent and financial resources to ensure the solutions may be scaled up and marketed.

India's self-reliance will depend squarely on its ability to make investments for the future. From quantum computing to Artificial Intelligence, from cyber security to novel drug discovery – India's investments and execution plans will be critical for its self-reliance and stability.

Tax effectively and uniformly

In March 2022, Union Finance Minister Nirmala Sitharaman announced that in FY 2019–20, only over 8 crore Indians (6.2%) paid taxes even after considerable efforts by the Government.[28] For India to achieve a USD 5 trillion economy, it needs massive investments in healthcare, education, infrastructure and national defence. India's investments must precede the growth trajectory to ensure that the core societal foundation (essentially education and healthcare) can sustain the weight and pace of growth. The tax collections must meet the aspirations of a young India to be clean and green. To be able to meet the investment obligations, India's tax base must increase; tax rates should be optimised (both for individuals and businesses); and fraud (of non-payment, under-payment and incorrect deductions) must be detected and managed.

A fundamental challenge that India faces in broadening the tax base is the low per capita income and the tax threshold having to be set at a significantly higher figure. For FY 2022–23, the tax threshold for incurring taxes is INR 2.5 lakh (~USD 3,205),[29] while India's per capita income is estimated as USD 2,277 for FY22.[30] Thus, a significant portion of India simply doesn't fall within the tax bracket.

It is important for India to embrace a comprehensive tax reform plan that must have, at its centre, a comprehensive tax awareness programme to make citizens aware of their tax obligations and realise that unless they fulfil their respective obligations, the nation will not be able to achieve its vision. The reform plan must also find ways to increase the tax base, optimise the tax brackets (lower tax brackets are correlated with higher compliance) to reduce the tax burden, detect and penalise tax fraud and non-compliance, and also recalibrate the indirect tax rate framework and structure. Enhancing the ease of doing business, simplifying procedures and reducing litigation will pave the way for greater tax compliance by both large as well as small entities.

Small enterprises, with a significant share of India's commerce, must be encouraged to report their income and fulfil their obligations. The MSME sector is the bulwark of our economy, contributing to about 30% of the GDP and 40% of exports, and providing employment to over 11 crore people across the urban-rural divide.[31] The expansion in the tax base of the MSME sector should, in fact, match this sector's vibrancy and growth potential. Tax filings for them need to be made even more simple and an environment of trust and transparency needs to be created. At the same time, Aadhar-like identification and verification capability could be brought in to map small businesses and ensure their incomes can be predicted and tax obligations assessed.

These concerted efforts should offer India an opportunity to bring the tax brackets to a level that enhances the tax base and compliance.

Entering the golden age or 'amrit kaal'

India's journey, it is evident, will not be over till the benefits of progress and development reach every Indian. Till that happens, collective work – to address the challenges ranging from the widening gap of income and wealth to making Indian roads safer to commute; from building a skilled workforce that drives the world's economic engines to providing clean water; from quality healthcare and enabling uniformity of taxation and compliance to building a nation driven by the purest, unbiased scientific thought and innovation – must persist.

75 years ago we made a tryst with destiny to progress 'substantially'. Our work will remain incomplete till such time that our economic, social and intellectual progress reaches and impacts every

28 https://www.financialexpress.com/economy/over-8-22-crore-taxpayers-in-fy20-nirmala-sitharaman-infor ms-rajya-sabha/2461832/

29 https://taxsummaries.pwc.com/india/individual/taxes-on-personal-income

30 https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=IN

31 https://prsindia.org/policy/report-summaries/strengthening-credit-flows-to-the-msme-sector

Indian. While acknowledging the progress we have made, the Government recently reaffirmed our commitment to fulfil the aspirations of every Indian.

While the Government must be the enabler, all the key stakeholders – corporates, non-governmental organisations and citizens – must come together as a community of solvers to build trust and deliver sustained outcomes driven by human-led tech enablement. It is only an empowered and informed citizenry that can help navigate reforms and innovate solutions for a better tomorrow.

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India@2047

Twenty-five years from now, India could exceed a per capita income of USD 26,000 – almost 13 times the current level – by unlocking some key areas that demand both investments and policy interventions

By Ranen Banerjee

India has made significant progress over a span of three-quarters of a century since its independence. From a primarily agrarian economy in which agriculture contributes 56%[32] of the GDP, the world's largest democracy has transformed into a predominantly services sector economy. The services sector contributes to over 50%[33] of the country's GDP, while the share of agriculture stands at less than 20%.[34] The nation has also strengthened its physical and social infrastructure over the last 75 years; that has resulted in life expectancy increasing to 69.4 years[35] from 32.1[36] years, and maternal and infant mortality rates improving to 1.03[37] from 20,[38] and 30[39] from 133[40] respectively.

32 Economic Survey 1992-93

33 Economic Survey 2021-22

34 Economic Survey 2021-22

35 Women and Men in India 2021 by Ministry of Statistics and Programme Implementation

36 Economic Survey 1992-93

37 Women and Men in India 2021 by Ministry of Statistics and Programme Implementation

38 Health Survey and Development Report - Bhore committee,1946 National Health Portal

39 Women and Men in India 2021 by Ministry of Statistics and Programme Implementation

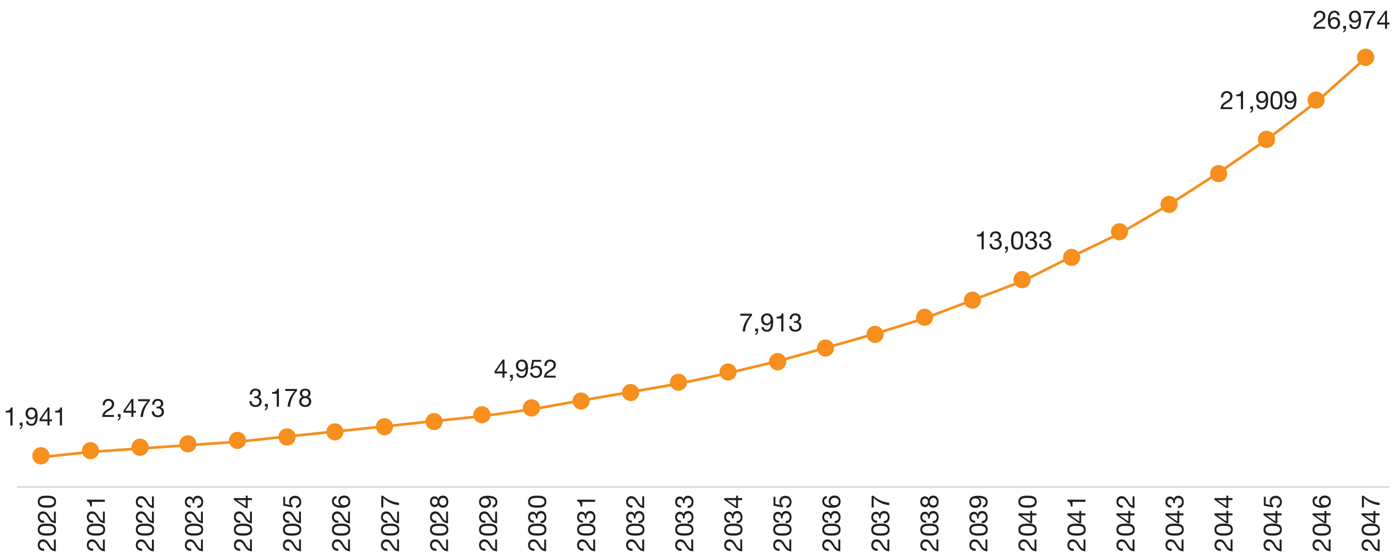
40 Census of 1951

India has created a strong economic base and is poised to achieve the status of a developed country over the next 25 years. Our projections indicate that India@2047 can exceed a per capita income of USD 26,000 – almost 13 times the current level. This is both possible and plausible in USD terms and not on purchasing power parity (PPP) terms. Such increased per capita income may be achieved on the basis of:

- a realistic assumption of a nominal GDP growth rate of 12%
- a modest deceleration of 0.01% in the population growth rate in a block of every five years
- INR/USD depreciation of 2% per annum up to 2025 and thereafter appreciating 0.5% in a block of every five years.

India's growth potential therefore makes it an attractive destination for all three types of investors – resource seekers, efficiency seekers and especially market seekers.

Per capita GDP (USD)



Assumptions

Nominal GDP – growth rate of 12% p.a. applied on base-level GDP of 2021–22

Population growth – decelerating growth @0.01% after every 5 years used on base-level population growth of 0.99% for 2020

Exchange rate – depreciation vis-à-vis dollar assumed to be 2% p.a. during 2020–25 and improving @0.5% after every 5 years thereafter

Data Sources

(1) World Bank data (for base-level population and population growth)

(2) Second Advance Estimates of National Income released by the Ministry of Statistics and Programme Implementation, Government of India (for base-level GDP)

(3) Financial Benchmark India Pvt. Ltd (FBIL) (for base-level exchange rate)

Destination India

For market seekers, the scale and emerging consumption patterns that India could offer over the next quarter of the century are immense. With a large domestic consumption base, seventh-highest final consumption expenditure in the world,[41] private consumption and government consumption making up over 70% of the GDP, and per capita income poised to grow at rapid rates, there are potential opportunities for market seekers. As per the World Economic Forum's report on the Future of Consumption (2019), India will add around 140 million middle-income and 21 million high-income households by 2030. Upper middle-income and high-income households will drive 61% of the consumption in 2030 compared to 37% in 2018.[42] While there may be some undershoot of these numbers owing to disruptions caused by the pandemic, the trajectory is likely to be similar.

The median age of the Indian population is projected to be 31 in 2030 compared to 42 in China and 40 in the US, thereby making India a country with the largest working-age population in the world.[43] And by 2030, 90 million new households will be headed by millennials. These digital natives will have a vastly different approach to consumption and expectations regarding service delivery by both the Government and private sectors. With growing per capita incomes, India@2047 will be comparable to current day economies such as Spain and Portugal that currently have a per capita income of around USD 25,000.[44] However, the catchup needed to meet the aspirations of young and upwardly mobile Indians is immense. For instance, life expectancy in Spain and Portugal is around 80 years, while maternal mortality is under 0.10.

Both the Government of India (GoI) and India Inc. could aspire to achieve the economic and social outcomes for India @2047 by destressing the economic and social fault lines and reimagining the future of a committed India. To harvest the gains from the economy, India will need to unlock the following key focus areas that demand both investments and policy interventions:

- **Skills unlock –** Debates around India's demographic dividend are common. Efforts are needed to upskill millions of our working-age youth nationwide to make them industry ready and future fit for the new sets of jobs that are being created owing to the disruption of existing business models. This will also put to rest arguments about the young population being a boon or a bane.

  The country stands to benefit if we are able to skill/upskill the working-age youth to make them employable not only in sectors in which India will consolidate and strengthen its manufacturing capabilities, but also in the services sectors witnessing strong growth. Acquiring relevant skill sets aligned to futuristic goods and services such as servicing of robots, repair of augmented reality (AR)/virtual reality (VR) devices, and manufacturing of chips would also be useful going forward.

  Skilling India, therefore, is an urgent imperative if we are to avoid converting the demographic boon to a bane. This goal may be achieved through close cooperation between private, public and civil society organisations. One district one skill (ODOS) could be a starting point, mirroring the one district one product (ODOP) scheme. This will help build a local economy around a product with efficiencies of scale kicking in, and prevent internal migration that puts pressure on urban centres.

- **Education unlock –** The Government spend in the education sector in India has been under 3.5%[45] of the GDP, compared to a global mean of about 4.5% of the GDP. We need a calibrated ramp-up of the education sector's budget from the current levels to match global levels with a focus on spend efficiency. However, it may be noted that the Government has been cognisant of the rigidities in the Indian education system and the need to align it with present-day requirements. The new National Education Policy (NEP) 2020 is an effort in this direction, and the implementation of this policy in all earnestness is the need of the hour. The Government has also taken some steps to

41 World Bank - Final consumption expenditure 2021

42 Future of Consumption in Fast-Growth Consumer Markets: India| World Economic Forum 2019

43 Future of Consumption in Fast-Growth Consumer Markets: India| World Economic Forum 2019

44 Euroindicators by EuroStat - 2021

45 Economic Survey 2021-22

move away from rote learning and make education more application based. For example, the announcement of the Combined University Entrance Test (CUET) for admission to central universities instead of students' admissions only on the basis of the marks is a step in the right direction.

Indian companies would also need to demonstrate agility by moving to skill-based hiring rather than qualification-based hiring. This will allow students to explore skill development rather than pursue degrees over longer time periods. It would also enhance quality as skill-based courses will focus on improving workforce excellence. The standard of teachers and their remuneration would also need specific interventions from the Central and state governments.

- **Healthcare services unlock** – The WHO/UNICEF Joint Monitoring Programme estimated that India incurred a loss of USD 189 billion (7.9% of the GDP)[46] in 2015 owing to households with poor sanitation facilities. A year prior to that the GoI launched the Swachh Bharat Mission (SBM) to make India Open Defecation Free (ODF) and improve sanitation facilities in households. The WHO/UNICEF report also estimated that if SBM achieved its intended objectives, the amount of losses incurred would be reduced to USD 64 billion or 2.7% of the GDP. These numbers show the importance of improving health services and access to healthcare facilities.

The Government has done well in strengthening the primary health centre (PHC) network. The next stage of the PHC evolution will be the introduction of telemedicine in these centres. The proliferation of smartphones in the country may be leveraged to spread awareness on health and hygiene, and that could help reduce the unproductive days of the workforce owing to illnesses and health issues.

The country stands to benefit if we are able to skill/upskill the working-age youth to make them employable not only in sectors in which India will consolidate and strengthen its manufacturing capabilities, but also in the services sectors witnessing strong growth.

The National Health Insurance scheme could be a game changer in the development of secondary and tertiary healthcare infrastructure. Quality checks and incentivisation can be introduced through this insurance scheme to prompt the health facilities to deliver quality health services. For example, a health facility delivering better quality of service could be given monetary recognition, and district-level competitions between health service providers based on patient feedback could also be organised.

India was spending an average of less than 1.5% of its GDP on health before increasing it to over 2%[47] during the pandemic. Spain and Portugal spend around 6% and 8% of their GDP respectively on public health. India, therefore, needs to not only prioritise its spending on public health but also increase it significantly over the coming years to yield rich dividends for the economy.

- **Gender unlock –** The labour force participation rate (LFPR) in India is around 40%[48] compared to over 74% in Spain and around 75% in Portugal.[49] The primary reason for this low LFPR is the absence of women from the workforce in India with a female LFPR of around 20%.[50] The female LFPR in Portugal is 72% while for Spain, it is 69%.[51]

If we are to increase our numbers we would need to ensure that girls complete their education and find jobs. The ODOS scheme suggested earlier could have a sub-component such as one district one women skill (ODOWS) to provide skilling opportunities to women and make them more locally employable. Women earning and proactively participating in the workforce positively impact a family's prosperity, can help eradicate poverty and strengthen the journey towards building a prosperous, safe and healthy India@2047.

46 Financial and Economic Impacts of the Swachh Bharat Mission in India | Unicef 2017

47 Economic Survey 2021-22

48 Women and Men in India 2021 by Ministry of Statistics and Programme Implementation

49 Employment and activity by sex and age: Statistics | Eurostat

50 Women and Men in India 2021 by Ministry of Statistics and Programme Implementation

51 Employment and activity by sex and age: Statistics | Eurostat

- **Logistics unlock –** The logistics cost incurred by India is estimated to be 14% of its GDP. According to a NITI Aayog RMI India report, the target is to reduce this to 10%. There are huge inefficiencies in the logistics chain owing to which there are several negative consequences such as sub-optimal use of logistics assets, inefficient fuel consumption, environmental pollution and loss of economic growth opportunities.

  The GoI has launched Gati Shakti with a stated vision of incorporating infrastructure schemes of various ministries and state governments such as Bharatmala, Sagarmala, inland waterways, dry/land ports, and Ude Desh ka Aam Nagarik (UDAN). Economic zones such as textile clusters, pharmaceutical clusters, defence corridors, electronic parks, industrial corridors, fishing clusters and agri zones will also be covered to improve connectivity and make Indian businesses more competitive. India will also leverage technology extensively, including spatial planning tools. This is an important initiative and is likely to unlock the logistics bottlenecks currently faced by the Indian economy.

- **Manufacturing unlock –** India has been aspiring to grow its manufacturing sector to account for 25% of the economy from the current levels of around 15%.[52] The recent supply chain shocks experienced by companies and countries owing to the pandemic and fractured geopolitics present a unique opportunity to India to dominate this space.

  The GoI's Production Linked Incentive (PLI) scheme has been launched at an opportune time to ride this growth wave. Simultaneously, India needs to focus on new-age manufacturing in the areas of space, telecom, renewables and metaverse devices. The National Skill Development Mission should also work towards making such skills available for the new-age manufacturing sector.

- **Regulatory unlock –** There has been an enhanced focus on improving ease of doing business (EoDB) in India, with states competing to secure the top EoDB rank. There have also been significant improvements in the processes for setting up a business, obtaining approvals and conducting various inspections related to the running of a business.

  However, sharper focus is needed in the challenging areas of contract enforcement, payments and dispute resolution. It may help to get all parties to adhere to the contractual terms. Judiciary support will be required to this end, by way of raising the bar for entertaining appeals on the outcome of arbitration proceedings. Similarly, the Government being the largest procurer should generally accept arbitration outcomes and go for further litigation in exceptional circumstances, improve its payment cycle for reducing the working capital requirements of businesses and free up locked capital for further sweating. Fast Track Commercial Dispute courts for enforcement of contracts could be another mechanism for the Government to explore.

Future-fit India

These unlock measures will require significant financial resources from the Government. The tax-to-GDP ratio for India has inched up to around 12%.[53] Spain and Portugal have a tax-to-GDP ratio of over 35%.[54] In the years to come, progressive formalisation and digitalisation of the Indian economy are likely to continue to provide buoyancy in the tax revenues, and the Government should have adequate resources to finance India's journey towards becoming a developed country.

The Government has also embarked upon an asset monetisation scheme to mobilise resources and subsequently enhance its ability to advance infrastructure investments needed without negatively impacting fiscal health. It could also consider unlocking the logistics jam through infrastructure projects having cash flows and securitising those future cash flows instead of funding such projects from its annual budget. This could help the Government undertake more infrastructure projects without negatively impacting the budget deficits, much to the satisfaction of sovereign ratings agencies that frown upon higher deficits. The intent for the same has already been demonstrated through significantly higher allocation towards capital expenditure in the Union Budget for FY 2022–23.

52 India GDP sector-wise 2021 - StatisticsTimes.com.

53 Tax Revenues in 2021-22 | Press Information Bureau (Government of India) 2022

54 Tax Revenue Statistics | Eurostat 2021

The Indian economy, with its natural shock absorbers, has strong fundamentals built over 75 years and is highly resilient, as has been proved time and again. It owes its financial markets resilience to the growth of domestic institutional investors (DIIs) that stepped in when foreign institutional investors (FIIs) began exiting with the US Fed taper. It owes its tax revenue resilience to the increasing digitalisation and formalisation of the economy. India's energy resilience emanates from the growth of renewables and ethanol in the energy mix. And last but not the least, its demand resilience arises from the large consumer base responsible for making India's medium- and long-term economic outlook very strong.

India holds out hope of putting forward its best thinking to unlock these key areas. If all stakeholders come together as a community of solvers to put their might behind it, India@2047 will be firmly gliding through the expressway of a developed economy.

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Addressing the '**tax gap**' in India

A cooperative compliance framework programme can help build mutual trust and a strong continuing relationship between the taxpayer and the tax department, leading to sustainable compliance and revenue growth

By Akhilesh Ranjan and S. Ramesh

In October 2020, Prime Minister Narendra Modi said that he is optimistic about India becoming a USD 5 trillion economy by 2024. India's gross domestic product (GDP) in 2020 was USD 2.66 trillion.[55] Though there was a decline in GDP of 7.3% from 2019 primarily on account of the pandemic, the economy has since shown remarkable resilience and the GDP growth has picked up pace over the last year and a half. However, the target of a USD 5 trillion economy is still some distance away. Clearly, continued and sustained high growth would be required, not only for reaching the USD 5 trillion dollar goal within a few years, but also for coming out of the COVID-19-induced disruption and achieving the Sustainable Development Goals (SDGs) set out under the United Nations (UN) agenda for emerging and developing economies. Since such growth would need substantial government spending, a sustained growth in tax revenues would also be required.

Tax reforms over the years

Over the past few years, the Central Government has introduced several far-reaching tax reforms. Some of the major steps taken on the direct taxes side were:

- the rationalisation of the corporate tax structure, including dividend taxation
- the deepening and broadening of the tax base by phasing out various profit-linked income tax deductions and introduction of new levies to meet the challenges of e-commerce and highly digitalised business models

55 GDP (current US$) - India, World Bank, 2020

- the implementation of the recommendations of the G20/ Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting project and modification of India's tax treaties through ratification of the multilateral instrument.

Measures have also been taken to modernise the tax administration by:

- leveraging information and digital technology for ease of filing
- faster processing of returns
- data analytics and faceless assessments.

Further, specific measures such as the Vivad se Vishwas scheme and the repealing of the retrospective taxation of offshore indirect transfers have been directed towards building trust between taxpayers and the tax administration. All these reforms have together contributed, at least in part, to direct tax collections in FY 2021–22 reaching unprecedented levels of more than INR 14 trillion (USD 180,000 million).

The launch of the Goods and Services Tax (GST) in India was a momentous indirect tax reform in the country. By subsuming all the indirect taxes at the federal and sub-national level (such as value added tax, service tax, central excise tax) into GST, several issues such as multiplicity of taxes, cascading effect of taxation and minor constraints such as physical check-posts at the inter-state borders were resolved to a great extent. By aligning GST laws and procedures across the states and introducing a single IT portal, the GSTN, the GST Council has ensured a smoother indirect tax regime.

Effective data-sharing between direct and indirect tax authorities as well as tightened compliance monitoring have contributed to robust monthly GST collections to the tune of over INR 1 trillion (USD 12,820 million) for over ten months in a row. Moreover, improvements in the customs law and procedures such as faceless assessments in a digitised environment, simplification of import-export procedures in terms of the World Trade Organization (WTO) Trade Facilitation Agreement have pushed India's ease of doing business ranking upwards.

All these initiatives have had tangible outcomes. However, to achieve sustained revenue growth that is needed to fuel the country's progress towards a USD 5 trillion economy and towards achieving the climate goals that it has set out for itself, it is important to:

- identify the strengths and shortfalls
- address areas of concern in a targeted manner.

The current strategy of ensuring predictability and stability needs to be extended to cover sustainability to optimise the collection of tax revenues required for achieving the SDGs.

India's significantly lower tax-to-GDP ratio

It is to be noted that notwithstanding the unprecedented tax collections in FY 2021–22, India's tax-to-GDP ratio stands at just 11.7%[56] in regard to federal taxes, with direct taxes contributing 6.1% and indirect taxes, the remaining 5.6%. In comparison, for similar sized economies (in terms of GDP) such as the United Kingdom, France and Italy, the tax-to-GDP ratio[57] is 24.9%, 24.6% and 24.6% respectively which are much higher. Even South Africa, which is a relatively smaller economy, has a tax-to-GDP ratio of 24.2%.

There appears to be scope for significantly increasing this ratio for India (even after factoring in the tax exemption currently allowed to agricultural income). Further, only about 5% of the population actually files tax returns (about 71.4 million returns were filed during FY 2021–22), with a large proportion of filers declaring income levels that are not subject to tax or that are just marginally so. The varied reasons for non-compliance in the Indian context need to be identified and examined, and appropriate policy measures as well as key administrative initiatives need to be analysed and implemented.

56 Press Information Bureau, Ministry of Finance, 2022

57 Tax revenue (% of GDP), World Bank, 2019

Select reasons for the ‘tax gap’

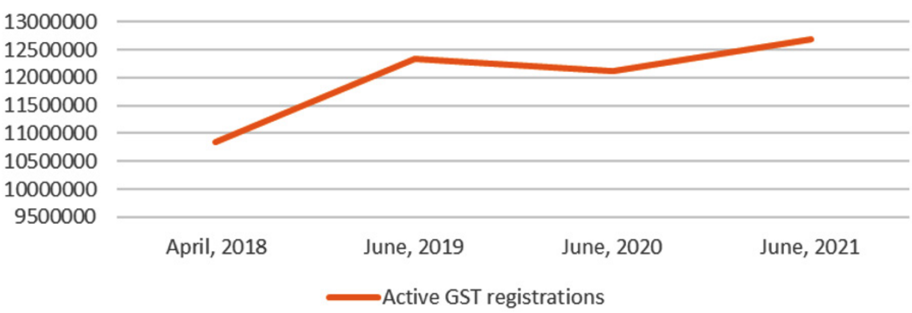
1. Informal sector

One of the major reasons for this ‘tax gap’ is the relatively lower level of compliance among people in the informal sector of the economy. A study conducted by the International Monetary Fund[58] (IMF) found that the informal sector, while shrinking, still represents up to a third of the economic activity in low- and middle-income countries. For the period 2010–2017, the study found that this sector accounts for about 30% of the economy (in terms of GDP) in South Asia and around 28% in emerging market economies.

The informal sector largely remains outside the tax net due to non-registration under any law. It is very difficult to monitor compliance from this sector since it mostly comprises the self-employed and small businesses. As per a study[59] carried out on the informal economy in India, about 86% of the trade, repair, accommodation, and food services industry is unorganised and part of the informal economy. While the withholding tax provisions play a significant role in preserving and preventing erosion of the tax base, bringing the informal sector to the formal/organised sector is key to widening this base. While measures taken for presumptive taxation of small businesses have resulted in a significant number of returns being filed by them, a large proportion of such returns declare incomes that are not subject to tax.

- GST policies have, to a large extent, brought about greater formalisation of the economy. Some of the features of GST that helped this trend are e-invoicing, e-way bills and reverse charge payments by the service recipients in sectors such as goods transport, where smaller service providers are predominant. Lowering of GST registration thresholds, especially in smaller states and invocation of ‘deemed supplier responsibility’ on e-commerce operators in some sectors such as food delivery and cab aggregator services have heightened the pace of formalisation. Withholding taxes such as taxes deducted at source and taxes collected at source in GST have also cast a wider net to bring more players under the formal tax net. Despite this, out of 63 million enterprises (as per the latest data available from National Sample Survey Organisation 2015-16), only 13.4 million[60] have joined the GST network. There was a dip in the number of GST registrations post April 2019 when the thresholds for suppliers of goods was raised to INR 4 million per annum (USD 0.05 million per annum) from INR 2 million earlier (USD 0.025 million) as seen in the graph below. After June 2020, the number of GST registrations has gradually risen, given the post-pandemic economic recovery as well as closer compliance monitoring, based on e-invoices and e-way bills as well as returns. Policy interventions to sustain and enhance the tax base continue to be a top priority under GST.

Active GST registrations



Source: https://tutorial.gst.gov.in/offlineutilities/gst_statistics/4YearReport.pdf

58 Medina, L., and F. Schneider. Forthcoming. International Monetary Fund, Washington, DC, 2020

59 Measuring Informal Economy in India _ Indian Experience, By S V Ramana Murthy (Source - Computed from National Accounts Statistics, 2019),

60 How GST is killing small business.

2. Revenue leakage

Another area of concern is the leakage of revenue, particularly in the micro, small and medium enterprises (MSME) sector, caused by the blurring of the distinction between personal and business expenses. This leads to claims of excess deductions, as also the tendency to leverage the continued prevalence of cash transactions by falsely claiming tax-deductible payments where the money is brought back in cash. These leakages are largely going unchecked due to inefficient administrative processes of verification.

The problem of revenue leakage is not confined to direct taxes but also pervades the domain of indirect taxes. According to official data, in FY 2019–20 alone, the government detected fraud of about INR 408,530 million (USD 5,237 million), out of which only INR 184,640 million (USD 2,367 million) could be recovered.[61]

3. Incentives and concessions

Over the years, while a number of existing tax incentives have been phased out, a large number of new incentives and exemptions have been introduced in an uncoordinated manner. As per the Statement of Revenue Impact of Tax Incentives published as part of the Receipt Budget 2022-23, the total estimated tax revenue foregone[62] for FY 2020–21 due to various deductions, rebates and special exemptions is INR 1,032,850 million (USD 13,242 million) for corporate taxpayers, INR 88,270 million (USD 1,132 million) for non-corporate taxpayers (firm/association of persons/body of individuals) and INR 1,705,830 million (USD 21870 million) for individual/ Hindu undivided family. Likewise, for the year 2020–21, the total revenue impact of tax concessions (exemptions as well as export promotion schemes) on account of basic customs duty is INR 2,348,130 million (USD 30,104 million).

A report[63] published in 2015 by the IMF, OECD, UN and the World Bank, which was submitted to the G-20 Development Working Group, stated that there is often ample room for more effective and efficient use of investment tax incentives in low-income countries. It also mentioned that tax incentives are often found to be redundant, meaning that the same investments would have come in even if no incentives were provided. As per the report, a good revenue system adopts taxes that are simple, fair and efficient. Tax incentives risk compromising these principles as they complicate the tax system.

On the flip side, such tax expenditure could be seen as targeted expenditure for the development of specific sectors or as incentivising certain social and economic activities.

It must also be recognised that given the paucity of adequate infrastructure and other resources in developing countries, the use of tax incentives in these countries is a necessary component of the right to development. However, the continued relevance of these incentives, particularly those that have been in operation for a period of time, needs to be analysed.

It is noted that in order to encourage the 'Make in India' agenda as well as to prune outdated customs exemptions, the government has withdrawn around 350[64] customs exemptions in the Budget 2022. Moreover, a new provision has been introduced under the customs law which provides that any new customs duty exemption shall be valid for only two years, unless specifically extended. On the GST side, the GST Council has constituted a Group of Ministers to look into the multiple tax rates as well as review the numerous GST exemptions to ensure higher revenue mobilisation in the coming years.

Undeniably, some targeted incentives and exemptions that are critical for the development of the specific sectors would always be required in an emerging economy like India. For tax collections to go up substantially, however, a well-designed scheme of tax exemptions as well as incentives need to be put in place.

61 GST officers detect Rs 7,421 crore tax evasion in April-June; recover Rs 1,920 crore

62 Receipt Budget 2022-23, Ministry of Finance, Budget Division, 2022

63 Options for Low Income Countries – Effective and Efficient use of Tax Incentives for Investment, IMF 2015

64 Customs duty exemptions on 350 items withdrawn to push 'Make in India'

Impact of trade policies and targeted exemptions

It is quite revealing to study the revenue impact of tax concessions due to the preferential rate of customs duty as part of sovereign commitments under various Free Trade Agreements (FTAs) which India has signed over the last few decades. The revenue outgo on this count rose steeply from INR 217,800 million (USD 2,792 million) in FY18 to INR 688,510 million (USD 8,827 million) in FY22, as per the Budget documents. Despite this steep tax expenditure, there does not seem to be any commensurate benefit for India in terms of increased exports with the major FTA partners such as Japan, South Korea or the ASEAN countries. Of late, a revamped trade policy has been put in place to leverage the FTAs for better global access for Indian exporters.

The modern FTAs which India has recently inked with the UAE and Australia have given substantial tariff and non-tariff advantages to labour-intensive and other sectors to enhance their exports from India in the coming years. India has also not shied away from engaging with developed countries to explore new frontiers in areas such as sustainable trade, intellectual property, government procurement and digital trade as part of the 'new age' FTAs. This evolution of trade policy in the recent FTA negotiations underscores the importance of using tax expenditure as a bargaining chip for deeper global integration. A case in point is the huge outgo on account of zero-duty concessions for import of gold from the UAE and coal from Australia. These concessions have in turn yielded substantial gains for India's exports to those countries in sectors such as gems and jewellery, pharma and textiles.

On a related note, India has also been consistently advocating the lifting of the moratorium on customs duties on electronic transmissions for the last several years. Estimates indicate potential revenue losses of about INR 4,368,000 million (USD 56,000 million) for developing and least developed countries, given that the global 'online' imports of such digital products have increased from INR 10,842,000 million (USD 1,39,000 million) in 2017 to INR 15,912,000 million (USD 204,000 million) in 2020. The potential tariff revenue loss (using bound duties) for India would have exceeded INR 312,000 million (USD 4,000 million) during the period 2017–20 alone.[65] Any decision of the WTO to remove this moratorium would be a major inflexion point for policymakers in India to regain to some extent the fiscal space lost during the pandemic.

Another major issue impacting the Indian tax system is the high level of litigation and resultant blocked tax revenue. According to figures published by the Central Board of Direct Taxes, the number of appeals pending with the Commissioner of Income Tax (Appeals) was 5,00,030, as of 1 April 2021. Another 53,000 appeals were pending in 63 Tribunal benches located at 30 places across India. Such high levels of litigation have an adverse impact on tax certainty, which is of fundamental importance for any tax system.

Litigation management – addressing the trust deficit

Another major issue impacting the Indian tax system is the high level of litigation and resultant blocked tax revenue. According to figures published by the Central Board of Direct Taxes (CBDT), the number of appeals pending with the Commissioner of Income Tax (Appeals)[66] was 5,00,030 as on 1 April 2021. Further, 53,000 appeals were pending in 63 Tribunal benches located at 30 places across India.[67] Such high levels of litigation have an adverse impact on tax certainty, which is of fundamental importance for any tax system. Moreover, it is now well accepted that the evaluation of tax risks is an important factor in making investment decisions, and a competitive tax regime must offer a high level of tax certainty.

65 How much tariff revenue have developing countries lost

66 Central Action Plan 2021-22, CBDT, Ministry of Finance, 2021

67 Tax Tribunal chief wants policy level intervention to reduce tax litigation

Various dispute resolution schemes (such as the Vivad se Vishwas scheme in 2020) have succeeded only to some extent in reducing the quantum of litigation and amount in dispute. Further, the Central Government has tried to settle certain long pending issues by bringing in amendments to the law through the budget. However, the overall level of litigation continues to increase and the revenue blocked in appeals has assumed humongous proportions (the statement of tax revenues raised but not realised published as part of the Receipt Budget 2022-23 shows an amount of INR 10,576,390 million [USD 135,595 million] as disputed corporate and income tax as at the end of 2020–21). In addition, increasing costs of litigation for taxpayers and higher administrative costs for the Revenue have increased the perception of tax uncertainty and widened the trust deficit between taxpayers and the Revenue.

Litigation abounds also in the sphere of indirect taxation. According to the Economic Survey 2018, nearly INR 7,580,000 million (USD 97,179 million) of tax (including direct as well as indirect tax), which was about 4.7% of the total Indian GDP, was involved in litigation at all levels of judiciary (i.e. Appellate Tribunal and above).

Despite being a nascent law, GST has had more than its fair share of disputes relating to issues such as transitional credit, input credit matching and supply between distinct persons. The conflicting rulings by different Advance Ruling Authorities as well as the non-constitution of the GST Tribunal have overburdened the High Courts with avoidable litigation.

There is a dire need to curtail wasteful expenditure on litigations, especially by the tax departments, while streamlining the entire dispute resolution process.

On the Customs front, the newly set up Advance Ruling Authority has been successful in delivering prompt and effective rulings to applicants. This facility is widely recognised as an important trade facilitation measure which results in predictability in taxation, mitigates disputes and engenders mutual trust in the system.

There is a need to introduce robust and efficient dispute prevention and resolution mechanisms. A cooperative compliance framework programme can help build mutual trust and a strong continuing relationship between the taxpayer and the tax department, leading to sustainable compliance and growth in revenue.

On the aspect of tax administration, the faceless assessment scheme was intended to strengthen the deterrence against tax avoidance and evasion by enhancing the quality and accountability of the assessment function. However, the manner in which it has been implemented appears to have actually worsened matters. There have been several instances of assessments being quashed or set aside by the courts, including awarding of costs to taxpayers and passing of strictures accompanied with adverse and sometimes harsh observations from the judiciary. The scheme needs to be reappraised and possibly redesigned so as to be able to fulfil its intended objectives.

Assimilating global tax policy developments

Developments in global tax policy are also likely to have an impact on the domestic tax environment. In October 2021, the G20 leaders endorsed a multilateral political agreement worked out by the Inclusive Framework on BEPS, outlining a two-pillar plan to address the tax challenges of a digitalised global economy. The plan, agreed to by 137 of the 141 member countries including India, provides for the reallocation of part of the residual profits of large multinational enterprises (MNEs) to ‘market countries’ even in the absence of their physical presence in those countries (Pillar 1) and a global minimum tax at an effective rate of 15% having to be paid by MNEs in every jurisdiction that they operate in (Pillar 2).

The agreement is to be implemented through a multilateral convention and agreements, together with domestic legislation to be enacted by countries in accordance with model rules. The new rules are supposed to become effective globally by 2023. But going by the observations made by the Secretary General, OECD, at the recent meeting of the World Economic Forum in Davos, the drafting of the model rules and convention is facing complexities and the implementation of the agreements on both Pillars may get pushed to 2024.

The implementation of these agreements in India would not only require ratification of the multilateral convention and enactment of domestic legislation, but would also require allocation of additional administrative resources that would put a strain on the revenue authorities considering the complexity involved in administering the new rules. A separate and specialised unit may have to be tasked with the administrative responsibility along with ensuring necessary training of resources to enable proper monitoring and implementation. It would also be imperative to review the compatibility of the current tax regime with the requirements of implementing Pillar 2 through, e.g. reviewing the existing tax incentives and ascertaining the interplay of the global minimum tax with the Minimum Alternate Tax (MAT) provisions including availing of eligible MAT credits.

Tax policy and the ESG agenda

Last but not the least, tax policy in India will have to be aligned with the Environment, Social and Governance (ESG) agenda and will be expected to contribute to the achieving of the climate-related goals that it has set for itself. India has officially committed to achieving net zero emission status by 2070, and also has several ambitious objectives to fulfill by 2030.

Several developed countries have re-calibrated their tax rates on electric vehicles and circular economy products in view of the decline in tax revenues from gas-guzzling cars and fossil fuels.

Akhilesh Ranjan
Subject matter expert and Former Member, Central Board of Direct Taxes

Indian tax policy makers would also likewise have to strategise for future-proofing revenue streams as we move towards net zero. Further, India is now negotiating several 'new age' FTAs having several provisions to enhance the SDGs. Indian policymakers have to be cognisant, in particular, of the areas around sustainability in the entire supply chain and the social and governance issues of the supply chain partners.

The tax system can also act as an effective means to incentivise organisational behaviour towards adoption of ESG factors. The necessary reporting and disclosure requirements are being introduced in India and there are also several global agencies that provide ratings on ESG. However, the lack of mandatory standards and increasingly highlighted instances of greenwashing make these mechanisms unreliable.

Tax reforms such as the introduction of environmental taxes, targeted incentives and disclosure requirements are much needed to ensure that businesses commit towards India's ESG goals. It goes without saying that any taxes and disclosure requirements that are considered should be well thought out and implemented in a well-coordinated manner.

Public policy and much less tax policy cannot be cast in stone. These must proactively strategise, respond, and adapt to the dynamically changing global and domestic landscape. Tax policy reforms, while ensuring a sustainable and resilient revenue stream, should pave the way for achieving the SDG goals planned by India in the most efficient and effective manner in its journey towards achieving a USD 5 trillion economy and beyond.

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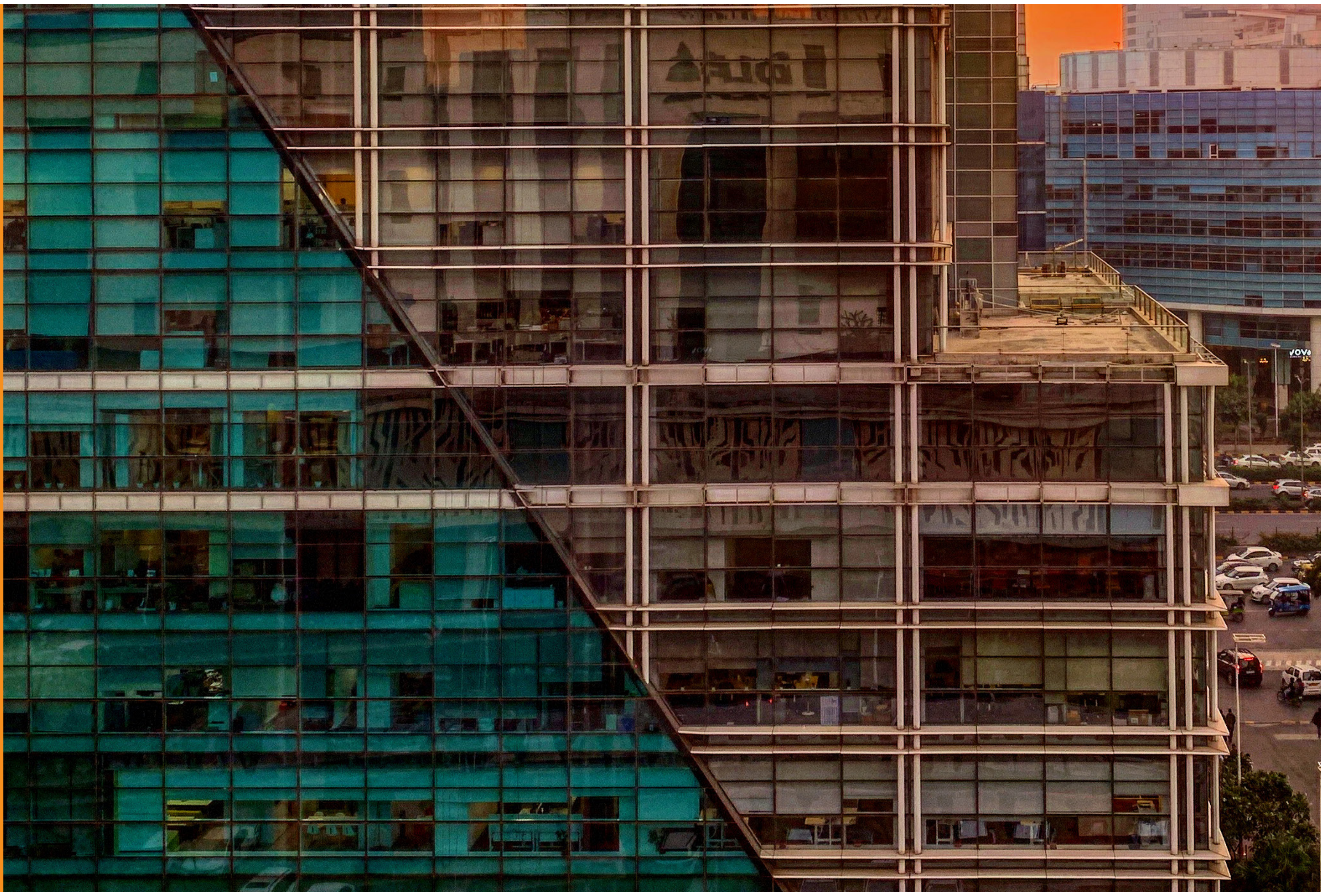

Moving towards **equitable resilience**

Corporates can play a crucial role in navigating the impacts of climate change on the deprived sections of society

By Sambitosh Mohapatra and Nidish Nair

Societal impact of climate hazards

Climate change, as has been established in the latest assessment report (AR6 WG II) of the United Nations' Intergovernmental Panel on Climate Change (IPCC),[68] threatens the objective of sustainably eradicating poverty.

Some of the key takeaways from the report include:

- Global temperatures have increased by more than 1°C over the last century due to increased greenhouse gas emissions.
- This rise in temperatures may be linked to the increase in the impact and severity of weather events such as heat waves, storms and bushfires.
- The rate and scale of these impacts are accelerating and unfolding faster than expected previously.

The report outlines several scenarios which highlight the social impacts of climate change, specifically on low-income groups. It states that the chances of deterioration of livelihoods and extreme impoverishment intensify for low-income groups experiencing repeated and successive climatic events such as Yaas, Aila, Fani or Amphan, whereby before they have recovered from one disaster, they face another impact, putting their livelihoods in jeopardy. The cascading and compounding risk of multiple climate hazards has the potential to push people into persistent traps of extreme poverty.

68 IPCC Sixth Assessment Report (Intergovernmental Panel on Climate Change)

Compounding impact of various climate events

Over the last 50 years (1970–2019), climate change has resulted in financial losses worth USD 200 million per day, aggregating to USD 3.65 trillion. Globally, more than 11,000 reported disasters were attributed to these hazards with over 2 million deaths. Moreover, 91% of these deaths have occurred in developing countries.[69]

India alone faces average annual losses of USD 87 billion due to extreme weather events such as heat waves, intense cyclones, floods and droughts.[70] In 2020–21, as many as 13 cyclones hit different Indian states. In 2021, amid the second wave of the pandemic, India witnessed three cyclones, Gulab, Tauktae and Yaas, leaving behind a trail of destruction across several states. The year 2020 marked the first pre-monsoon cyclone in a century – Cyclone Amphan on the eastern coast, followed by another pre-monsoon cyclone on the western coast, Nisarga. As per the India Meteorological Department (IMD), India could witness many similar pre-monsoon cyclones in the coming years.[71]

Similarly, heat waves have wreaked havoc across the country, with temperatures soaring close to the 50° C mark in several regions in the recent past. The IPCC WGII report has stated that Asia is experiencing high human mortality due to heat waves. The report also warned of the compounding disasters of heat and drought events leading to crop damage and labour productivity losses – effects that India is already witnessing. The succession of heat waves over the past three months, along with long dry spells over northwest India, resulted in power shortages, forest fires and a decline in crop yields.

Again, the disproportionate and cascading impact on the less privileged sections is perceptible. The American Geophysical Union noted that lower income groups face a 40% higher exposure to heat waves as compared to high-income groups. It is estimated that by the end of the century, the poorest 25% of the world's population will face exposure to heat waves at the same rate as the rest of the population combined.[72]

The impact of heat waves is especially devastating on the informal sector/daily-wage workers in India and other countries. In addition, the rural and urban population working in the agriculture sector may be exposed to severe heat waves.[73]

Due to extreme weather conditions, businesses are impacted significantly. This impact can range from heat-induced water stress, physical damage to infrastructure, operational and supply chain disruptions to loss of productivity. Coupled with the need to decarbonise in the wake of India's net zero economy goals, Indian businesses, prodded by their global stakeholders, face an urgent need to prepare for the physical and transition risks of climate change in order to remain productive and relevant in the current market.

Understanding a community's exposure to climate hazards

The poorer sections of the society have fewer resources and capabilities to develop effective resilience against disaster events. Consequently, inequalities may further increase among the socially and geographically disadvantaged people due to climate change.

For example, low-lying coastal communities and those dependent upon subsistence agriculture, along with people inhabiting regions that are highly exposed to climate hazards, may suffer sporadic losses due to even small alterations in rainfall patterns and temperature. In the aftermath of any disaster, vulnerable groups such as poor farmers, fishermen and people living in low-income settlements often suffer complete loss of their livelihoods/assets. This makes them poorer than before, thereby perpetuating a cycle of poverty. Additionally, poverty can reduce adaptation options. That is, the poorest groups may need to migrate during climate events and lack of resources often prevents them from doing so.

To effectively address such challenges, more investments must be directed towards helping people adapt to the impacts of climate/natural calamity-induced disasters – that is, towards improving their adaptive capacities. This will require significant commitment and innovative thinking – not just

69 Weather-related disasters increase over past 50 years, causing more damage but fewer deaths (World Meteorological Organisation)

70 State of the Climate in Asia 2020 (World Meteorological Organisation, WMO)

71 List of cyclones that hit India in 2021-2022 (Jagran Josh)

72 http://www.sciencedaily.com/releases/2022/02/220210125840.htm (Science Daily)

73 Periodic Labour Force Survey, 2021 (Ministry of Statistics and Programme Implementation, GoI)

from governments, but also from the private sector and financial institutions and non-bank financial intermediaries (NBFIs). Such investments foreseeably vary according to the quantum of the livelihood system in need of adaptation. For this, a community's exposure to climatic risk needs to be mapped, subsequent to which it is important to evaluate the impacts climate change may have at the community level.

Financing community resilience interventions to fetch high social return on investments (SROIs)

A majority of organisations perceive climate change in a narrow and fragmented manner – for example, by simply factoring in net zero targets. To protect and enhance assets and value, satisfy stakeholders and regulators, and produce sustained outcomes in a world beset by climate change, organisations and institutions need to develop holistic, comprehensive strategies that consider a system of issues and challenges posed by climate change, biodiversity loss and pollution. These challenges include reducing CO2 equivalents, mitigating physical risks, mitigating resource scarcity and avoiding biodiversity loss.

Role of the public sector: Across levels, governments too can develop and implement comprehensive disaster risk-financing strategies to reduce risks and provide adequate and timely post-disaster support to strengthen financial resilience.[74]

Governments, in cooperation with the international community, can establish public programmes of financial support for the community and local investment in risk assessment, risk reduction and residual risk management.

It is also imperative for decision makers and all other associated stakeholders to assess the local adaptive capacity, including risk assessment, planning, budgeting and community engagement. Such measures also have relevance for internationally accepted standards such as environment, social and governance (ESG) and the Task Force on Climate-related Financial Disclosures (TCFD), which plays a crucial role in scrutinising and acknowledging SROIs, transition plans, and climate change risk and opportunity assessments for poverty alleviation and community development.

There are many private sector initiatives around sustainable community development that are built on local community needs at the grassroots level. These can encompass initiatives such as skill development training for women and the youth, based on local needs. This could help promote green livelihoods such as organic/climate-resilient farming, urban agriculture, decentralised composting, and upcycling of waste plastics/fabrics.

Several donors have been active in funding community-focused resilience programmes. For example, in Odisha, the focus has been on strengthening the capacities of governments, communities and institutions by accelerating the implementation of disaster risk reduction and climate change adaptation plans. This is being done by setting up Panchayat Knowledge Centres on adaptive water management, conducting community-level learning exercises with a special focus on women and children, and strengthening drainage systems in water-logged areas.[75]

Role of private sector: With the global corporate focus on ESG and TCFD, private sector financing could play a significant role in meeting the incremental gap in financing actions that reduce the negative impact of climate change while taking advantage of potential new opportunities. Financing community resilience interventions would enable corporates to meet TCFD goals, contribute to several Sustainable Development Goals (SDGs: 3, 11), the Human Development Index (HDI) and liveability indices at the points of intervention. In addition, it would fetch investors high SROIs through social, environmental and economic value creation.

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74 ADB-Investing in resilience: Ensuring a disaster resistant future (Asian Development Bank)

75 Enhancing Institutional and Community Resilience to Disasters and Climate Change (United Nations Development Programme)

promote green livelihoods such as organic/climate-resilient farming, urban agriculture, decentralised composting, and upcycling waste plastics/fabrics. Such a strategy can lead to a two-pronged benefit by:

a) increasing employability skills and income generation among the poor and marginalised communities and

b) inducing local climate action, such that with more corporates coming forward to support such initiatives, the localised effects of global warming on the vulnerable sections of society can be curbed to a considerable extent.

Delivering sustained outcomes

Based on the assessment report (AR WG II) that identifies critical next steps and opportunities to strengthen resilience, particularly community-level resilience, the following are a few solutions that need to be considered for implementation:

a. The report advocates the need for nature-based solutions (NbS) as there is increasing evidence that NbS (e.g. urban green infrastructure, ecosystem-based management) could provide important livelihood opportunities and reduce poverty while also supporting mitigation and adaptation. At PwC, as active proponents of NbS across our resilience projects, we have been promoting green infrastructure such as ecorestoration of canals and water bodies, bioswales/ rain gardens for flood control, and bioremediation of legacy waste dumps.

b. The main sectors across the globe benefiting from adaptation finance, to date, encompass water and wastewater management, agriculture, forestry, land use and natural resource management, disaster risk management, infrastructure, energy, and built environment. Future climate adaptation funds and resilience financing mechanisms, including climate and disaster risk insurance, are centred around mitigating potential climate risks of the most vulnerable populations in terms of security with respect to food, income, health and shelter. Going forward, we believe that countries across the world will need to adopt suitable parametric risk insurance products to mitigate the financial risk of uncertain and multiple disasters.

c. Though we have witnessed an increasing trend in adaptation funding at the international and national levels for the world's poorest, adaptation for the impacted livelihoods and opportunities due to climate change are limited only to losses and damages at the individual or household level – without far-reaching convergence at the larger institutional level. The report recommends the need for enabling scenarios for adaptation and effective devolution of climate finance for the poorest to reduce reliance on high-risk, extra-legal sources of income. Investments in ecosystem-based adaptation and NbS are the need of the hour, which in turn signifies the importance of financial mechanisms such as green bonds. Such bonds can raise significant amounts of capital in support of projects with environmental/climate benefits. Similarly the Asian Development Bank (ADB) has been launching theme bonds catering to thematic areas such as water, health and gender that help support resilience-building programmes in these areas.

d. The report focuses on the need to develop localised community-led resilience plans based on a participatory planning approach, with interventions involving ecosystem-based solutions/NbS and the promotion of circular livelihoods towards climate-proofing of the most vulnerable communities. In our experience, community involvement and buy-in are the most crucial links to ensuring sustained outcomes in any resilience programme. Therefore, it is imperative to design resilience projects, implementation of which could be piloted at the neighbourhood level and scaled up rapidly with the involvement and ownership of local communities.

Following Yaas, our PwC community of solvers, in collaboration with two NGOs, addressed the urgent needs of the local communities at risk – particularly in the Sundarbans. They enabled locals to explore alternative green livelihood options such as vegetable farming and selling, duck rearing and tailoring. Today, several of the beneficiary families have seen a marked difference as they have taken to tailoring, poultry farming and even floating farms to ensure farming resilience and sustainable agriculture in the face of floods and cyclones.

While businesses worldwide have widely embraced TCFD and are now moving towards Taskforce on Nature-related Financial Disclosures (TNFD) reporting to be able to disclose information on exposure of their respective businesses to natural hazards, most Indian businesses are still trying to weigh their options with respect to climate disclosures.

Considering the magnitude of climate risks and natural disasters looming over the country, corporate India can no longer be complacent in its approach to climate change. In order to stay afloat amid such climate vulnerability, it would need to move beyond ESG reporting to an ESG+R approach. Here 'R' – which stands for resilience – would be the missing link that can help address the impacts of climate change on the deprived sections of society while propelling business sustainability through low-carbon economic transition.

Note: The article is written based on the latest IPCC Sixth Assessment Report (WG II), research/project reports by international institutions such as Asian Development Bank, United Nations Development Programme (UNDP), World Meteorological Organisation, Central Government Department, Periodic Labour Force Survey and news articles from Jagran Josh and Science Daily. Links have been provided as footnotes on the respective pages.

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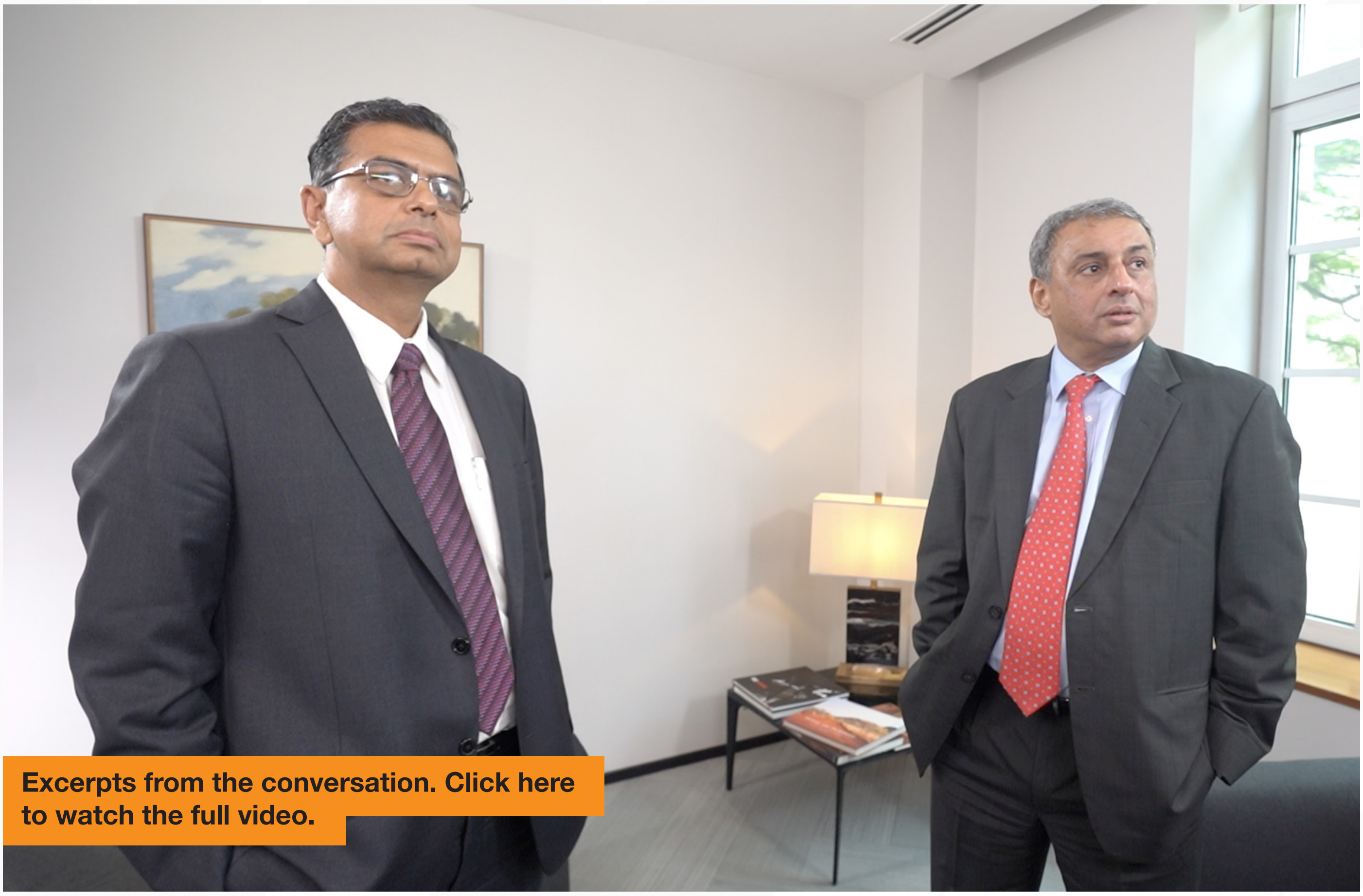
Fast **forward**

T. V. Narendran, CEO and Managing Director, Tata Steel, in conversation with **Sanjeev Krishan**, PwC India Chairman, on the winning leap in the nation-building narrative



Excerpts from the conversation. Click here to watch the full video.

Sanjeev

Welcome to the first edition of Immersive Outlook. Today, we have in our midst T. V. Narendran, CEO at Tata Steel, who has been generous with his time to provide his perspectives on India's aspirations to be a developed economy over a period of time and what it needs to do to get there. Naren, thank you so much for your time this morning. Let's start with the first one: we are going to celebrate 75 years of India's Independence and Tata as a group and Tata Steel has played a huge role in nation building. What are your perspectives on the journey so far?

Narendran

I think Tata Steel was the original Atmanirbharata story. It was set up saying that India should be self-sufficient in steel, and that we should have strong educational institutions. So Tata Steel was conceived and created with that in mind. I think over the last hundred years we have proved many critics wrong at different points in time and done reasonably well. We have played a very important role in nation building even before we got independence and after that as well. We have been an important part of a lot of the infrastructure that has been built in India, we are an important part of the automobiles that are built in India, appliances that are built in India. More than anything else we do a lot of work for the communities where we operate and that's been the ethos of the group and a legacy of the founding values of the group which we have tried to live with.

Q: I would say that there would be very few people who would not know of the contribution the group has made to society at large. As you look to the future, at 25 years from now, we are embarking on our expansionist phase. We believe that India could look very different in 2047. We have grown very well on the services side, the composition of the GDP is changing very rapidly. If India has to achieve the status of a developed economy by 2047 and [I] am going beyond the USD 5 trillion economy, what do you think we need to do to meet that aspiration? As a nation what should we do more of and what should we do less of to meet that aspiration?

A: The concept of India is something which has really been tested and been strengthened since independence. We are such a culturally and geographically diverse country. So to stick together despite such diversity is really a shining example of how a country can be created and can develop. We should certainly preserve all the good things that we have done ever since Independence in the last 75 years. We are a diverse country with different voices and democracy as a way to run the country is best exemplified in India. Everyone feels that they have a voice and I think that matters a lot. We are also a very federal country. You have the Centre and the states.

The second part is obviously to continue to build for the future, build the physical infrastructure, digital infrastructure, the human capital that is required, and prepare the country for the future. I think the government is talking more and more about that, about doing a lot more. If you look at the physical infrastructure, the kind of money that we are spending today is great. I think we need to keep doing that for many years to come. In digital infrastructure, I think we are ahead of many countries that are richer than us. I think it's also very important to drive inclusion in our country. We also need to encourage a lot more entrepreneurism. We need to have more and more job creators. We obviously have a lot of job seekers but I am happy to see that over the last 20–30 years, many iconic companies have been created, industries are being created and the startup ecosystem is very exciting. So I think there is a lot happening which we should be proud of.

Going forward, issues which concern the world are inequality. We need to see how to address that. We need to look at climate change, and as we create a future we can have a more carbon-efficient path to development than many other countries who developed over the last few decades, including the rich countries of today. I think there is so much to do whereby we can create a future which is very different from the future that is being created by the countries who are ahead of us.

Q: I think that there are some key messages for all of us. Considering the pace at which the country has progressed in recent years, do you think we spend enough time on thinking about the future? What's your perspective?

A: That's always a problem, whether it's at the state level or at the industry level or at a company level. You tend to get so bogged down by the issues of today that you sometimes don't spend enough time on the future. Even if you look at the Indian ecosystem, I think there are some of the best policies in place. But the execution of those policies is a challenge. We should make a habit of thinking about the future in a multigenerational way, not just in terms of the next few years.

Q: I think that again resonates with me. Someone mentioned to me that for leaders, 70% of the time should go into thinking about the future and maybe 30% should be to manage what they are dealing with at the moment. But it invariably ends up being the other way round… There's a huge narrative that India would be in a good position considering the geopolitics of the world. Do you see that potential coming through?

A: I see that potential coming through more now than in the past simply because we have been talking about this potential for a very long time. Often times, the gap between the potential and the reality has been quite big; but that gap is reducing, which is good. I think we have no choice but to bridge that gap. One of the reasons why we have a lot of potential is because we are a young country in terms of demographics. But that demographic dividend can become a demographic liability if you really don't create enough jobs and opportunities. So I think there is a need for us to translate the potential into a reality. I think we are moving maybe faster in that direction and we need to continue to move even faster. A lot of work needs to be done there.

I think the focus on building the physical and digital infrastructure are steps in the right direction. Geopolitically, I think we are in a very good position today as countries across the world are looking at an option beyond China. India's unique; not only can we be a great source but we are also a great market. So, you can scale up in India for India and for the world. That's an opportunity very few countries offer.

Q: Moving from the macro to the micro, you talked about technology that has been a huge disruptor for businesses. As a manufacturing business, how have you leveraged technology in whatever you do?

A: We pretty much service all segments of the economy, so we watch very carefully how technology is disrupting our customers across the value chain – where it is in the auto industry, construction industry or any other industry. We look at how we can harness technology for two things – drive cost efficiencies within our ecosystem and have very different stakeholder experiences.

Tata Steel has been actually at the forefront of this digital transformation journey. Our sites in Europe and India have been recognised by the World Economic Forum as Digital Lighthouses. This recognition is given to manufacturing sites that have been ahead of others in implementing digital technologies. The irony of it is that the three sites out of our five sites which have been recognised are in the Netherlands and Jamshedpur – both more than 100 years old, and Kalinga Nagar, a newer site less than five years old. So the new and old have transformed and I think that's a great opportunity for us.

Because of our investments in technology, we have been able to transition even as a manufacturing company during the pandemic. We could operate plants with a much lower level of workforce, ensure social distancing, work in pods and small teams within the manufacturing plant.

Today, after COVID-19, we are very flexible. Employees can decide along with the team where they want to work from – home, workplace or from anywhere. So technology provides great opportunities. But if you don’t understand it or are not watching it, it can be a threat.

Today, after COVID-19, we are very flexible. Employees can decide along with the team where they want to work from – home, workplace or from anywhere. So technology provides great opportunities. But if you don”t understand it or are not watching it, it can be a threat.

Q: Well said. Another disruptor is climate change and the broader ESG agenda. Everybody has been talking about fossil fuels and what’s good and what’s not good. Today, there is cost inflation and there is pressure that may deter people from going on that path. You have global businesses. How do you see Tata Steel responding to this potential conundrum which is in the minds of many?

A: This is a very important subject for us in Tata Steel, because steel is one of the hard to abate sectors. Steel accounts for a high carbon footprint, but on the flip side, it is the most commonly used metal in the world. Recently, there was an article which said there are four or five materials which you can’t do without, but which emit a lot of carbon. Steel is one of them. The good news is there are technologies available today, but they need to be scaled up at a very fundamental level so that you can recycle steel. Steel is infinitely recyclable, so if the energy sources are green, green steel can be mad.

Today, steel is made from iron ore using coal. Tomorrow, you could substitute coal with gas as gas is available in plenty and thereafter substitute gas with hydrogen. So, that’s the process route steel industries are looking at. In Europe, we are moving quite fast because the ecosystem there with the policy framework, infrastructure for gas, hydrogen, etc., has been created much faster than it has in the rest of the world. When gas is available in the eastern part of India, we will start using gas instead of coal.

I think, however, at a larger level we should not underestimate the cost and complexity of this transition. The cost of steel is going to go up and has to be, in some sense, shared between the industry and customers. Both will have to bear part of this cost and the government should help with this transition. I think it needs to be a coordinated effort between the multiple agencies involved.

Q: Recently, we had export tax on steel coming in. What are your views on that and also broadly on policy intervention in business?

A: Policy stability is more important than anything else. So today, when we invest in building a steel plant and it is set to come up three years from now or five years from now, you cannot have policy flip-flop. I don’t think one should penalise an industry or a company for making money if you do it the right way. Further, at an industry level, India is in a unique position because it has iron ore. Most countries who are exporting steel today – the biggest exporters of steel are China, Korea and Japan – import iron ore. If they can export 150 million tonnes of steel between them after importing iron ore, there is no reason why India which has iron ore shouldn’t be able to export 150 tonnes of steel.

This iron ore in India lies in some of the poorest parts of the country. Steel companies are investing in the poorest parts, creating jobs for many, away from the urban centres. So, for multiple reasons, we should encourage an industry which is leading private sector investment in India, creating jobs in all these places.

India should be a big exporter of steel. India hardly exports 10–15 million tonnes of steel. Why can't India be a 100-million-tonne exporter of steel?

I feel from a strategic point of view, it's a bad idea to tax steel exports. From a policy point of view again, tax policy flip-flop confuses investors, particularly if you are looking at attracting foreign investments. Foreign investors will look at policy stability more than anything else. Indian investors may be a bit more indulgent, but I think foreign investors will really look hard at policy.

Q: That point is very well made. Let's get to the social infrastructure, the human capital and the cultural issues. These, in some ways, are pivotal for any kind of transformation, as it is the people who deliver. What role have they played in Tata Steel's transformation journey?

A: We constantly encourage people to keep thinking about the future. We are blessed with very passionate and committed employees. In fact, at the lower levels of workers, we even have sixth-generation employees. So that's a kind of emotional commitment people have towards the company.

This is good news and bad news. The good news is they are willing to do anything for the company. The bad news is you tend to get stuck in the past and keep talking of this was what used to happen.

So how do you preserve what has been good and how do you preserve what needs to be preserved? Apart from all the targets that we set ourselves, at a very fundamental level, we have said that as an organisation, we have to be future ready and that means you have to be structurally future ready, culturally future ready and financially future ready.

Structurally future ready and financially future ready are higher level responsibilities with the board and with the management leadership because that's about portfolio choices that you make and the KPIs you drive and the financials you deliver.

The cultural future readiness is something which can't be done unless the whole organisation participates and that needs to be led by the leadership. You need to walk the talk; you need to do what you want others to do. Culture change can be driven only if you personify that culture. So there are multiple things that we took on at multiple points in time and embedded those in the organisation. I think at Tata Steel we have a way to pick up something and run with it in the organisation. For instance, we started about five to six years ago on our digital technology journey. We started by sending our leadership team across the world to look at what was happening, see companies harnessing technology, understand it. We had a lot of ideas from the shop floor. We encourage people to come up with ideas on how to use technology to make a difference to daily life.

So it was not top down but also bottom up. We had training with a lot of reverse mentoring. All of us in the leadership team including me had a reverse mentor – someone who is less than 30 years old who spent time with us. This was a good way for us to engage with the younger demographic, as well as learn something new. We got the Institute of Sustainability Leadership, University of Cambridge, to come and talk not just to our board members and leadership team, but also the union leaders so that they understood climate change as much as most of us did. So, it was not something that the management talked about but even the organisation understood why it was important for the future of the company.

Today, we are looking at how we can transform into an agile way of working because all said and done, there's a lot of bureaucracy. So we have a team called the Bureaucracy Busters whose job is to bust bureaucracy in some sense. So a lot of these initiatives are going on and people are committed and passionate about creating a future for the company, and once they are convinced it picks up its own momentum.

Q: I think there are a few leadership lessons for me there. Thank you so much, Naren, for that one. I will move to the last segment. We are all looking at creating more outcomes, better outcomes, but some of those outcomes and the quality of those outcomes are going to be predicated on how much trust you can build in your ecosystem. Trust could be a huge value accreditor, it could be a value generator. How do you view this?

A: Trust is the most difficult thing to build and the easiest thing to mess up. Also, you cannot assume that if you build trust in one place, you can easily build the same trust in another place, particularly as we are growing inorganically in multiple locations we have to invest in building that trust.

It may be easier for Tata Steel to build trust when it acquires Bhushan Steel in India because everyone knows Tata Steel. When you go overseas and acquire a company, you need to work harder as they may not know you as well as somebody in India knows you. Even within India we built trust in Jamshedpur for over 100 years; but when we went to Kalinga Nagar, we assumed the same level of trust and had a problem. We couldn't start the project for five years because the local communities didn't accept us and we had not invested enough in building trust with them. So trust manifests itself in different ways. People join you because they trust you, vendors are happy to deal with you because they trust you. So, I think it manifests itself in many ways and I think it's the most valuable asset that you can build.

Q: Absolutely. Our two pillars are trust and outcomes, so I can't agree with you more on that. But let me ask you the last question: if you envision India of 2047, what do you think India of 2047 will look like?

A: Well, hopefully and obviously the second or third largest economy in the world. I mean at 2047, we should hopefully continue to be a vibrant, successful democracy, which is the second or third largest economy in the world. I think that is something we should all aspire for, but how we get there is also equally important. We should be proud of what we have achieved in the first 75 years of our independence. There are so many institutions that we have built. I think we need to make sure that we strengthen those institutions and when we get to 2047, we have a country that all of us are proud to be part of, proud to be living in.

I also think we need to address the issue of inequality as that's a growing issue which is manifesting itself in different ways. You can't have a USD 20 trillion economy with only part of the population receiving its benefits. At a more fundamental level, we need to focus on health and provide healthcare to large sections of society. We also need to address employability which means both education and vocational skills, and of course employment – and create good quality jobs so that we can tap into the human capital that exists in our country.

Sanjeev: Naren, thank you so much. While we may not be here, I am quite certain that the generations ahead of us will do us proud.

Narendran: While we will not be here, I am sure the institutions will be here.

Sanjeev: Definitely. We look forward.

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