IMA CFO CONNECT

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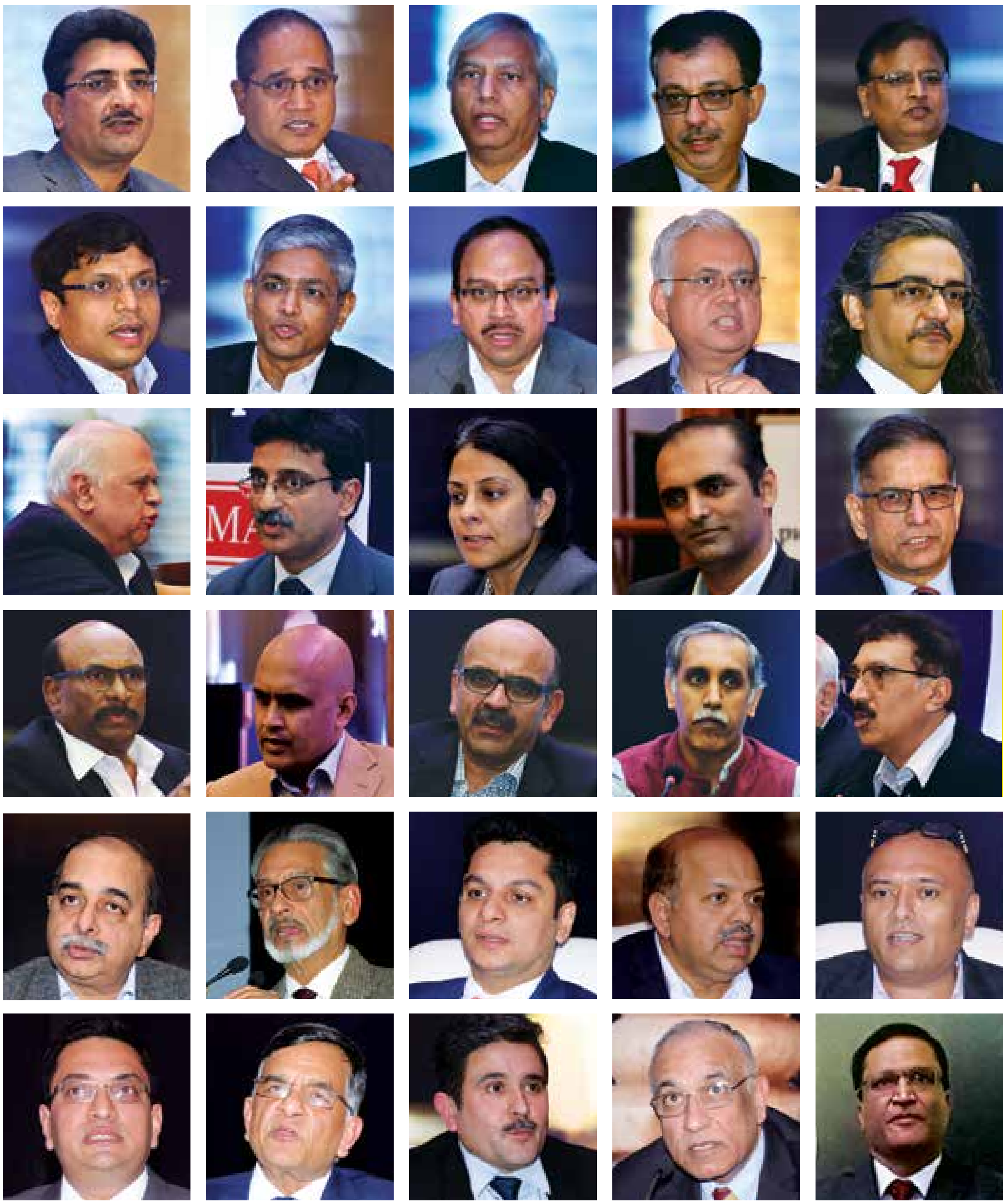

Resetting The Rules

The IMA India 2017 Tax Summits

Skilling and Entrepreneurship: Re-Imagining India • India's Place in the League of Nations: Transforming Paradigms

This issue of CFO Connect contains 52 pages including cover and backcover.

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IMA
Insight beyond information

Uday: A Federalist Success Story

Electricity distribution has been disastrously managed over the last three decades and in 2015 was on the verge of absolute collapse. Under-priced power, operational inefficiency, broken equipment, rampant theft and political meddling had resulted in distribution companies (discoms) hoarding losses of Rs 4 trillion on their books. They were incurring damages of Rs 0.60 per unit of power sold, had outstanding receivables of Rs 0.96 trillion (almost a fourth of revenue) and were losing 25 per cent of their output to Aggregate Technical and Commercial (AT&C) losses, a proxy for theft. Most discoms were bankrupt and unable to generate cash even for routine expenses. Banks refused to extend working capital loans and generation companies, which were collectively owed Rs 1.3 trillion, were threatening to cut off supplies. Few would remember that at one point interim court orders and desperate pleas by politicians were the only reasons households were still receiving electricity in some states. In short, the situation amounted to what is generally described as a nightmare.

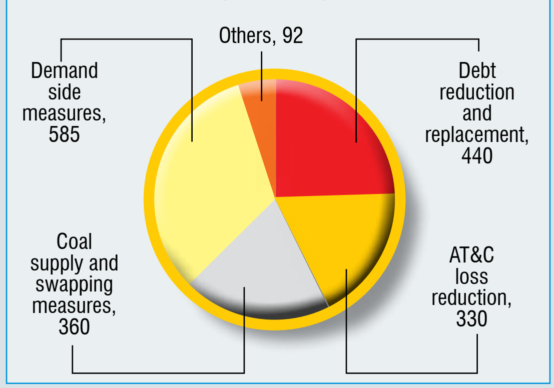
> In 2015, the administration launched UDAY, which improved upon the terms of a previous scheme and was sold more effectively to the states. A dozen signed up within six months and as of November 2017, a total of 31 states had entered its fold.

Distribution, in India's constitution, is a sector that falls under state control and therefore not amenable to central diktat. In 2012, the Government came up with a programme called the Financial Restructuring Scheme (FRS) to fix the problem but failed in the absence of state buy-ins given the broken nature of centre-state relations at the time. Subsequently, in 2015, the current administration launched Uday, which to begin with improved upon the terms of the FRS, but more importantly, was sold effectively to the states in a backdrop of more positive federalist relations. A dozen signed up within six months and as of November 2017, a total of 31 states had entered its fold.

Uday: terms of reference

Under Uday, state Governments are to assume 75 per cent of the accumulated losses of their discoms and issue state development loan (SDL) bonds in lieu of these. The proceeds are to be given to the discoms in a mix of equity and grants. The SDL bonds would be priced at G-sec plus 0.75 per cent, which is lower than the interest rate currently being charged to discoms on their debt (~12 per cent pa). The balance debt of 25 per cent would be re-priced at base rate + 0.1 per cent or securitised in the form of state Government-backed discom bonds and offloaded in the market. In this manner, discoms' overall debt would be reduced with high cost loans replaced by lower cost ones together with some equity. Once the balance sheets are cleaned up, any future losses incurred by the discoms will be borne 50 per cent by the state Government. This should align their interests and incentivise governments to manage their discoms better (e.g. by allowing correct pricing of power and investing in equipment and technology) or so the logic goes.

Estimated savings through Uday
(Rs billion)



Source: Towards Ujwal Bharat UDAY: The Story of Reforms, presentation by Ministry of Power, November 2015

On its part, the central government would provide funding support to participating states to beef up their distribution systems (transformer upgradation, metering, consumer indexing, GIS mapping, etc). They would also be supported with measures like additional coal supply at reduced prices, low cost power from NTPC and demand reducing measures such as LED bulbs, energy efficient appliances, etc. States were given targets for shrinking distribution losses, pricing electricity to eliminate under-recoveries, installing metering and transformer equipment and, ultimately, turning profitable by 2018-19. If both state and central Governments do everything they are supposed to, discoms could achieve savings of an impressive Rs 1.8 trillion over the implementation period.

Progress so far

Progress so far has been reasonable. The most visible bit is the issuance of state Government bonds intended to write off 75 per cent of discom debt. Of the Rs 2.7 trillion to be restructured, bonds worth Rs 2.3 trillion have already been issued implying a healthy appetite in the financial markets. This has led to savings of around Rs 160 billion in interest costs in FY17, a figure that will rise considerably in FY18 as state Governments transfer bond proceeds as grants to their discoms and the full year benefit of de-leveraged balance sheets is realised. In terms of under-recovery on the sale of power, the average gap between cost and realisation has dropped by about 50 per cent from Rs 0.60 per unit to Rs 0.35 per unit. This is credible and was made possible by reducing the costs coupled with tariff hikes. Ten of the largest states have raised power tariffs by higher percentages than they were required to for FY18 and some others are likely to follow. In total, 25 states have announced revised tariffs although unsurprisingly not all have implemented them yet.

The all-important statistic, AT&C loss, currently stands at an average of 23.2 per cent across states. This is a marginal improvement over the pre-Uday level of 25 per cent but still short of the target 20.8 per cent set for FY17. One reason is the problem of shoddy billing. Prior to Uday, discoms' average billing efficiency was below 80 per cent i.e. over a fifth of sales were not even billed, due to lack of metering or monitoring. To fix this, discoms need to invest in meters, new connections, audits, GIS mapping and consumer indexing.

An initiative designed to undo three decades of mismanagement without the benefit of a diktat-based solution will take time to deliver results. In view of this, the successes achieved under the Uday programme are not insignificant.

At a softer level Uday has some success. It has for instance promoted a spirit of both cooperation and competition amongst states. Those that achieved targets in certain areas have come forward to share their experiences and the federal Government has sought to institutionalise this practice. The publication of state rankings on the Uday portal has promoted a healthy degree of competition amongst states to outdo each other.

In conclusion: much to be done but progress is steady

It seems logical that an initiative designed to undo three decades of mismanagement without the backing of a diktat-based solution will take time to deliver results. States have to be persuaded rather than compelled to fall in line and, given the nature of India's political fabric, this is a perennial challenge. In view of these factors, the successes achieved under the Uday programme are not insignificant. As the results of early initiatives begin to bear fruit, states are likely to increase their efforts and under a central Government that has demonstrated a strong sense of cooperative federalism, this should lead to improving outcomes in the years ahead. ■

Adit Jain

Adit Jain, Editor

A Life Well Lived

Vijay Amritraj

For over two decades, Padma Shri awardee, Vijay Amritraj was one of the most famous tennis players in the world. He was Asia's top player for fourteen straight years, and a bulwark of India's Davis Cup team, often as Playing Captain. Over the course of an illustrious career, he beat the world's best, including Borg, McEnroe, Lendl, Connors, Newcombe and Smith. He brought glory to India as only sportsmen who play at the top of their game, but always with dignity, can. When he played, he lifted the sights of the next generation of tennis players in the country, and he made Indian audiences proud as again, only top quality sportsmen can.

Today, Vijay is known globally as a lead anchor and host for ESPN and Star Sports, covering Wimbledon, the US and Australian Opens, and the PGA Masters. He has been brand ambassador for Rolex and Jaguar Land Rover, a Hollywood star, the United Nations' 8th Messenger of Peace and the Davis Cup's Centennial Ambassador. He has carried the Olympic torch on behalf of India, and despite living in the US for 45 years, Vijay is still a proud Indian with an Indian passport.

In a freewheeling conversation with IMA members, Vijay Amritraj spoke of his learnings in a life wonderfully lived, where every stage has seen him try to be the best that he can be, lending positivity and strength to the eco-system around him.

Few realise that Vijay's turn to tennis was born out of need and necessity, not fun and interest. Born with weak lungs and unable to walk even 50 metres without the need to sit down, outdoor sports was the doctor's mandate. Tennis ran in his mother's family and so, the tryst began. Vijay attributes his early successes - winning a college tournament while still in school as a 13-year old playing against a 19-year old - to the unflinching dedication of his mother towards his wellbeing. She pushed every boundary to build Vijay's strength and then, sighting his subsequent interest, to ensure the family did everything they could to have him and his brother live their dreams. The key to Vijay's peace of mind lies also in what he counts as success. To begin with, it was simply to be able to run a 100 metres without falling, then a kilometre and then finally, ten kilometres, all the while with his mother driving the car next to him as he ran.

> Born with weak lungs and unable to walk even 50 metres without the need to sit down, outdoor sports was the doctor's mandate to Vijay

The value of selflessness, of family, of dreaming the impossible

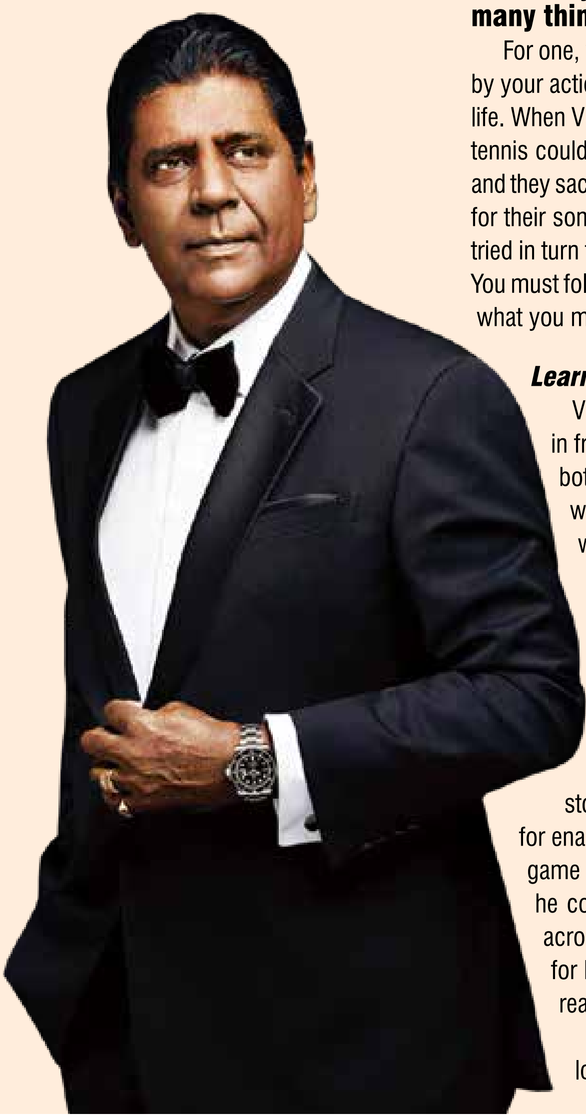
Vijay and his elder brother went on to dedicate their youth to playing tennis. Studying alongside, Vijay trained for hours to perfect his game. They toured the country and then the world with his parents – a father in

At no stage can you know who or what you are enabling by your actions - and so, you must just do your best by the people in your life

government service, and a mother who was a housewife – re-arranging their lives to accommodate the ambition of their children. His mother started a business – a small factory – to provide for expenses related to Vijay's coaching.

Few recognise the value of position and money if they are born to it. In the Amritraj family, there was always a deep appreciation of what came their way, because they recalled travelling even to the US on an Air India ticket with 8 dollars in the pocket. You ate dinner the day you won a tournament. On other days, you dreamt of the next day.

Today, Vijay is world-renowned, his boys are well settled, and he has followed every dream he set out to accomplish. But he hasn't forgotten how to remain grateful, he hasn't forgotten that for all the comforts of the US, which is a wonderful home to him and his family, he is Indian with pride, a sense that flows outwards to his next generation. His son has played the Davis Cup for India for ten years though he was born and brought up in the US.



What do you learn from someone like Vijay Amritraj? So many things, on so many different planes.

For one, you cannot, at any stage, know who and what you are enabling by your actions – and so, you must just do your best by the people in your life. When Vijay was growing up, his parents could not have realised where tennis could possibly take their son. They persevered because they loved, and they sacrificed because again, they loved. The results have been sweeter for their son than they could have ever imagined. As a corollary, Vijay has tried in turn to be with his children the way his parents have been with him. You must follow the dreams of your child, he says – you simply do not know what you may be enabling.

Learnings from the game...

Vijay has often achieved success against all odds, often coming in from a losing position to win tournaments. This was true of him both as a child, and as an international tennis player. Arrogance would be a natural follow-through of this ability, but in Vijay, it was quite the opposite. Winning against the odds has always given him a desire to do even better; prompted him to be better. It has made him more proud of his achievements and yet, he remains humbled by what he calls 'divine intervention', which is, ultimately, what will tilt the scales.

Be grateful...

Throughout the conversation, the one shining emotion that stood out was gratitude – for his parents and especially his mother, for enabling him to be more than he thought he could be; for tennis, a game he feels gave him belief in himself and took him places where he could 'never have gone'; for a life that exposed him to leaders across political, economic and social strata through his TV show; for his role as UN Ambassador that gave him insight into the hard realities of natural and manmade calamities.

On another plane, it is just as important to be grateful for the losses you suffer as for the wins. Vijay says it so succinctly, 'When you lose, you learn. When you win, you look at the next match.' Learn to appreciate your losses as much as you value your wins.

Be inspired...

Listening to Vijay, one realises anew how critical it is to have someone in your life, who inspires you. In turn, you must yourself try to inspire others – by the way you are, by the way you respond. Vijay's mother is his greatest inspiration. Badly injured in a kitchen fire, she spent a year in hospital, and later went through a 9-hour surgery to repair a lost right hand when it got stuck in a factory machine. The doctors said she would not ever be able to write, eat, or drive – and so, she did all three. Because for his mother, can't really means won't. 'Impossible' is not a word in her lexicon, and that same drive is now in Vijay. It is that drive to excel that propels him into leadership positions coming in from far behind. As the famous Billie Jean King said, "every challenge is an opportunity, and pressure is a privilege". Live this, if you want to excel.

Impossible' is not a word in the lexicon for Vijay's mother, and that same drive is now in him

Enjoy life in every stage; every season has its joys

At the same time, however, you must, must enjoy what you do. Being flexible and agile in the mind is critical here. Vijay has epitomised that like few others, effortlessly moving from his role as sportsman to commentator – few can forget his humorous quips, which brought even the disinterested in to watch tennis – and he was able to do that because he enjoys whatever comes his way. A 'learning' mindset is critical to this. Life and its experiences teach you all that you need to know, on how to conduct yourself, on the difference between right and wrong, on 'who' you really are. If you are open to learning, then every stage of life will add value to you, and vice versa. If you think you know it all, you are then really the most ignorant, and you close yourself to the opportunities that life will bring your away all the time.

Step outside yourself, into the shoes of the 'other'

Key to this is also the ability to put oneself in the shoes of the 'other'. Vijay's success as a commentator relates to his ability to view his job from the perspective of his audience, and there too, he chose to pick the most disinterested. The corollary is clear – you must also be able to challenge yourself to do the impossible. His challenge, in this case, was how to increase viewership, which he took upon himself. External drivers can be great, but ultimately, passion is self-initiated, self-generated. It cannot be incited.

Vijay's perspective also highlights the importance of surrounding yourself with people who drive you to be better, because they will not always agree with you. You can surround yourself with sycophants, but you lose the opportunity to see yourself, truly, as others see you. When you are by yourself too, you do not really see yourself. It is only from the outside that the view-in becomes clearer. Respecting differences of opinion is crucial – and that is a need not just of individuals, but also of nations. At the end of it all, it doesn't matter if you are the one to put out a hand for reconciliation and say, 'Lets get a drink.' Make things work: life is simply too short.

As the UN Messenger for Peace, Vijay visited Bhuj 48 hours after its devastating earthquake, and countries like Sri Lanka and Bosnia when they were in the throes of war. That brought home to him the kind of anguish so many in the world go through, and the quality of sacrifice and care that multilateral agency representatives provide. Ultimately, the people you remember are those that work to bring changes on the ground – whether large-scale or in everyday life; people who try to make your world a better place. Set up in 2006, Vijay's foundation works with over 15 charities on the ground in India, and it is, in his view, just a drop in the ocean. We must each do our part, in whichever way, for one's family, for one's society.

Experience life – and not from an armchair

Experiences teach you more about life than any wise man pontificating. Fill those experiences with time given to loved ones, and to things you love to do. It feeds your soul. Spend time with each other: we must mould the future we want for our next generation for whom we are caretakers of this world. Does that world involve communication via screens? Probably not.

> Given the government's many different priorities, the onus is really on families and corporations to allow India's people to dream, to attempt to achieve the impossible

Looking to the future

Today, as Vijay looks at Indian sport, he recognises tremendous capability, but puts the onus on us as families and corporations to do what we can to allow our people to dream, to attempt to achieve the impossible. The government will have many urgent priorities in a country like India that relate simply to survival. Sport must, however, be engaged in: nothing uplifts and unites a nation more than when one of us wins on the international stage. It won't matter that we do not understand the game, but if India is represented, the pride is uplifting, and it is uniting. And that is unique.

It thus falls to us as families to no longer desire to play it safe by our next generation. We must allow them to follow their dreams. As corporations, Vijay believes, quite justifiably, that we must also do more to encourage sport. At a personal, individual level too, Vijay believes in the value of engaging in a physical sport. It is good for the body, and it is good for the mind. The value it brings to families and friendships as you engage in a common activity is also ommeasureable.

The 5Ds that matter...

Ultimately for Vijay, what matters most in life is the 5 'Ds', each a link in a virtuous chain. First, you must have the desire to do something. Then you must have the discipline to do it, and that takes real toil. Dedication, then, is the crucial third link. Then comes determination – you cannot take no for an answer, least of all from yourself. And finally, there is divine intervention. If it is meant to be, it will be (but not without being spot on, on the count of the first 4 Ds).

As we close the conversation with Vijay, he recounts an episode from his interview of Buzz Aldrin, the second man on the moon after Neil Armstrong. Buzz had a plaque in his room that read – "Who said the sky is the limit when I've left my footprints on the moon?" So dream the impossible. Impossible is nothing. ■

The contents of this paper are based on discussions of The IMA Forum in Mumbai and Pune with Vijay Amritraj in November 2017. The views expressed may not be those of IMA India. Please visit www.ima-india.com to view current papers and archives of content in the IMA members' Knowledge Centre. IMA Forum members have personalised website access codes.

Global Outlook

The current global upturn is less strong than prior recoveries, and differs with them in several important ways

The Global and Regional Outlook is extracted from the Asia Pacific Executive Brief, a service of IMA ASIA.

2018 is set to be a second straight year of better global growth after the five years to 2016 delivered 3.4 per cent pa growth, lower than the two-decade average to 2011 of 3.7 per cent pa. The IMF's latest forecast puts 2017 growth at 3.6 per cent rising to 3.7 per cent in 2018. While the upturn isn't as strong as prior recoveries, when growth would hit 4.5 per cent+ for a year or two, a better balance between supply and demand has emerged, as capacity has been cut (even in China), and prices and profits have improved. The quality of the recovery has felt good for most companies, and stock markets have done very well, with the DJ Global index up 21 per centytd. In a few sectors, such as chemicals and IT components, shortages have even emerged.

> There is a big step-down in advanced-market growth, while EMs are also forecast to slow, but not by as much

This upturn also differs from prior ones in several other respects. First, there's a big step down in growth for advanced markets, with 1.8 per cent pa forecast for 2017-22 from a two-decade average to 2011 of 2.3 per cent pa. That reflects older populations and lower productivity growth. Trend growth in emerging markets (EM) also slows, but not by as much, easing to 4.9 per cent pa in 2017-22 from 5.2 per cent pa in 1992-2011. The more notable development in EM as 2017 finishes is a lift in risk, with the average EM sovereign credit rating sliding to its lowest level since early 2010. Asia's EM, however, have seen their credit ratings improve. That's important, as it points to where capital will flow in the next few years. Finally, global inflation remains muted, lowering pressure on central banks to hike interest rates.

A central question in the US outlook is the impact of a big tax cut on GDP growth that has averaged 2.1 per cent pa in the current 2010-17 expansion. If it is implemented from 2018, we think it would add about a quarter of a percentage point to our current growth forecasts of 2.3 per cent in 2018 and 2.2 per cent in 2019 due to three developments. First, the tax reform will put pressure on US firms to book more of their global profits in the US, which lifts the GDP number although there's no increase in US activity. Second, low and middle-income households will spend most of their temporary tax cut; higher income households will also spend more thanks to both a tax cut and a lift in wealth, as the 2017 stock market rally is extended by a big cut in the corporate tax rate. Finally, some manufacturers will see a tax advantage in putting production for US consumers in the

IMA Asia's forecasts (guided by IMF)

Real GDP Growth, %	2014	2015	2016	2017	2018
World – Real GDP growth, %	3.6	3.4	3.2	3.6	3.7
- US	2.6	2.9	1.5	1.9	2.3
- Euro area	1.3	2.4	1.8	2.2	1.9
- Asia/Pacific (14)	4.4	4.4	4.7	4.9	4.8
- NICs (4)	3.5	2.2	2.4	3.1	2.8
- Developing Asia (7)	6.8	6.7	6.6	6.5	6.3
- ASEAN (5)	4.4	4.5	4.6	5.3	5.2
World goods & services trade volume, % growth	3.5	2.8	2.4	4.2	4.0
Interest rates, US Fed target rate, year end, %	0.25	0.50	0.75	1.50	2.00
Inflation, CPI, US, year avg., %	1.6	0.1	1.3	2.1	2.1
Inflation, CPI, Euro area, %	0.4	0.0	0.3	1.1	1.3
Crude oil, avg of 3 spot crudes, USD	96	51	43	52	50
USD / Euro 1, year average rate	1.33	1.11	1.11	1.12	1.09
Yen / USD1, year average rate	106	121	109	112	115

The Asia/Pacific 14 = the countries on the forecast summary page. NICs are the newly industrialised countries = Korea, Taiwan, HK, Singapore. The ASEAN 6 = Indonesia, Thailand, Malaysia, Philippines, Vietnam, + Singapore. Dev Asia = ASEAN 5 + China and India. IMA Asia forecasts.

US. Our average forecast of 2 per cent pa for 2018-2022 is well below the US Treasury forecast of a lift to 3 per cent pa for the next decade.

Euro area GDP growth accelerated to 2.6 per centyoy in Q3'17, with consumer growth steady at 1.9 per centyoy and that of fixed investment lifting to 4.2 per centyoy. On the production side of GDP, growth is strongest in industry (up 3.6 per centyoy) and construction (up 3.1 per centyoy). This is a much younger recovery than that of the US, and we expect it to run through 2018 due to better domestic demand and stronger exports. Trade data captures the lift, with imports up 13.8 per centyoy in October, while exports grew 12.5 per centyoy (US$ basis). Our current GDP growth forecast of 1.9 per cent for 2018 may be upgraded in coming months.

As noted above, low inflation is one of the surprising facets of the current global recovery. But, as clients noted in our Q4 forecast debates, a lift in inflation due to product shortages or slightly stronger wage growth could be the surprise of 2018. We'll watch for this.

Apart from watching long-run inflation differentials, we also read dozens of currency reports, and we've rarely seen such a wide range in forecasts. Our short-term view is that 2-3 hikes in the US Fed cash rate in 2018 (each 25bp) should lift the US$ on its trade weighted index and on the Euro and Yen, as the ECB and BOJ continue with zero or lower rates. ■

Regional Outlook

For Asia, the year-just-gone was largely about political stability and recovering growth, though geopolitical risks remain

Asia closes 2017 with a mostly stable political risk outlook, and mostly stable sovereign risk ratings. In our accompanying Excel workbook, we track S&P's sovereign ratings at the end of every month, and 2017 saw a one notch downgrade for China in September (to a still favourable A+), with HK following in lockstep (also down one notch to AA+), while Indonesia won its long-awaited return to investment grade (BBB-) in May. With Indonesia's upgrade, 13 of the 14 countries we cover are investment grade (Vietnam is the exception), and two are AAA. Given Asia's consistent outperformance on growth, that's a simple equation for plenty of cheap money for the next few years in a world desperate for yield.

Geopolitical risk is, however, a concern, given an unpredictable North Korean regime, China's push to realign its neighbours (including niggling military action in the China Seas, cuts to tourist flows, and informal embargos on selected foreign firms in China), and a populist US president who has undermined America's traditional role in ensuring peace in Asia. Companies from Japan, South Korea, Taiwan and the US are equally exposed in this regard, and may need to prepare mitigation options for 2018.

An equally important challenge is reviving or sustaining productivity growth in Asia. China is tackling that via major reforms to its industrial and financial sectors. In 2017, that was driven by tighter regulation. While that will continue in 2018, a more interesting development will be the likely spread of digital disruption to China's many B2B markets. That could underpin a wave of productivity growth. Governments in Japan and Korea aim to lift productivity by forcing up wages, although its less clear if that will work. Singapore is tackling it by snatching up as many smart people as it can. The 7.7 per cent annual growth in its resident population holding university degrees from 2000 to 2016 is astounding. Thailand's military government also has a major industrial revitalisation plan that is promising.

Asia has been a major beneficiary of the 2017 recovery in global demand. Our forecast for 2017 GDP growth for the 14 countries covered by the Asia Brief has lifted from 4.3 per cent in January to 4.8 per cent this month. Our latest calculation for export growth for the region in 2017 is 9.7 per cent (US$ basis) with 5.7 per cent expected in 2018 after an average annual fall of 0.7 per cent for the five years to 2016. As the milder 2018 export growth forecast indicates, this isn't a repeat of the typical multi-year export rebounds of prior decades. Our export growth forecast for 2019 drops to 4.7 per cent, which is less than half the average annual 10.4 per cent rate for the two decades to 2011. Except for Vietnam, where 13

> China is pursuing major reforms, while Japan, Korea and Singapore are all looking to boost productivity

GDP (Expenditure)

Real growth, %	2014	2015	2016	2017	2018
Japan	0.3	1.1	1.0	1.7	1.6
China	7.3	6.9	6.7	6.8	6.4
Hong Kong	2.8	2.4	2.0	3.9	3.4
Taiwan	4.0	0.7	1.5	2.4	2.2
South Korea	3.3	2.8	2.8	3.0	2.8
Indonesia	5.0	4.9	5.0	5.5	5.9
Malaysia	6.0	5.0	4.2	5.9	5.0
Philippines	6.1	6.1	6.9	6.6	6.3
Singapore	3.6	1.9	2.0	3.3	2.9
Thailand	0.9	2.9	3.2	3.8	3.8
Vietnam	6.0	6.7	6.2	6.5	6.3
India (CY)	7.0	7.5	7.9	6.3	6.7
Australia	2.6	2.5	2.6	2.3	2.6
New Zealand	2.8	3.2	3.5	2.8	2.6

Inflation

CPI year average, %	2014	2015	2016	2017	2018
Japan	2.8	0.8	-0.2	0.4	0.5
China	2.0	1.4	2.0	1.6	2.5
Hong Kong (composite CPI)	4.5	3.0	2.4	1.6	2.2
Taiwan	1.2	-0.3	1.4	1.1	1.2
South Korea	1.3	0.7	1.0	2.1	2.6
Indonesia	6.4	6.4	3.5	3.8	3.8
Malaysia	3.2	2.1	2.1	4.0	3.6
Philippines	4.1	1.4	1.8	3.2	4.1
Singapore	1.0	-0.5	-0.5	0.6	1.2
Thailand	1.9	-0.9	0.2	0.7	1.4
Vietnam	4.1	0.6	2.7	3.5	3.7
India (CY CPI urban non-manual workers)	6.7	4.9	5.0	3.2	4.9
Australia	2.5	1.5	1.3	2.0	2.3
New Zealand	1.2	0.3	0.6	2.0	2.5

Exchange Rate

To USD1, year avg.	2014	2015	2016	2017	2018
Japan	106	121	109	112	115
China	6.16	6.28	6.64	6.78	6.81
Hong Kong	7.75	7.75	7.76	7.79	7.78
Taiwan	30.3	31.8	32.2	30.4	29.7
South Korea	1,053	1,131	1,160	1,132	1,116
Indonesia	11,869	13,389	13,309	13,337	13,670
Malaysia	3.27	3.90	4.14	4.30	4.02
Philippines	44.4	45.5	47.5	50.4	51.2
Singapore	1.27	1.37	1.38	1.38	1.37
Thailand	32.5	34.2	35.3	33.9	35.4
Vietnam	21,148	21,677	21,932	22,402	22,938
India (FY)	61.0	64.1	67.2	64.7	66.0
Australia	1.11	1.33	1.35	1.30	1.26
New Zealand	1.20	1.43	1.43	1.42	1.45

Sources: CEIC, central banks, and national statistics offices. Forecasts are by IMA Asia.

per cent+ export growth is expected for the next few years, the export sector can't transform Asia as it did in the last 50 years. Growth in Asia's next decade will have to come from domestic demand.

Asia's emerging market consumers have long promised to become the region's major engine of growth. That's happened in China, and more recently in the much smaller markets of the Philippines and Vietnam. Yet elsewhere the story is muted. The mass but poor consumer markets of India and Indonesia have been particularly disappointing. Fortunately, the headwinds that retarded growth in 2017 look like easing in 2018.

This month's Asia Brief notes a surge in proposed infrastructure work across SE Asia. On the plus side there's plenty of capital to fund the projects, and plenty of demand from infrastructure users. The big challenges are a chronic shortage of management capacity, mostly in the public sector, and a shortage of skilled workers. That means the apparent surge in SE Asia infrastructure work may struggle to become a reality.

In our Q3 and Q4 forecast updates, we warned of overheating in the Philippines and Vietnam, as both economies are growing at capacity, and that could trigger a jump in inflation and/or big current account deficits, both of which would undermine their currencies. 2017 closes with both countries keeping these risks under control.

Given our strong US$ forecast (see the Global page), most Asian currencies are expected to ease against the greenback in 2018. The exceptions are Taiwan, Korea, and Singapore where large current account surplus push their currencies up, and Malaysia, where the Ringgit's fall over the last few years appears to have overshot. ■

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India Outlook

Two crucial state elections have just been completed, and all eyes will now be on the February Union Budget

The BJP won two important state elections in December – Gujarat and Himachal Pradesh – retaining power albeit with a lower majority in the first and unseating the Congress with a thumping majority in the second. The opposition claimed a moral victory in Gujarat on account of its improved scores but the fact remains that it was the BJP's sixth consecutive victory in the state extending an unbroken stint of 22 years. Only one other Indian state has ever given a longer mandate to an incumbent (West Bengal, from 1978 to 2011). That said, Mr Modi's last minute campaigning was a major reason for the win implying that his personal popularity remains the pillar on which the BJP's success continues to ride. This will remain a critical factor in the 2019 national election as well as the 13 state assembly elections scheduled prior to it.

The Finance Budget will be tabled on February 1 next year and analysts will be looking for measures to reform the direct tax code and alleviate GST-related challenges. But perhaps more important is progress on clearing the state-owned banks of bad loans, and forcing the first batch of 40 bad borrowers – mostly industrial companies – through the new bankruptcy system. Whether that process will work should be apparent by March. This balance-sheet recession is a central issue behind a slowdown in growth. If the new system works, India could see a major reallocation of industrial assets in 2018 and a recovery emerge. While there is reason to be optimistic, experience in the West is that full recovery from such balance sheet recessions usually takes 2-3 years. As part of the plan, the government is injecting Rs 1.35 trillion (USD 21 billion) into state-owned banks and they are raising another Rs 580 billion (USD 9 billion) by themselves.

Signs of a demand recovery are evident, but inflation is also on the up

India's national digitalisation strategy is back on track after the Supreme Court upheld the linking of Aadhaar with the income tax permanent account number (PAN). Some 140 items, ranging from mobile phone numbers to insurance policies, social welfare payments and post office accounts, are to be linked to a unique identification number by March 31. The Court will consider various privacy challenges to Aadhaar linking in January.

2017 closes with hints of improved momentum after three quarters of sub-7 per cent growth. Q2 FY18 growth was 6.3 per centyoy while restocking by industry after a run-down in the June quarter as the GST approached, saw manufacturing GDP up by 7 per cent yoy growth from 1.2 per cent yoy in the previous quarter. Given the low base of Q3 FY17, the year-on-year measure for real growth in Q3 this year may well touch 7-7.5 per cent. However, full year growth is likely to be closer to 6.5 per cent yoy.

Growth in consumer demand in 2017 was affected by demonetisation and the GST. However, signs of a rebound are evident – November sales for 2-wheelers were up 24 per centyoy from 6.2 per cent ytd for the first 10 months and 3-wheelers were up 66 per cent yoy from 5.5 per cent ytd. Non-oil imports, a proxy for domestic demand were up 24 per cent yoy during April-October against -9 per cent yoy last year – all of which suggests consumer demand should return to 8 per cent + real growth in 2018. This should help GDP growth exceed 7 per cent in FY19.

With domestic demand recovering, inflation jumped to 4.9 per cent yoy in November from 3 per cent ytd for the first 10 months. This would suggest that the RBI is unlikely to cut interest rates in the short term, which should provide continuing support for the Rupee. The currency has generally remained strong through 2017 but is likely to face some depreciation pressures in 2018 as the US unwinding picks up speed. This should help India's exports whose recovery has been somewhat slow. They were up 9 per cent yoy in April-October 2017 and although that is an improvement over the 0.1 per cent yoy growth in the same period last year, in absolute terms they are still lower than levels achieved in FY13 and FY14. ■

Fiscal year starting 1 April	2013-14	2014-15	2015-16	2016-17	2017-18
GDP mp (FY12 series), real growth, %	7.2	7.9	7.1	6.5	7.0
Inflation - CPI, yr avg (FY12 series), %	6.0	4.9	4.5	3.5	4.5
RBI lending (repo) rate, year end, %	7.5	6.75	6.25	5.75	5.50
Rupee to US$1, RBI Ref Rate, yr end	62.5	66.2	64.8	65.5	68.0

Sources: 2013-2016 data from the government (NCI, RBI) and CEIC. 2017-2018 forecasts.

Enabling Intelligent Automation

Milan Sheth
Partner and leader for CFO Advisory & Intelligent Automation at EY India

Disruption due to Intelligent Automation (IA) is clearly visible in every sector of the economy. A recent study found, for instance, that from being over 90 per cent hardware-based, 50 per cent of a car's value is now software-based. This has enabled Internet and handset companies to compete directly with car manufacturers for ownership of the dashboard.

In the same way that IA is disrupting business models, it has the potential to disrupt core functions such as Finance. Many finance-related processes today reside in batch-based legacy ERP systems, often with multiple instances and complex processes which interact with disparate sources of data. While these systems have become stable and efficient over the years, their very stability hinders a transition to a digital-ready business.

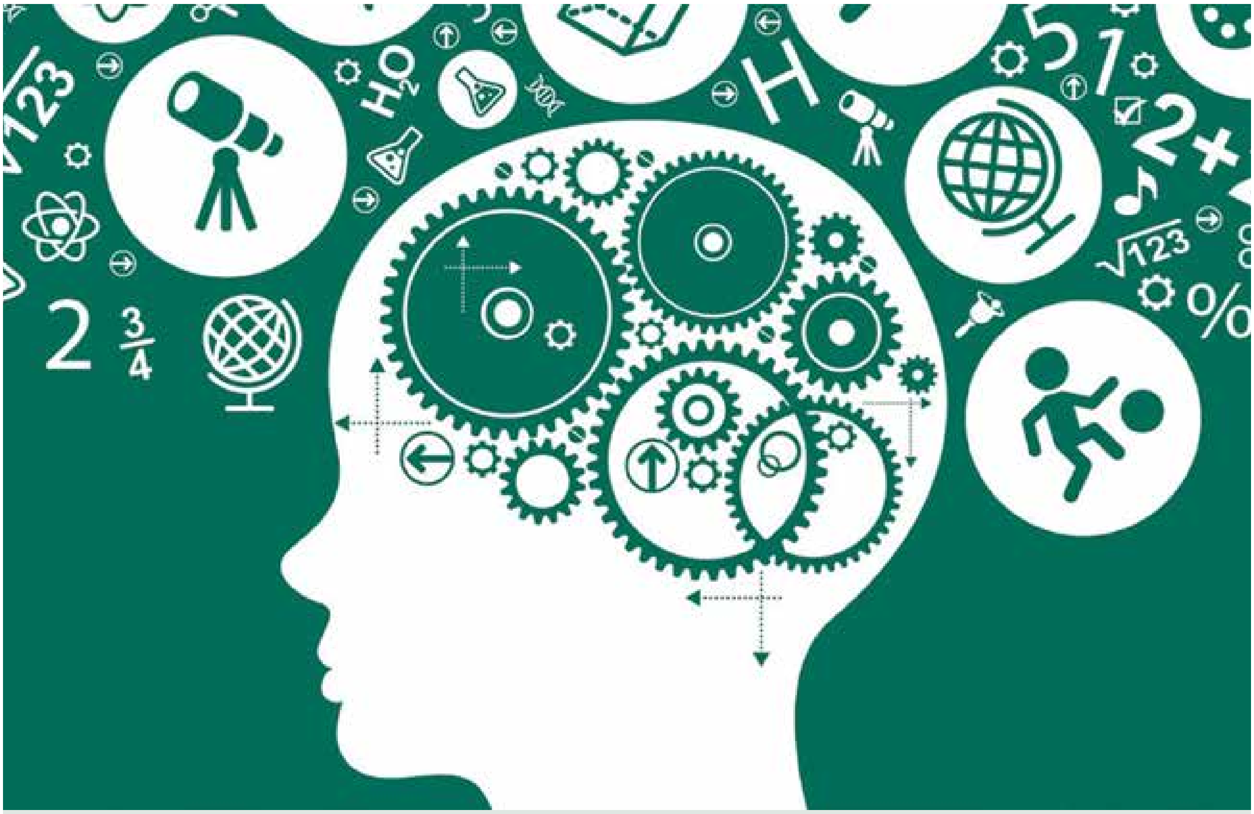
IA is today unleashing the next phase of Finance's insights-driven transformation, a journey that CFOs began with ERP systems. IA will enable the CFO and the Finance team to add significantly greater value to the business, at speeds much faster than today. This will be in real-time, at a reduced cost, with higher levels of automated control, and lower levels of risk. As the CFO's role evolves beyond mandatory reporting and compliance, it will be critical to have a pulse on IA. This will also require more pragmatic decisions in terms of investments, trying out and testing new innovations, and in determining the workforce skills and capabilities needed.

Finance faces multiple challenges: shrinking costs, reverse decreasing margins, improving the speed, volume and quality of information, and delivering value-added insights to the business

A dynamic Finance landscape: challenges galore

Finance is under significant pressure across industries. Some of the major challenges it faces are the ability to shrink costs and support decreasing margins, to improve the speed, volume and quality of information provided, and to focus on delivering value-added insights to the business.

A key role is to communicate the organisation's value to stakeholders, thus helping them to make decisions. However, what should be measured and communicated has changed considerably with the increasing importance of intangible assets such as brand, patents, IT and knowledge – none of which are recorded in the same way as tangible assets. Timing is another issue: stakeholders increasingly want real-time information that annual reports do not provide, including future



IA can help enhance transparency, and produce more insightful - and standardised - reporting. RPA, meanwhile, is moving from being a competitive differentiator to becoming a standard practice

trends in strategy, and how risks are being managed.

Companies also face an increasingly challenging reporting environment, the result of major accounting and regulatory changes. Further, there is often a disconnect between the information available internally to managers, and that which is provided externally to investors and other stakeholders.

IA technologies: significant potential

The advent of IA provides opportunities to enhance transparency, to produce more relevant and insightful financial reporting, and to further standardise and automate reporting. We explore two key IA technologies that we believe will play a significant role in transforming the finance function.

Robotic process automation (RPA)

RPA is a hot new topic in the Finance world. Its implementation considerations (including cost and timelines) are relatively insignificant, especially compared to major IT platform updates. Therefore, it is likely that RPA will soon evolve from a competitive differentiator to a standard practice that is linked to organisational survival. The shift to RPA enables CFOs to improve organisation performance in several ways, including by:

- **Automating key finance processes, from data reporting to payments:** For example, it improves corporate reporting, allowing data to be accessed and presented from multiple systems.
- **Targeting system inefficiencies:** RPA can bridge the gap between

multiple ERP systems, and thus act as an interface between the ERP and critical legacy systems.

- **Improving the quality and speed of Finance processes:** RPA provides a clear audit trail record, which can make compliance with regulatory requirements easier to manage.
- **Driving value creation:** RPA can substantially increase the scope of data available to the organisation, and also provide initial analysis. For instance, cognitive RPA can extract and combine data from various sources, including external data providers, social networks and shared drives.

AI's value to CFOs lies in its ability to make existing processes more efficient, improve strategic insights, and strengthen compliance and risk management

Artificial Intelligence (AI)

AI systems are capable of ingesting and making sense of very large data sets much more efficiently than humans. The key benefit over traditional data analytics is the ability not just to follow rules, but also to recognise patterns, and to learn and adapt to new situations. The potential for AI extends beyond mere efficiency, and as these machines get smarter, they can support CFOs by:

- **Making the existing processes more efficient**: For instance, AI can support the invoicing process in real-time, ultimately making suggestions to accounting teams on matching payments to invoices. This will not only ensure better accuracy, but will also drastically cut down on the time spent manually tracking down the relevant information.
- **Improving strategic insights:** AI systems can analyse unstructured data and help business analysts find signals and patterns in large data sets.
- **Implementing better compliance programmes:** AI systems can be trained to ingest tax regulations that are relevant to a business, and also to absorb new regulations as they come online, proactively advising the relevant person of these changes, and answering questions that he or she may have about their implications.
- **Improving risk management:** AI systems can identify patterns in large data sets that are indicative of fraud or other concerns.
- **AI-enhanced RPA capabilities:** AI systems can complement technologies such as RPA. For example, rules-based automation approaches often run up against exceptions to the defined process, and AI can be used to target those exceptions.

The CFO: pragmatic visionary

The synthesis of new technologies and the workforce will be critical for the future Finance function. Driving value from new IA technologies will have significant workforce implications for CFOs. To build tomorrow's digitally-enabled and talent-rich Finance team, the 'winning' CFOs will be those who strike the right balance between technology and the workforce, and who continually work to focus each on the tasks that best suit their skill-sets. This will free up the CFO to focus on innovation, responding to the rapidly changing business context, and driving the business forward. ■

The CFO's role in a VUCA 2.0 World

Rajesh Garg
Director Finance & Compliance at Karl Storz Endoscopy India

Innovation has enabled massive technological transformation in the last 200 years, from the invention of the telegraph machine in 1838, to artificial intelligence, and the ability to seamlessly connect to anyone or anything in the world, today. Side by side these changes, we must deal with a VUCA (volatile, uncertain, complex and ambiguous) environment. Everyone, of course, is now familiar with this concept – which brings with it not just new growth opportunities and business models, but increased regulation, changing stakeholder expectations, and technology-led transformations – but the sheer scale of change seen in the last 2 years deserves a new phrase altogether. I would label it 'VUCA 2.0'.

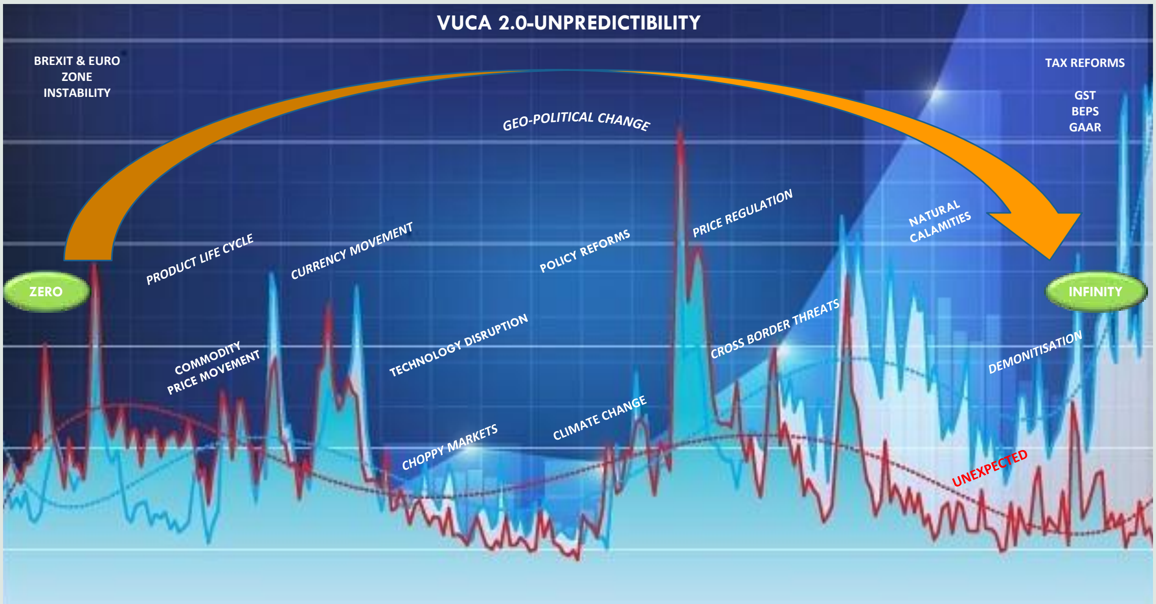
In the last 20 years, the pace of advancement has been so rapid that it is difficult to talk about, let alone predict the 'long-term' any longer. Facebook, YouTube, and Twitter did not even exist a decade ago. Today, there are nearly as many mobile phones as there are people in the world, and digitisation is changing the way business and society work. Another megatrend is the shifting focus of global investments, from West to East, which is accompanied by the consumption-and-growth story in emerging markets. New platforms and technology allow innovators to rapidly launch truly 'big bang disruptions': new products and services that are simultaneously better, cheaper and more customisable, and which are putting the major established players out of business. Since 2000, 52 per cent of companies in the Fortune 500 have either gone bankrupt, been acquired, or ceased to exist. In addition, the life of a Fortune 500 company keeps shortening, from 75 years to less than 15 years today.

Uncertainty and change have been a way of life for the last 20 years, but what we have seen in the last 2 years is unprecedented

Events of the last two years, though, have been in a different league altogether: Brexit and Eurozone instability, tightening monetary policies in the West, geo-political turbulence, demonetisation, the North Korea crisis, choppy global markets, the GST, technological disruptions, cybercrime, accelerating climate change, BEPS, and so on. Business leaders, as a result, have to contend with a whole new era, which requires new ways of leading. All of these unforeseen events have also created new vulnerabilities for business, and traditional management techniques are no longer sufficient to address the volume of change we are seeing. This 'VUCA 2.0' world has layers and foundations both organic and inorganic.

Finance's role in this changing world

How can Finance adapt to these changing conditions? How can it not just survive, but also thrive in this difficult business environment? What skills and



> The CFO's role is to help navigate this VUCA world by creating sustainable profitability through value innovation, productivity enhancement, and profitable growth

qualities does it need to succeed in these changing times? The answer are not simple, or straightforward.

CFOs need to understand that the factors shaping the environment today are so diverse that many of the assumptions on which business growth plans were built can go for toss whenever something unexpected happens. Each passing year, we see events unfold that have a major impact on global macros, and on the ability of organisations to make accurate financial forecasts.

CEOs and marketers commonly use the term 'VUCA' to deal with their business plans and strategies. The CFO's role, meanwhile, is to help navigate this VUCA world by creating sustainable profitability through value innovation, productivity enhancement, and profitable growth. While CEOs and the technical teams (whether R&D, marketers, or product developers) are busy combating with the ever-changing business world, formulating new strategies etc., the CFO has a vital role to play as a sounding board. He or she must help build an eco-system that enables ideas to be transformed into reality. At the same time, the CFO must respond to all this volatility not just as a number-cruncher, but as a 'power player' in the C-suite who goes beyond the traditional responsibilities to being a true business partner.

Dealing with VUCA 2.0: four mantras

Vision with Volatility

In recent times, volatility has become a permanent feature of the global business landscape. The variables most susceptible to volatility are currency rates, commodity prices, financial markets, consumer behaviour, and shifts in the government's agenda with a change of regime. For example, the NDA government's dual focus on providing affordable healthcare and making 'Make in India' a success has meant a sea-change around price regulations, driving many healthcare companies to change their entire investment strategy and forecasts. Similarly, in the automobile industry, the shift from fuel-based to electric technology is a game-changer. The upshot is that companies that try to gear themselves to deal with volatility by broadening their innovation focus might still have to contend with

"All the apparatuses of VUCA challenges and opportunities need to bring together to form a Collaborative and responsive Eco-system for being sustainable, successful and be a winner"

many unforeseen events that impact their sustainability.

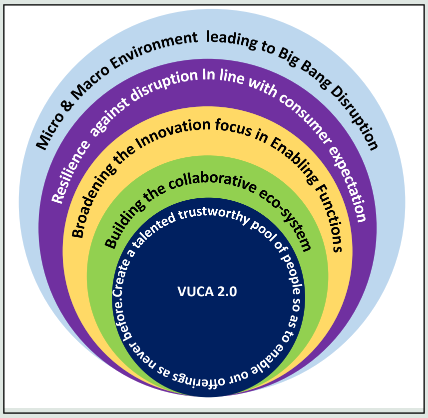
Today's business leaders must possess the ability to see through all of this chaos, and they must have a clear vision for their organisations. One of the things the Finance function can focus on is building a robust link between risk management and business planning processes. Our enabling teams need to work with a platform of systems and/or processes that are fast and responsive, and which enable them to execute on the organisation's strategies. This means that, rather than getting stuck on reconciliations and audits, the team can truly act, through business partnering, as transformational agents.

Understanding with Uncertainty

With a clear vision in hand, leaders need an in-depth understanding of their organisation's capabilities and strategies. This is what will allow them to take advantage of rapidly changing circumstances, playing to their strengths while minimising their weaknesses. Listening only to information sources and opinions that reinforce their own views carries the risk of missing out on alternative ideas. Certainty is the only thing that is not certain. In such situations, we need to respond to uncertainties, rather than reacting to them. The horizons are getting shorter, and looking ahead can be nearly impossible when each of your underlying assumptions topples. However, even the most regulated industries are vulnerable to the effects of 'big bang disruption'. For example, the emerging scenario in healthcare is one where governments, healthcare providers, and customers are focusing increasingly on outcomes and affordability. The result, at one level, is price control measures, but at another, the setting-up of committees that review the entire value chain. Earlier, the new product launch cycle would be 5-10 years, but globalisation and changes in consumer behaviour are putting pressure on the industry to come up with new innovations faster than ever. This is pushing companies to move to integrate their businesses both backwards and forwards, to consolidate their positions, and to create an eco-system of collaboration based around both organic and inorganic models.

Consequently, long-range plans are often obsolete even by the time they are approved. Revisiting our financial forecasts in light of disruptions and shortening product lifecycles can be crucial to the continuing usefulness of our business paradigms. We will have to change our approach from the traditional 'snapshot' view to one that is more like a 'live streaming video.' Our financial systems and business processes should be designed in a resilient manner to deal with uncertainty, and to grab any first/fast mover advantages.

The variables most susceptible to volatility are currency rates, commodity prices, financial markets, consumer behaviour, and shifts in the government's agenda with a change of regime.



Clarity with Complexity

This era belongs to the bold, not the meek or timid. We need to zoom in and zoom out of these complexities, and thus stay ahead of the curve. Now more than ever, leaders need the courage to step up to these challenges, and to make audacious decisions that embody risks and often go against the grain. It is time to reduce the dependence on one product and market segment. Rather, it can be helpful to expand in terms of complexity and go to different market segments with bundle offerings in line with changes in consumer behaviour. Accessibility is helping companies to enhance scalability, which in turn will drive affordability. Certain disruptions may also prove to be helpful in yielding a fast cycle of returns on investment. We cannot afford to keep our heads down, and sticking to traditional management techniques, while avoiding criticism and risk-taking. In fact, the greatest risk lies in not having the courage to make bold moves.

Product life cycles are shorter than ever and CFOs need to gear up to be venture capitalists, especially since returns on investment now require to be evaluated on both financial and non-financial benchmarks

Ambiguity with Agility

We need to act as business partners, and be ready to create a win-win position keeping in view the Catch-22 situation of not compromising with compliance needs, but still maximising shareholder value. In recent times, the Vodafone tax matter, the equalization levy in e-Commerce, tax issues around marketing intangibles, Permanent Establishment issues, the anti-profiteering clause in the GST laws, and other tax dispute matters, are testimony to this ambiguity. In turn, this ambiguity derives mainly from how tax laws are interpreted; from the BEPS Action Plan; issues around transfer pricing and double-taxation agreements; and from the FIPB/DIPP framework, which changes from time to time, shifting with it the entire business value-chain. The Finance function needs to proactively update and upgrade itself, so as to be able to evaluate its operational risks and its operational structures in line with a rapidly-changing economic and tax environment. Finance leaders must take the lead in remodelling and restructuring the business, keeping in view all of the recent shifts in policy, both positive and otherwise. These include Advance Rulings, Advance Pricing Agreements (APAs), and the careful application of country by country (CbC) reporting, which, given the shift to substance-based reporting under the BEPS project, have done away with the option of using clever structures to reduce taxes.

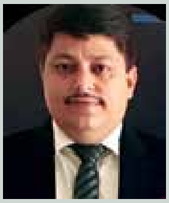
Conclusion

Given the prevalent characteristics of today's world, the winners will be those business leaders who stay focused on their mission and values, and who have the courage to deploy bold moves by building on their strengths. Those who abandon their core values or lock themselves into fixed positions, and thus fail to adapt, will end up losing. We need not to be a victim, but a victor in this new reality; our offerings needs to stand out as never before.

The underlying principle is that your financial and support eco-system should be ready to serve as a growth engine, irrespective of the tough road your business must pass through. You need to navigate for sustainable profitability and value innovations. In this ever-changing and dynamic world, many start-ups has become world-leading companies, while many world-leading companies who could not adapt to the pace of change have vanished. This is not the time for the sort of financial engineering so prevalent in the past decade. Rather, today's Finance leaders need multiple contingency plans, while also preserving strong balance sheets that help them cope with unforeseen events. ■

The views expressed here are personal.

Going beyond 'Traditional Finance' and 'Job Fit'



Sanjeev Jha
Chief Financial Officer at
Kelly Services India

I am going to take the liberty to begin by calling out the elephant in the room: the role of the finance executive is the most stereotyped and misunderstood of all professions. Over the years, Finance people have been painted as being unimaginative, averse to versatility, often lacking in any form of human emotion, and above all, of working with stereotypical earnestness to manage the purse strings of a company or an economy.

A brave new world...

Contrary to this generalisation, in over 20 years of experience in various sectors, I have seen the role evolve and change manifold to the form it has today. No longer do Finance professionals function in a silo, and modern-day CFOs and their teams can no longer contain themselves to the basic asks of the role: that of managing the company's P&L.

Today, Finance professionals must justify their existence, which means going well beyond the traditional role expectations. To a large degree, this is linked to having a strong understanding the broader nuances of the business. If earlier, the role was 70 per cent Finance and 30 per cent general management, today it is closer to a healthy 50-50 split. The reason for this shift is that Finance, and particularly its leader, is expected to be a co-driver to the CEO, and not just an accounting functionary. He or she also need to be an advisor to the CEO, helping their boss to arrive at key business decisions by analysing the firm's financial situation, or the way it does business. CFOs also act as the company's governance pillar, and there are many examples of CFOs becoming competent successors to the CEO.

As a Finance professional, one must think of the impact one has on the business environment, using two simple rules. First, look at the organisation from a 'business' rather than just a 'Finance' point of view. Second, be an enabler of business, and not a 'spanner in the works'.

> From being 70 per cent Finance and 30 per cent general management, the Finance professional's job is now closer to an even 50-50 split

...requires a brave new approach to hiring

In my time, I have had the pleasure of working with some of the best financial brains, as well as to collaborate with best-in-the-business non-finance people. Over many years, I have also seen the industry undergo a sea-change in the way CFOs hire new talent. Whenever I am in 'hiring mode', I look for two qualities in the interviewee: whether the

person thinks and acts dynamically; and whether he or she has the ability to wear the 'organisational hat' rather than just the 'Finance hat'. In short, the person needs to be versatile.

Needless to say, the financial landscape itself has gone through unrecognisable changes, with major shifts in the regulatory environment: a new tax regime, new ICDS rules, and so on. In the circumstances, there is no choice but for a Finance professional to keep learning, unlearning and re-learning in order to keep himself or herself relevant. By now, I am hoping, it is fairly clear that people who seek a long and satisfying career in Finance can no longer get away by just performing a traditional role.

Building a dynamic team means looking out for people who are adaptable, have strong business acumen, values, and vision. Technical knowledge remains an essential prerequisite

As an old hand in the financial world, I would recommend five top qualities that all CFOs should look out for while selecting a dynamic team:

- **'Adaptability'** – people who are ready to change and adapt to new business environments, people, processes and practices, and not just work in silos
- **'Vision'** – people who are in line with the company's vision, and can go that extra mile to achieve not only their own personal goals, but also the company's business goals. Such people are rare: mostly, we come across people who are good followers, but who seldom exhibit leadership qualities, let alone being visionaries in their own right
- **'High value systems'** – people who have strong personal and work ethics are usually the ones who are best at adopting and adapting to best practices, wherever they may be. They also come with a lot more enthusiasm and energy to follow through, since their value systems urge them to achieve newer goals in everything they do
- **'Strong business acumen'** – this entails showcasing a high degree of interest for one's industry. The person must possess a deep inclination towards understanding the nature of the company's business, or the products or services it offers in the market. In my experience, some people don't have the will, and some don't have the acumen or interest. Both types of people should be avoided at any cost, regardless of their technical knowledge
- **Last but not the least, candidates must be strong on content and technical knowledge** – without this essential pre-requisite, their candidature will be incomplete

Technology: enabling the co-driver role

There are two other aspects of hiring bright minds in the Finance domain which I would like to touch upon – first, the impact a CFO or Finance head has on the company's HR/hiring plans; and second, the need for Finance heads to adopt and push their teams towards modern technology. Both have a deep impact on how, finally, a CFO becomes a co-driver to the CEO.

Across multiple companies, I have been to umpteen corporate restructuring meetings and presentations where I could have been a silent spectator to conversations between the CEO and the business and functional heads. I realised over time, however, that as Finance head, I had access to a large pool of data into which I could dive and fish out statistics and analyses which both the CEO and the functional heads could use to determine the key health indicators of the business, and also to develop a clear vision on the kind of resources the company should set aside to achieve success. This requires an understanding of the data at hand, and also, of how various functions work together within the company. The last step is to marry this understanding with the data that is available at the Finance end. Of course, my job was not restricted to merely practicing this myself, but also ensuring that it percolates down to the last person in the value chain in my team. That is the best way of nurturing a team that is already raring to go that extra mile, and to get integrated with the business side of things.

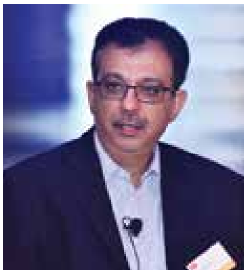
It is hard to over-emphasise just how vital a robust technology platform is to the functioning of the Finance team

Pulling the team along

How should the CFO or Finance head ensure that the team does not fall behind in terms of technology adoption? The last two decades has seen a huge adoption of financial technology, or FinTech. I cannot emphasise enough how Finance teams cannot and should not function outside the purview of technology. A slew of operations are working on tech platforms across all business verticals within a company, so why should Finance be left behind? With the advent of new-age technology such as AI, deep learning and machine learning, a lot of us can be sceptical of whether we are really required to understand such technicalities. To put all debates to rest, all I can say is, the faster we learn, the better it is for our future, because this is the future. There is no case for any of us to resist change. We must remember that all technologies are there to facilitate our efficiency in discharging our day-to-day duties, and not to be a hindrance to our functioning. The only barriers to our growth that I see lie in our minds, and the more we feed into our fears of technology, the farther behind we fall from our peers.

Until 5-6 years ago, there were big grey areas in terms of IT deployment in Finance. Now, however, the scenario is such that no CFO can avoid implementing IT. My personal experience has been that services and manufacturing companies alike need to be tech-savvy. From time to time, though, the CFO must conduct an enterprise-wide risk assessment of whether the company, and specifically the Finance team, is adequately covered in terms of IT/tech prowess. If not, then it would only be wise to quickly move up the value-chain and get every member up-to-date on the best tech practices.

To summarise, CFOs have a lot on their plate. The role goes beyond implementation, and requires thinking out-of-the-box. Even better, one must act upon new ideas by setting a personal example for others in the department. Effectively, then, it is the leader of the pack who must set the tone in terms of dynamism, which can then percolate down to each and every team member. ■





Resetting The Rules

The IMA India 2017 Tax Summits

Changes in the tax and regulatory arena are unprecedented, and are expected to continue to be game changing. Globally and in the Indian context, it is the two Gs (GST and GAAR) and the two Ts (Transparency and Technology) that will define the tax world
Gautam Mehra, Leader, Tax and Regulatory Services, PwC India

There is a clear need for industry to handhold smaller vendors and support them with both advice and technology. Equally the department looks forward to pro-active feedback and suggestions on issues such as the execution of eWay bills from industry.
Rajiv Jalota, Commissioner of State Tax, GST, Government of Maharashtra

Tax-related matters lie in the most strategic domain today. In recent times, India's tax landscape has witnessed unprecedented changes, and there are clear indications of more 'mega changes' in the next two-three years. The GST is one of India's single-biggest reforms to date. Not only will it transform the entire indirect tax landscape – improving compliance, making possible lower rates of direct tax, and boosting government revenue – but it will also make for significant operational efficiencies at the firm level. It is crucial, therefore, to take stock of how companies, business models, and the broader environment are evolving in response to it.

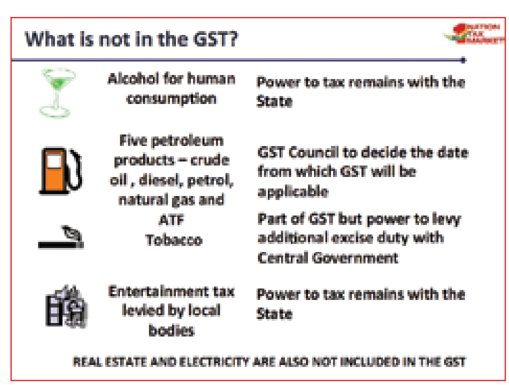
Equally, in terms of direct tax, massive reform is promised. Understanding how the government views corporate taxation, both at a holistic level, and as an area ripe for change, is therefore, high on the CFO's agenda. In the context of international taxation, there is much afoot as regulation accelerates, and as new complexities and challenges emerge in an unprecedentedly complex global landscape. Compounding all of this are disruptive shifts in technology – we are in the midst of an 'Industrial Revolution 4.0' – and their impact on entire industries, business models and eventually, the tax environment.

For the past decade, IMA's Tax Summit has provided the ideal platform for highlighting and brainstorming such issues, bringing together the tax department, tax experts, industry stalwarts, and Finance Heads. The 2017 Tax Summit, hosted in association with PwC, was held across New Delhi, Mumbai, and Bangalore. This article covers some of the highlights from sessions covering direct and indirect taxation, with drill-downs on the GST, international taxation, and the changing investigative framework.

GST: LANDMARK REFORM, DEAD-SET INTENT

It took India ten years – and one determined government – to pass the landmark GST, which came into effect in July 2017. A Constitutional Amendment that gave both states and the Centre the right to levy taxes paved the way for a tax that today has five tax rates, albeit with a few key exceptions.

In the fullness of time, the tax slabs of 0-, 5-, 12-, 18- and 28 per cent should be rationalised further, but for now, these rates, decided by the GST Council after reviewing over 1,200 key items for tax neutrality, are here to stay. The earlier incidence of taxation (including excise duty, VAT (which varied state by state) and some cascading) was used as the basis to slot goods and services into the closest tax bracket. By and large, this initiative has paid off, and IMA's CFO Forum vouches for the views of Arun Goyal, Secretary of the GST Council and a keynote speaker at the New Delhi Summit, that very few products/ services have seen a net upward impact, particularly when you bear in mind the positive impact of a much greater throughput of input tax credits. The seamless transfer of tax credit between manufacturer, wholesaler and retailer is expected, in fact, to result in



lower prices of final goods and services as GST stabilises. The government, however, is clear that firms must be able to pass on these benefits directly to consumers. Anti-profiteering is therefore a priority.

Mr Goyal's perspective was complemented and expanded on by Ritwick Pandey, Secretary Finance, Budget and Resources of the Government of Karnataka in Bangalore and Rajiv Jalota, Commissioner of State Tax, GST, Government of Maharashtra in Mumbai. Both have been pointmen for GST, providing insight and perspective to policy makers at the centre for over three years.

The GST Council...

A unique example of cooperative federalism, the GST Council, comprising 29 State and 2 Union Territory Ministers of Finance, and the Union Finance Minister and Minister of State, has stood as the bulwark of this reform. In over 24 meetings in the past year – over 2 a month, aided by strong electronic communication within the group to accelerate decision-making – this political body has taken decisions with a huge financial and fiscal impact entirely by consensus.

...and its intent to facilitate GST

Seized of urgency, the Council's defining characteristic is its ability to listen to market feedback. 67 tax-related and 47 rate-related notifications had been issued till December, apart from 27 circulars and 14 orders. This is a mark of a government keen to evolve the law in line with market expectations. In turn, it will demand a very close eye by industry on changes, and the ability to change in tune.

Rates of over 200 items were changed from 28 per cent to 18 per cent in recognition of the challenge the higher bracket was posing. Equally, the threshold limits have been brought low with the intent to expand the tax net, but there again, upward revisions have been undertaken where needed. The compounding threshold for example, has been increased to Rs 1 crore, with rates fixed at 1 per cent of turnover for traders, 2 per cent for manufacturers and 5 per cent for restaurants in the service category.

Over the course of the past three months, the GST Council has taken key decisions to facilitate the transition to GST. These have included:

- The introduction of the summary return of filing of GSTR3B
- An extension of dates in response to the feedback from industry and teething problems in GSTN
- Rationalisation of tax rates for over 200 commodities

IMA's Tax Summit – List of Speakers
(Government Perspectives and Industry Viewpoints)

- Arbind Modi, Member Legislation, Central Board of Direct Taxes, Head, Direct Tax Code Task Force
- Akhilesh Ranjan, Principal Chief Commissioner International Taxation, Government of India
- VK Gupta, Commissioner Income Tax TDS, Government of India
- Arun Goyal, Additional Secretary, GST Council
- Ritvik Pandey, Secretary, Finance Department, Budget and Resources, Government of Karnataka
- Rajiv Jalota, Commissioner of State Tax, GST, Government of Maharashtra
- R Ravichandran, Principal Director of Income Tax , Investigation
- Chandana Ramachandran, Commissioner, Income Tax
- Srinivas Palakodeti, Chief Financial Officer, Hinduja Global Solutions
- Rajesh Ramaiah, Director & Chief Financial Officer, Premji Invest
- Suresh Senapaty, Member of the Board, Wipro Enterprises
- Abhishek Goenka, Leader, Corporate & International Taxes, PwC India
- Pallavi Singhal, Partner, Tax & Regulatory Services, PwC India
- Kunj Vaidya, Leader, Transfer Pricing, PwC India
- Amitabha Mukhopadhyay, CFO, Thermax
- Amit Rana, Partner Tax, PwC India
- V Ramakrishnan, CFO, TCS
- Frank D'Souza, Partner, Corporate & International Taxes, PwC India
- Sujit Vaidya, CFO, Walt Disney
- Rajeev Pai, CFO, JSW
- Bhavin Shah, Leader, Financial Services, PwC Indi
- SG Murali, Executive VP – Finance, TVS Motor & Group CFO, Sundaram Clayton;
- Ravi Vishwanath, Chief Financial Officer, Teamlease
- Kunal Wadhwa, Partner, Tax & Regulatory Services, PwC India
- Rajiv Kapahi, CFO, Boston Scientific
- Ashok Tyagi, CFO, DLF
- Shobinder Duggal, CFO, Nestle India
- Neeraj Basur, CFO, Blue Star
- Neeraj Jain, CFO, J&J Medical
- Pratik Jain, Leader Indirect Taxes, PwC India
- Gautam Mehra, Leader, Tax and Regulatory Services, PwC India

Accelerating GST Implementation: A Three-Tier Structure

- Revenue Secretary
- GIC Implementation Committee
  - o Seven Standing Committees
  - o Law Committee
  - o Fitment Committee
  - o Single Interface Committee
  - o Publicity and Outreach Committee
  - o Capacity Building and Facilitation Committee
  - o Fund Settlement Committee
  - o Guidance Notes Committee
- 18 Sectoral Groups

GST is one tax system that is completely IT based. 'Common platform' is the keyword in the GST law framework, which does not leave room for manual intervention.
Ritvik Pandey, Secretary, Finance Department, Budget and Resources, Government of Karnataka

eWallet is a long term project of the GST council to enable creation of notional credit and freeing-up of working capital
Arun Goyal, Additional Secretary, GST Council

- Constitution of 2 GOMs:

o For IT issues under Mr Sushil Modi. The GoM interacts with both GST officials and Infosys (the service provider), with the intent to ease IT issues in a time-bound manner.

o For the Composition scheme and restaurant tax structure: This GoM mandated 5 per cent tax for all restaurants without input tax credit; for hotels (where the room rent is more than Rs 7000) this now stands at 18 per cent with input tax credit. Whilst much has been spoken of this, the intent of the government has been to curb the blind charging of an 18 per cent rate to consumers by many small restaurants.

- Another committee under the Revenue Secretary has now been set up to facilitate issues faced by exporters, which have led to significant blockage in working capital. The government has moved to enable stopgap arrangements including a manual refund system introduced to GST/IGST already paid. Imports are now permitted like before (Advance Authorization, EPCG and 100 per cent EoU Schemes) without payment of IGST/ Cess and domestic supplies will be treated as deemed exports to holders of AA/ EPCG/ EoU with suppliers able to claim refund. GST on duty credit scrips has also been reduced from 5 per cent to nil.

In the long run, the GST Council hopes to create an eWallet into which notional credit based on past performance and the certification of the DGFT will be fed in, possibly to be used to free up working capital. The RBI's concurrence and creation of personnel bandwidth in the GST will be required, but this is a forward-looking step that could alleviate the concerns of the India's exporters as they navigate GST in a globally-competitive landscape.

Forward-thinking GST administrations in states like Karnataka are exhorting officers to facilitate exporters as much as possible. One idea is to formally segregate them into reliable and non-reliable segments basis past compliance and performance, providing refunds to the former with verification following only later. Fly-by-night operators will see refunds getting held back. These informal elements will hopefully ease the situation until invoice uploading and matching becomes a more seamless process.

- The MSME sector, handicapped by poor or non-existent technology systems and informal payment mechanisms has been the hardest hit in the switchover. The learning curve is simply too sharp. In response, the threshold of the composition scheme has been increased to Rs 1 crore (from Rs 75 lacs, with talk of it going up to Rs 2 crores) and both services and manufacturing firms with aggregate turnovers of less than Rs 20 lacs are exempt from registering for GST. SMEs with turnovers of less than Rs 1.5 crores can file returns once a quarter. Tax payers also do not now need to be pay GST on advance payments. Crucially, the reverse charge mechanism (Section 9(4) of the GSGST Act) has been suspended until the 31st March 2018. The advisory committee providing inputs to the Law Review Committee has in fact recommended it be done away with entirely, which would be a welcome move.

Centre-State Fiscal Relations: Key to Success

The GST Council's decision to levy a cess on luxury cars, cigarettes, tobacco and related goods will provide the Central government revenue to provide compensation to states. This is a key deliverable for the central government for GST to be accepted in its finest, increasingly simplified form by the states of India's Union. Bi-monthly pass-through of

this revenue as compensation has already commenced. Taking 2015-16 as the base year, state governments have been assured of a 14 per cent growth in revenue each year. An average rate of 4-5 per cent inflation will still demand growth in the region of 8-9 per cent for this to be accomplished. GST itself should drive up revenues but so also would there be another impetus to ensure both formalisation of the economy and a higher growth paradigm.

The GST Council's decisions encompassed the recognition that taxpayers should not have to deal with two authorities, despite the reality of a dual GST. Accordingly then, a single interface and cross empowerment (assessees under the state government can exercise powers under the central government act and vice versa) has led to 90 per cent of assessees with a turnover of less than Rs 1.5 crore being assessed by the state governments, and the rest by the Central government. For larger businesses, the split between states and the Centre is 50:50. According to Rajiv Jalota, the division of taxpayers between the Centre and states has already been completed in 20 states, including Maharashtra.

GST Council priorities

Going forward, the priorities of the GST Council, in the view of Mr Goyal, would be to:

• Handle initial IT glitches and ensure the timely development and implementation of remaining modules

• Activate GST Suvidha providers, who will help ease compliance for smaller players, who may not find it easy to log into the GSTN. These Suvidha providers (34 have been identified and more are awaited although their needed investment is not in place) will be provided with APIs by the GSTN.

• Create and make error-free user-friendly offline utilities that can enable easier working off Excel, going to the Internet only to file the actual returns.

• Relook at laws to accelerate the ease of doing business and reduce the compliance burden

- Introduce a nation-wide eWay Bill system
- Continue to handhold small taxpayers
- Continue the rationalisation of rates

eWay Bills: A possible risk of independent approaches

An inter-state eWay Bill system is expected from the 1st of February 2018, with a trial run expected from the 15th January. States have the flexibility to launch intra-state eWay bills within their own jurisdictions from the start of this year. Debate in the GST Council has been fierce on the need for eWay Bills (the Centre has been largely opposed to it, but states are keen), given the risk of both a slowing down of the efficiency unleashed by a lack of check posts inter- and intra-state as well as the potential of harassment.

Technically, eWay bills are meant to be non-intrusive (a version existed in some states even in the VAT regime) and as ideally planned with RFID tags and technology, and on a central platform, with the bill generated at source valid till the destination, they will remain so. Ideally, they will enable tracking without slowing down the process. The risk

Contrary to popular perception, the preparation for GST's rollout began much before its realisation; it was among the few put out into the public domain before it went to the legislature. The nitty-gritty began to be worked out from 2014 itself, including strong engagement in the public domain, with months of interaction with industry and tax practitioners. Over 1,700 pages of comments and responses were taken into consideration.

Ritvik Pandey, Secretary, Finance Department, Budget and Resources, Government of Karnataka

GSTN: A Crucial Lynchpin

- A Section 25 non-profit company with strategic control of the government
- To function as a common pass-through portal for taxpayers to
  o submit registration applications
  o file returns
  o make tax payments
- The GSTN is vested with the task of developing back-end modules for the States and UTs
- Infosys appointed as Managed Service Provider (MSP)
- 73 GST Suvidha Providers (GSPs) to be appointed (34 have been identified in the first round; any delay on the count of the remaining is a lack of enough GSPs who qualify with needed investments in technology)
- IT glitches have been a cause for concern both at GSTN, the government and at the level of the GST Council. A GoM is now looking into resolution in a time bound fashion.
- The GSTN is fast-tracking its business intelligence module in order to plug leakages in the system and cross-map related taxpayers.
- The eventual simplification of returns (quantum and detail) is also on the cards, depending on how the system settles in the coming months.

The initial teething issues with respect to GSTN should not be treated as a barometer of the GST's success
Pratik Jain, Leader Indirect Taxes, PwC India

that states may use their own methodologies – roving squads, randomised checks etc – may put a strain on the system, in terms of both internal resource availability (GST teams are already working to capacity or beyond) and the pace of movement of goods. A slowdown in collections in heavy consumption states like Bihar, which have traditionally had eWay bills, however, has led states to be more insistent on the process. Evasion by industry is also a cause, with cases discovered of both original and farzi bills being in the vehicle, with the latter used if the vehicle escapes checking. At this juncture, training and feedback form industry is crucial, and both Mr Pandey and Mr Jalota stressed the need for industry to pro-actively offer solutions and suggestions on the way forward.

Karnataka is currently executing what could serve as a pilot programme for both inter-and intra-state bills. 100,000 eWay bills are being generated every day, with simpler forms and lesser fields. Approximately 9,000 transporters have already registered. The work is being executed by NIC rather than the GSTN in order to reduce the load on the latter. In an ideal scenario, 4-5 per cent of total shipments would be inspected. Physical barriers for commercial taxes have already been removed with the onset of GST across the country. There may, however, be a need to also streamline the check-posts for other elements such as road tax, which may still hamper the speed and pace of operation.

For both government and industry, training of staff and shift of mindsets is a crucial component of eventual success. Mr Pandey and Mr Jalota were both categorical at the Summits of the need to re-skill their own team members given the massive role of technology anticipated in the GST regime, and the lack of interaction intended by this system. Simplification will lead to entire departments in both industry and government becoming potentially redundant – C-Form checking/collection is a case in point. Almost 100,000 individuals have been trained in GST by the NSDC. Individual state governments, too, have been running training programmes – Maharashtra, for instance, already has over 11,000 trained officers.

The task of mindset shifts is a more complex issue than is immediately apparent. Illustratively, all composition dealers are expected to display on notice boards their status, and all merchants are expected to display their GST number. Both steps are meant to ensure that customers are able to identify where GST is to be billed and charged. Very little of that is actually underway at the retailer end, which makes the task humungous for any government to manage.

The need of the hour, as exhorted by both these speakers at the Tax Summit, is for organised industry to reach out to last-mile traders to educate and ensure adherence to the law, but equally also, to support the smaller vendors within their systems with both training and technology for them to make this transformational leap.

OPERATIONALISING GST: EMERGING BUSINESS MODELS AND OPPORTUNITIES

GST is the most landmark tax reform that India has undergone. It is demanding striking changes – in pricing, in distribution, in forecasting and planning, and even in business models. The first phase of GST's operationalisation is also over. In the short run, GST poses challenge on account of the complexity of a 4-tiered rate structure, ambiguity on the right codes to classify products and services, and an enormous burden of filing multiple returns. The ambiguity thus far on the outcome of the anti-profiteering authority, despite its clear need, adds to industry concerns. In the long run, GST's impact will be favourable by way of improving the ease of doing business, widening the tax base, streamlining logistics, and boosting the manufacturing sector. Internal readiness in terms of IT infrastructure and business-unit familiarisation, however, will be key to leveraging the strategic advantages that GST is meant ideally to enable. For all the effort the government is making, as apparent from discussions with the Revenue Department across the three Summits, industry must take equal strides.

THE CFO VIEW ON THE BIG CHANGES

Greater formalisation of the economy

GST will play a huge role in 'formalising' the Indian economy. In the long run, its structure is likely to be simplified further, with perhaps two main tax rates and a single, centralised return. On the whole, the GST will drive both direct- and indirect-tax compliance, aided by the IT-enabled tracking of goods and services through the value chain. This will reduce the tax arbitrage currently enjoyed by unorganised players, and thus facilitate a shift towards compliance and formalisation. A case in point is the hosiery sector. In Ludhiana, 'accounted-for' sales have jumped to 70% of the total, compared to a mere 10% earlier. Owing to the new uniform, pan-India tax structure, companies are also now starting to structure their operations on the basis of economic rationale as opposed to tax incentives. This is also driving them to consolidate their warehousing.

Digitisation of business processes

Over time, the ability of technology to drive change has gone up significantly. The GST is built on the highly sophisticated GSTN system, which is envisioned to drive the next wave of digitisation across organisations. Be it downstream process engineering, or a complete overhaul of business processes into their digital versions, technology will be at the forefront of change. In the next few years, CFOs and Tax Heads expect to see a tax compliance system completely led by technology. The massive data available with the government will enable full visibility into the entire value chain and thus, drive tax compliance. It will be easier for banks to appraise a company's credit worthiness, making it easier for smaller businesses to raise capital. On the downside, however, such data reserves could pose serious cyber-security risks. That said, the government is taking the necessary steps to ensure a secure GSTN.

Shifting focus from compliance to value creation

The GST will eventually transform the corporate mindset, from strictly compliance-focused to one centred on creating business value. However, in the short run, the compliance burden will increase several-fold, possibly hindering opportunities for value creation. Nevertheless, going forward, business decisions will be made not from a tax standpoint, but from more holistic business considerations – including favourable factor markets and consumer demand. Restaurants, for instance, are revisiting their entire procurement model on account of the revised 5% GST rate, which offers no input credit. Some leading FMCG companies have already initiated supply-chain restructuring, particularly in terms of warehousing. The new tax regime will also allow company resources, including talent, to be deployed more strategically.

Better procurement planning and vendor management/support

Robust procurement planning and vendor management will be key in the new regime, especially during its transition phase. Once the system stabilises, there may still be a need to continuously consolidate the vendor base, and to reconsider alternative procurement sources to optimise cost. The cascading effect of taxes will come down significantly because of cross-sectional credit admissibility. To take full advantage of it, however, firms will need to hand-hold their vendors, ensuring that their systems are fully geared up for the GST. For instance, TVS trains its vendors to record all transactions offline, and then use a dedicated team to scrutinise the data to ensure error-free reconciliation. DLF works with an agency that helps its small vendors become GST compliant. One company got its ERP partner to create a small instance of the software for its vendor to ensure seamless information flows.

Garnering government support

Given the large number of assessees, and the plethora of details they are required to furnish, migrating to the new tax regime was always going to be overwhelming. For businesses, one of the key ongoing challenges is to upgrade the IT infrastructure for GST compliance. While larger organisations are better prepared to do this, smaller and mid-sized ones are finding it hard to cope. Added to that, the GSTN portal itself struggles at times to bear the huge data-load that comes with multiple filings and invoice-matching requirements. This only raises the compliance burden, though the government is very open to making process and structural changes that take into account the views of stakeholders. Some examples of this are the lower of tax rates for over 200 items, the deferment of the

GST 2.0 in 2018 is likely to be a much improved version with fundamental changes, including significant easing of compliances and rate rationalisation

Pratik Jain, Leader Indirect Taxes, PwC India

GST is not just for Finance or Tax to drive, but for the whole business to embrace. CFOs must drive awareness of GST implementation both internally and externally

SG Murali, Executive VP – Finance, TVS Motor & Group CFO, Sundaram Clayton

'Project Insight' will leverage technology to mine data from multiple sources and use big data analytics to catch tax evaders

R Ravichandran, Principal Director of Income Tax, Investigation

Tax officers are now given well-rounded experience through rigorous training on soft skills and emerging technical elements, and international exposure

R Ravichandran, Principal Director of Income Tax , Investigation

e-way bill system, the exemption for smaller businesses from filing multiple returns, and reduced late filing fees. There are, critically, opportunities for business to continuously engage with the government to push for change. CFOs, for example, could suggest design changes in GSTR2 and GSTR2A to allow for some relaxation in the required accuracy of invoice-matching, shifting the focus from stringent matching to 'invoice value' – at least until the existing technical issues are ironed out.

THE WAY FORWARD

The implementation of GST had its share of problems. However, multiple yardsticks suggest that the process has been largely successful. While the prices of most goods and services have not changed, tax compliance is on the rise, and many industries have come on board fairly quickly. Going forward, compliance will simplify further, rates will be rationalised, more sectors (including petroleum, and possibly real estate) will come under the GST's purview, and there will be a new impetus for special economic zones (SEZs), which are to be 'GST-free'. From a government perspective, data analytics will become much more sophisticated with real-time insights and consolidation of accounts. There is a possibility that the CBDT and the CBEC will eventually be merged into a single tax administration.

On the downside, companies can expect increased litigation, particularly over the next 6-8 months, and mainly in terms of anti-profiteering issues. The key, as the lead taken by many firms in the FMCG space suggests, is to be pro-active on this count in the market, reducing prices wherever possible. There are however, two twists in that tale. First, while companies themselves may seek to pass on the tax benefits to consumers, dealers or vendors may not be fully aligned on this score. TVS found a workaround to the problem, issuing a press release about the benefits that would accrue to its customers, which forced dealers to reduce prices. The situation is more challenging for services companies, because there, the valuation of a service might vary between customers. This poses a serious practical challenge in terms of quantifying the input tax credit that is to be passed on. Second, it is hard to quantify the exact gain as the full impact of ITC etc will be clear only a few months on as filings are completed. So many players are working on guestimates right now. In any event, it is not always practical for manufacturers to reduce SKU prices: a lollipop manufacturer, for example, cannot easily pass-through a 10% saving by reducing the price of a single unit from, say, Re 1 to 90 paisa, because few people even carry around that kind of change. Nor can it adjust the size/grammage of an item in the short-run, because it means entirely overhauling certain manufacturing processes – installing new moulds, for example, something that takes months.

In the case of e-way bills, unless corruption is checked either by leveraging technology (such as the RFID checking of trucks) or by other means, industry remains concerned that the erstwhile Octroi cycle could return. For exporters, a plethora of issues needs addressing. This includes refunds as well as import item complexities as well as the issue of dollar billing (GSTR returns are captured only in INR terms).

Viewed holistically, the GST is not for Finance or Tax alone to drive, but for the whole business to embrace. Not only the core business, but all sub-functions, such as Logistics, Legal, and HR, need to be aligned for its smooth functioning. CFOs must drive awareness of the impact of GST implementation, both internally and externally (i.e., with vendors and customers). Further, rigorous impact analyses should be conducted to understand the changes required in IT systems, the supply chain model, and vendor databases. Ultimately, though, what will limit the risks to business continuity is to involve people across the organisation in the implementation process. HR and Legal, for example, should work together to prepare for situations that may require the firm to either retrench or recruit people on the one hand, or, on the other hand, to review existing contracts with vendors and customers.

INDIA'S DIRECT TAXES: EVOLUTION UNDERWAY

India's direct tax policy dates back over 50 years. In recent years, the share of direct taxes in overall government revenue has grown sharply, driven sharply by corporate income taxes. This follows from the increasingly vital role played by industry in driving economic growth in this globalising world. Recognising these facts, the government of India is committed to the continued rationalisation and simplification of corporate and individual taxes. The quality of that reform, however, will be nuanced and sensitive. The keys to successful reform in this area will be to balance exemptions and tax rates, leverage technology to reduce human interface, and maintain an optimal balance between stakeholders for collective and national gain.

AIMING FOR A BETTER TAX-TO-GDP RATIO

Measured by its tax-to-GDP ratio – currently ~17% – India is a highly under-taxed country, even relative to other middle-income countries. What holds this ratio down is a small direct-tax base, enormous tax litigation, a large unorganised sector, and exemptions for sectors like agriculture – all of which adversely impact tax collections. Two of the NDA's biggest reforms – demonetisation and GST – are expected to lift tax revenue, but the medium-term aim is to get to a 20-21% ratio, which means an overall increase of ~4-5% of GDP. An equal goal will be to achieve a more balanced mix between direct and indirect tax collections, which should ideally be closer to the 50:50 mix found in developed countries. For this to happen, direct tax collections, which have been stagnant as a share of the total for the last 6-7 years, must increase by at least 8-10% of GDP. A big push will be needed in terms of effectively leveraging technology, overhauling tax structures, and substantially improving tax-filing procedures.

Balancing exemptions and tax rates

India's high corporate tax rate (effectively ~45%) on the one hand, and its large number of exemptions on the other, has a direct bearing on the country's tax competitiveness. The government's aim of attracting foreign investment demands both lower corporate tax rates, and the systematic phasing out of exemptions. Efforts in this direction have been ongoing for many years. Significantly, the value of incentives as a share of GDP has steadily declined, in the last 8 years, from 1-2% of direct taxes to a mere 0.65%. However, the government needs to tread this path with caution. Phasing out the remaining incentives may not add much to tax revenue, while reducing tax rates directly impacts the fiscal deficit. What is required, therefore, is to achieve a balance between the individual needs of stakeholders, and the collective national interest.

Inducting technology and minimising human interface

Despite strong encouragement by the Department to use technology through the use of e-Filing and e-Payment, both tax payers and tax professionals remain hesitant. Resultantly, the cost of compliance for taxpayers (as a percentage of the tax bill) has remained high for many years given the presence of multiple intermediaries, and discouraging tax compliance. Today, the tax administration is looking to extensively leverage data and analytics to improve compliance. It has initiated 'Project Insight' to mine, collect and analyse data for effective risk management, which aims to widen and deepen the tax base. A single, consolidated data warehouse will be maintained to capture a 360-degree view of a person's income and assets, enabling taxmen to monitor and curb suspicious transactions. The department is also analysing the demonetisation data, has already identified a large number of suspect transactions, and has reached out to the relevant individuals. Interestingly, the whole exercise – including sending out notices, capturing details, interacting with the parties (mostly online), and issuing clarifications – was managed digitally.

India is among the largest, but also among the poorest economies in the world. If we need to change that and give more power and more money in the hands of each of our 1.3 billion people, tax policy and administration will remain centre-stage

Abhishek Goenka,
Leader, Corporate & International Taxes,
PwC India

A good tax system optimises rather than maximises tax revenue, minimises the cost of compliance, and raises the cost of avoidance

Chandana Ramachandran,
Commissioner,
Income Tax

To achieve a more balanced mix between direct and indirect tax collections, direct tax collections must increase by at least 8-10 per cent of GDP
Arbind Modi, Member Legislation, Central Board of Direct Taxes, Head, Direct Tax Code Task Force

To minimise the need for human interface, the tax department is focusing on widening the tax base and maximising the use of e-assessments. Currently, e-assessments are voluntary, but with time – as voluntary compliance improves – it will become compulsory. Using automated platforms, the department intends, over time, to streamline tax filing, improve the quality of communication, and reduce the scope for litigation. In terms of daily operations as well, the department has significantly reduced human intervention by designing a full-automated, algorithm-based model that identifies suspect transactions.

Investing in systems and processes

In order to build a more accessible and transparent system that generates meaningful results, the CBDT is accelerating the digital transformation of all its business processes. The emphasis is on technology that reforms, empowers and enriches the department's interactions with all stakeholders – taxpayers and tax professionals alike. To that end, it has established two centralised systems to process income tax returns (ITR) and reconcile tax deducted at source (TDS). The Centralised Processing Cell TDS (CPC-TDS), based in Delhi, has processed over 600 million transactions, streamlined tax accounting, and lent valuable insights for policy formulation. As a major transparency initiative, the Annual Tax Credit Statement in form 26AS provides taxpayers with details of tax paid, tax deducted, and refunds issued. These statements are made available through the department's e-filing website. Currently, over 60 million 26AS statements are available, and have been viewed by more than 90 million

India's evolving investigative framework

Just as for industry, the revenue department's greatest change agent is technology. Its ability to run analytics and data mining will be its greatest strength going forward, not least in terms of accelerating efficiencies, but also, most crucially, in being able to separate the honest taxpayer from the dishonest. The Income Tax Department's Intelligence and Criminal Investigation Wing is at the forefront of efforts to cross pollinate and share information, transforming the department in terms of data analytics, and lead investigations, including in emergent areas like crypto-currencies.

Sourcing information from multiple sources

The tax department's approach to investigations has undergone a sea change in the last three decades. In the 1990s, search-and-seizure operations would involve acquiring information without the knowledge of the assessing officers, secretly bringing it in, and discreetly leading one's targets. The challenges were compounded on account of time-consuming bureaucratic processes and the potential risks of information leakages. Today, in comparison, information flows through multiple sources, including, critically, a person's digital footprint on social media and e-Commerce sites. Financial data gathered from bank accounts and credit-card spends is the other critical source, coming a long way from the erstwhile Annual Information Return (AIR) regime, where information (mostly de-linked from PAN numbers), was gathered physically from a limited number of sources.

Post 2006, the mandatory filing of a Statement of Financial Transactions (SFT) changed this reality, obliging certain specified entities to furnish an SFT in respect to financial transactions, or any reportable account registered by them during the financial year. Recently, the STF's scope has been expanded to include NBFCs and chit funds, given rise to a massive flow of information, though still mostly de-linked to PAN numbers. To handle such volumes, the department has launched the risk-management-oriented 'Project Insight', which is being implemented in a phased manner over 2016-2018 with the help of L&T Infotech. The aim is to catch tax evaders non-intrusively, using technology that allows the government to collate various databases, including IT forms, IT returns, TDS statements, and SFTs received from financial institutions.

The GST has also been a great source of real-time, quality data, which the department has started analysing to identify suspect transactions. It has developed an 'automated assistor system' that screens over 300 parameters to provide actionable

Currently, the number of online views for Form 16A exceeds 240 million – and this has proved to be significant in improving levels of voluntary compliance. (Interestingly, the number of views of Form 16 matches the total number of taxpayers: 40 million.) Similarly, the Bangalore-based CPC ITR provides a comprehensive and end-to-end solution to taxpayers to process their tax returns automatically, and to then compute their final tax dues. Balancing exemptions and tax rates.

unique users. Such initiatives are critical, given that the government collects 40% of its tax revenues through TDS. The department is also looking to develop blockchain-based software that allows transactions to be recorded and mapped sequentially. This will make it easier for deductors and deductees, as well as for the department, to manage huge amounts of data. The department has also hired a team to develop an app along similar lines.

Strengthening the tax litigation framework

Excessive litigation can impede the functioning of business – and recognising this, the government is working to improve the litigation framework. For instance, Mumbai has appointed four dedicated commissioners to look after TP issues, another

The tax department is working to significantly eliminate human interface by using automated platforms to streamline tax filing, improve the quality of communication, and reduce the scope for litigation

Arbind Modi, Member Legislation, Central Board of Direct Taxes, Head, Direct Tax Code Task Force

inputs for the purpose of scrutiny, as well as for search-and-seizure operations. The new global standard on Automatic Exchange of Information (AEOI) is also lending a wealth of information on accounts held by non-resident individuals and entities in over 80 countries. The standard includes a model agreement for government authorities to operationalise the automatic exchanges on an annual basis, and to ensure that information is reported in a standardised format. Information is also flowing in as a result of multilateral agreements such as the Foreign Accounts Tax Compliance Act (FATCA), which allows for an automatic exchange of financial information between India and the US; the Common Reporting Standards (CRS) between OECD countries; and SAARC arrangements.

Framing the appropriate legislation

Acquiring relevant information is one part of the equation. The other, crucial element is strong legislation. The recent amendments to Sections 68 and 69 of the IT Act have made it difficult to evade taxes, by plugging loopholes and raising the total tax limit to 107%. The other key recent legislation is the Black Money Act, which aims to nab tax evaders who have undisclosed income, or who have stashed assets abroad. One of the most crucial guidelines in the Act allows for the attaching and confiscation of Indian assets against undisclosed foreign income or assets. Also critical are recent amendments to the Benami Transactions Prohibition Act, which have strengthened the existing law. As a result of this, assets worth Rs 1,500 crores have been attached in the last 6-8 months, and 57 people have been put behind bars. The department is also studying the recent surge of crypto-currencies such as Bitcoin, and their implication for the Indian economy.

Imparting skills for effective action

To ensure that tax officers are at the top of their game, the department provides them with 18 months of training in terms of both soft skills and the more technical elements. Competency itself is not a challenge, because the department only hires the very best 600 candidates from a vast pool of over 1.2 million applicants. The department has also tied up with the NALSAR University of Law to award a master's degree in taxation and business laws to its officers. Tax officers, moreover, receive international exposure via courses at the International Tax Academy in Amsterdam and in Georgia, Sydney Law School, and so on. Finally, to deepen a sense of ethics and values, the department now collaborates with Yoga University in Kolkata.

The focus of dispute resolution is increasingly shifting from solving disputes to preventing them
Akhilesh Ranjan, Principal Chief Commissioner International Taxation, Government of India

India's preparedness for unilateral changes initiated by other countries, and India's faith and trust in its economy will ensure it continues to play a major role in the international tax arena
Akhilesh Ranjan, Principal Chief Commissioner International Taxation, Government of India

four for international tax-related matters, and one to handle APAs. Two advanced ruling benches have been set up across Delhi and Mumbai, while the CBDT has restructured the composition, jurisdiction, and control of the Dispute Resolution Panels (DRP) across the country. There are now eight such panels – including three each in Delhi and Mumbai, and two in Bangalore. These panels will have dedicated commissioners available continuously to ensure regular hearings and disposal of cases, and to allow greater time for hearings and discussions in each case. Panels are mandated to complete hearings and issue directions within a 9-month timeframe. At present, there is nil pendency of cases with the DRP. With APAs, meanwhile, India is well ahead of even the developed countries with regard to the pace of dispute resolution. Where there is some pendency is in terms of advance rulings (AR). However, the government is taking measures to resolve this, such as setting up an additional bench in Mumbai. (Previously, there was only one bench, in Delhi.) Also, a major bottleneck has been removed by allowing AR benches to function and even issue decisions in the Chairman's absence. More often than not, benches either do not have a Chairman, or if they do, the concerned person might be unavailable.

To resolve TP cases faster, the department is considering an 'internal settlement system', similar to those found in the developed countries. This will allow issues to be resolved internally, obviating the need for going down the route of litigation. Not only will this reduce the litigation costs for businesses, but it will also instil greater confidence in entrepreneurs (both current and aspiring) about India's tax administration.

The easing of global information exchange standards and India's bilateral agreements with other countries are expected to create massive flows of information. Robust systems are needed to capture and analyse data from transactions and arrangements through a comprehensive, risk-based assessment system. This should, in an ideal scenario, drive the focus away from the number of cases (currently less than 1%) to the quality of cases. For instance, instead of the 4,500 TP audits that were conducted last year, the department is considering a scenario where it conducts, say, only 500 audits that are based entirely on solid information and analysis. The information exchange system should also ensure that any deviations in tax policy that are harmful to tax competition, are noticed early, and that global pressure is applied to resolve any issue. Going forward, India's preparedness for unilateral changes initiated by other countries, and India's faith and trust in its economy, will ensure that it continues to play a major role in the international tax arena.

Rewriting the direct tax law

The government has set up a six-member task force to redraft the 50-year-old income tax law in the next six months. The task force, led by Arbind Modi, has been mandated to draft a revised direct tax code in line with the country's economic needs, and one that keeps in mind global best practises, as well as the tax systems prevalent in other countries. The work has already begun, and inputs are being sought from multiple stakeholders. The aim is ambitious, but realistic: setting in place a tax system that will last the next 50 years, if not longer.

INTERNATIONAL TAXATION: CHANGING PARADIGMS

India's economic interdependence on global markets, as indeed, global industry's interest in India, will continue to accelerate going forward. This phase of globalisation, however, is unique: almost every country is reviewing tax revenues and bilateral engagements with an eye on maximising individual gain; at the same time, multilateral initiatives are moving forward. Navigating the corporate tax and regulatory framework, plainly, is an integral part of doing business. Some of the more recent developments in this area include the Base Erosion and Profit Shifting (BEPS) project, the introduction of the General Anti-Avoidance Rules (GAAR), a re-negotiation of tax treaties, and changes in tax residency conditions through the Place of Effective Management (PoEM) provisions. This will make more complex an already-uncertain tax environment, and it will push organisations to revisit their business models.

Increasing tax competitiveness and collaboration

In the face of a complex global environment, organisations are on the lookout for opportunities to grow and invest. What will attract them are regimes that have simpler tax requirements, that are transparent, and that make it easy to do business. At one end of the spectrum, countries are increasingly using tax policy as a means to attract foreign investment, and encourage domestic companies to bring their overseas earnings back home. (The recent US tax reforms are illustrative.) Consequently, companies need to grapple with two contrasting viewpoints – optimise tax by focusing inward, and maximise growth by looking outward.

At the other end of the scale, global information exchange standards are being eased – and in time, this will substantially improve compliance across tax jurisdictions. Replacing the earlier focus on double taxation, the OECD model is being revised with the intent to eliminate double non-taxation and ensure that there is no 'stateless' income that goes completely untaxed. Increasingly, tax authorities are able to reach out to the 'global forum for transparency and exchange of information'. Mandated by the Country-by-Country Reporting (CbCR) guidelines, the forum will determine, on the basis of peer reviews, the type and extent of information countries can share. 'Joint audits' – which involve a common team of executives from two or more jurisdictions scrutinising a particular entity – is an emerging trend, and signals growing coordinated action. It stands in sharp contrast to the earlier system, where independent teams from different countries would separately audit the same entity.

As companies become more global, tax officers will be at the forefront in terms of providing visibility to both external stakeholders and the Board. Technology will be a key enabler in capturing information and applying analytics. To enhance the quality of reporting, Tax Heads therefore need to ensure adequate resources and technology alignment. CFOs have a crucial role in nurturing tax staff, by coaching and providing them with learning opportunities.

Cutting corporate tax rates

One simple way to make an economy attractive is to reduce corporate taxes. Many countries are moving in this direction: Britain's rate is now at 20%; France is pursuing a reduction to 25%; and the US is en route to 21%. For the Indian government, corporate tax is a hugely important source of revenue, but the effective rate for most companies (~45%) is too high, and this impacts India's competitiveness. That said, a mere reduction in the tax rate is not enough – and for better effect, it needs to be accompanied by simpler tax laws that drive transparency and compliance. Global tax reforms can offer inspiration: many countries, including the US, are moving toward a territorial tax system, where tax is levied only at the point where income is earned, and not on global earnings.

Curbing base erosion

The OECD has drafted stringent guidelines under the BEPS project, and the Multilateral Instrument (MLI) accelerates this approach. The implications are far-reaching: it will amend India's treaties to tackle revenue loss through treaty abuse; and prevent double taxation and base erosion by taxing profits where substantive profit-generating activities are carried out. Plainly, this will vastly expand the compliance burden on organisations and may, in the fullness of time, if not executed with caution and a clear understanding of business models, fly in the face of clear intent to facilitate the ease of doing business. The BEPS provisions create additional uncertainty, particularly on account of their overlap with the GST law, Indian GAAR, and the TP rules. There is ambiguity on whether both provisions could potentially be applied at the same time, or to the same transaction. Further, the introduction of an 'equalisation levy' on digital transactions creates new challenges, especially for start-ups although there can be no argument that will favour non-taxation anywhere, of a digital business/service. There are, however, a number of challenges. Illustratively,

Our laws are already ahead of the curve when it comes to international developments, but we need to resist the temptation of creating an environment that is overreaching and adversarial
Abhishek Goenka, Leader, Corporate & International Taxes, PwC India

'Joint audits' are an emerging trend, and signal growing coordinated action by global tax authorities
Kunj Vaidya, Leader, Transfer Pricing, PwC India

> **Mere reductions in tax rates are not enough to attract corporates. These need to be accompanied by simpler tax laws that drive transparency and compliance**
> Amitabha Mukhopadhyay, CFO, Thermax

> **GAAR is expected to result in greater litigation, pushing companies to start planning early on by maintaining a detailed documentation of the assumptions used in their business models**
> Rajeev Pai, CFO, JSW

> **GAAR has ensured that tax is now a board-room issue. The CFO must be able to ensure that each business decision passes the GAAR test; CFO engagement with business will therefore increase, as will the need to ensure seamlessness of information flows across global organisations to ensure the right decision-making.**
> Sujit Vaidya, CFO, Walt Disney

there are no established mechanisms for determining the nature of the service provided, and there is a lack of clarity in terms of the permanent establishment (PE) status of the service provider. If other countries follow suit, as they are doing, this regulation will need to be absorbed by the digital economy as it matures.

Rising arbitration

More and more companies are using arbitration, either in isolation, or in combination with other dispute resolution mechanisms. On the other hand, the Advance Pricing Agreement (APA) programme, now almost five years old, has been a clear success. Out of the 815 APAs filed, 152 have been signed so far, including 141 Unilateral APAs (UAPAs) and 11 Bilateral ones (BAPAs). India's APA authority has performed better than its US counterpart, with an average time taken to process a UAPA or a BAPA in India at 29 months and 39 months, respectively, compared to 34 months and 51 months in the US. On the other hand, the Authority of Advance Rulings has been slow, and further, has been considered biased in many cases. There are simply not enough benches to provide decisions quickly enough, and cases are marred by uncertainty and long delays. The Dispute Resolution Panel could also do with some improvement, especially on the counts of prejudice and subjectivity. However, last year's amendments to the dispute resolution law are encouraging, bringing it closer to global precedents.

Gearing for the 2Gs

2017 was a year of big changes for the Tax and Finance community with the introduction of two landmark changes – the GAAR and the GST. With the GST system starting to stabilise, it is time for taxpayers to turn their focus to GAAR, which came into effect in April 2017. GAAR is meant to check aggressive tax planning and ensure 'substance over form' by taking into account the real intent of an economic entity, the effect of a particular type of transaction, and the purpose of an arrangement, before determining tax liability. At many levels, GAAR offers greater flexibility by allowing appeals to the approving panel – something that is not an option under MLI. However, uncertainty persists in relation to the coexistence and related applicability of the MLI and GAAR, and its interaction with Specific Anti-Abuse Transactions (SAAR). This only adds to the list of worries for taxpayers. For global businesses like the Walt Disney Company, it may be difficult to pre-assess profits in a given financial year on its content, which is usually monetised over a 10-year period.

As the government gears up to implement GAAR, it may be too early to assess the implications for businesses. Drawing from the past experience – the aggressive application of TP provisions, for instance – GAAR is expected to result in significantly greater litigation, and therefore tax uncertainty. Companies should start planning early on for this, such as by maintaining a detailed documentation of the assumptions they use in their business models. Under the new provisions, organisations need to follow a three-tier documentation process including a master file, a local file, and a CbCR report. Tax authorities will have easy access to master files, which in turn will drive scrutiny and litigation. To close any loopholes, the Indian government has set up a dedicated 'Risk Directorate' that can investigate companies for any discrepancies in the information they report. Firms should therefore be watchful, and maintain documentation in a manner that reduces the risk of inviting a probe.

Globally, public opinion is building up against big corporates that avoid paying their 'fair' share of taxes. Taking a cue from this, politicians are using 'public shaming' as a tool to drive this agenda. Recently, Starbucks, Google, Vodafone, and Amazon have all come under fire for deliberately 'dodging' taxes, albeit 'legitimately'. Going forward, public sentiment will make it difficult for firms to avoid tax incidence, and this will significantly influence their tax planning. Owing to a massive public backlash, Starbucks, for instance, recently paid nearly as much corporate tax in one year as it did in its first 14 years in the UK. ■

Skilling and Entrepreneurship: Re-Imagining India

Dr KP Krishnan looks at India's existing - and emerging - landscape for skills acquisition

India's greatest opportunity, and its greatest challenge, is its population. With average job creation hovering at 3-4 million for the last few years – compared to a required 10-12 million – jobless growth is a reality. Millions come into the workforce each year, but too few find work. Business managers would agree that finding individuals with the right skill sets is one of the biggest trials they face, but from a national perspective, the problem escalates many times over. A higher skilled workforce is required for greater levels of productivity, and therefore more effective utilisation of capital. In India, though, the issue extends beyond numbers and the economy with huge social and political consequences. Encouragingly, however, the government has acknowledged the depth of the problem, and is taking policy initiatives to address the issue.

Over 2012-22, India will need 100 million skilled workers - but each year, 5-7 million youngsters are entering the workforce with almost no skills or education

THE INDIAN MARKET FOR SKILLS ACQUISITION

A 2012 Ministry of Finance study forecast that, in the decade to 2022, the incremental skilled human resource requirement in 24 sectors, accounting for ~95 per cent of GDP, would be in the range of 100 million. On the supply side, meanwhile, 54 per cent of India's population is below 35, but 47 per cent of all children drop out of school at the secondary level. This implies that 5-7 millions youngsters will enter the workforce each year with almost no education or skills. These numbers suggest that there should be a 'natural market' for skill acquisition in India, but that is in fact not the case. Like basic education, skills acquisition is what economists term a 'merit good' and not a 'public good': its consumption cannot be characterised by non-rivalry and non-excludability. The overall social benefits of skills acquisition exceed the private benefits, which leads to them being under-supplied. Consequently, the state must have a role in its provision – as it does in most countries. Yet state provision does not necessarily mean state production: while the state must fund it, the private sector can be (and in India, mainly is) responsible for its actual production and delivery.

The challenging state funding and private sector execution

The problem with this model is that, while the government is used to being a producer of services (how well or badly it does this varies by sector), it falls short in terms of the regulatory/oversight capacity needed to ensure the supply of high-quality, private-sector skills training. On paper, the National Council for Vocational Training (NCVT) is meant to regulate the sector, but it was neither designed nor has the capacity for enforcement. The task then falls on a host of central and state Directorate Generals of Training, who themselves the lack capacity to do so. Moreover, a bulk of the target population comprises poor and vulnerable people, who are prone to engaging in collusive behaviour with small, private service providers, many of whom have a decidedly short-term mindset. For instance, if 30 people sign up for a course, they might agree to split the fees paid for by the government, that the provider receives, and to not hold any classes.

EVOLUTION OF THE INDIAN VOCATIONAL/SKILLS EDUCATION LANDSCAPE

Skills training can be either short-term (6 months or less), or long-term (1 year or more) – in which case it is referred to as vocational education training, or VET. In the 1960s, India started to focus heavily on the capital goods sector and the creation of big engineering PSUs, which gave a push to both the IITs (to meet the country's higher-end engineering needs) and the ITIs (to train factory supervisors and workers). Initially, the ITIs were almost exclusively government-run, and many were located in towns with a major PSU presence. They would have large tracts of land, well-constructed buildings, but also poor-quality labs and equipment (which became increasingly out-dated with time) and critically, huge teacher vacancies. The situation in private ITIs was worse on nearly all counts, though today, of the ~14,000 NCVT-approved ITIs, roughly 84 per cent are private, with the cash-strapped state governments accounting for the remaining 16 per cent.

For a host of reasons, the vast majority of these institutions are poor in terms of outcomes; the quality of teachers is a notable cause. These are perhaps the only institutions where the trainers are formally required to have only the same qualifications as their students. However, there are also some outstanding private-sector institutions, such as NTTF, Don Bosco Technical Institute, and Tata Strive. One ITI in New Delhi works closely with Maruti Suzuki, producing excellent graduates, while in the financial service space, ILFS runs a centre in Okhla with 150 per cent placement rates. In all of these cases, on-the-job training is built strongly into the programme.

The existing VET system has long been dysfunctional, but the Skill India Mission is looking to plug certain gaps in it

Public sector weakness overlaid by private sector apathy

Recognising that long-term VET is often constrained by capacity issues, the government in 2007 launched a ten-year Modular Employability Scheme (MES) to meet India's more immediate skills requirements. The 2007 Budget also announced the creation of the National Skill Development Corporation (NSDC). The MES primarily focussed on short duration skills, and it spurred an entire ecosystem of private training providers, as well as assessment and certification agencies. In total, there are now over 13,000 NSDC-affiliated training agencies, and more than 3.7 million people have been trained, assessed and certified to date. In 2009-10, the Centre created a framework for Sector Skill Councils, which are industry/employer-led bodies – presently numbering over 40 – with responsibility for helping to establish curricula, source the course material, and for assessment, certification and regulatory issues. So far, though, these councils have yielded only poor employment outcomes, with placement rates of about 24 per cent. Partly, this is because the private sector has not taken the councils very seriously, refusing – despite repeat follow-ups – to send senior managers for interaction meetings. This is in marked contrast to countries like Germany, Australia, Canada and the UK, where chambers of commerce, or craft guilds single-handedly decide on curricula and certification, and where the government's role is solely to recognise the awarding bodies, rather than delving into the content of the training itself.

The government's response: the Skill India Mission

Resultantly, even leaving aside the issue of quality, India is an order of magnitude short of where it needs to be in terms of skills training even in terms of sheer numbers. In a fresh attempt to overhaul a legacy system, the Ministry of Skill Development was created in 2014, and the Skill India Mission formally launched a year later. Broadly, the Mission seeks to bridge the gap between the economy's demand for millions of skilled employees (and the supply of millions of raw workers), and the ~1.6 million that get produced by the formal VET system annually. Skill India aims to create massive short-duration skill-development capacity, including through established Government of India programmes like the PMKVY and the DDUGKY. In terms of quality and employability, it seeks to use the NSDC as an implementing agency (in place of government agencies); leverage the sector skill councils to improve employer connect; give a push to apprenticeship; and create a non-statutory regulator for quality enforcement.

Building bridges across skills and education

A third, critical aim of the Mission is to overcome the fact that in India, skill acquisition is not something aspirational. While this is the case in most other countries, here, there are serious historical and social factors that exacerbate the problem – and worse, skilled and non-skilled workers in this country tend to start at the same wage level. To get past this, the Mission seeks, at one level, to build educational mobility, which would mean, for instance, enabling a VET certificate-holder to transition into either a higher-secondary school programme, or even to work towards an engineering diploma or degree. (The initial work towards this end-goal has now begun.) At another level, it looks to raise the profile of skills training through the use of brand ambassadors, playing up events such as graduation ceremonies, and by creating global opportunities for skilled Indians. For example, India is the first country to sign a formal agreement with Japan on its Technical Intern Training Program (TITP) programme – a mechanism of international apprenticeship, but also a way of importing skilled labour into Japan. (4 ITIs are now recognised by the Japanese authorities under the TITP.) Significantly, too, the German regulators recently recognised a 3-year certificate programme by Coimbatore-based skilling centre, GDTI, as preparation for employment in Germany. 11 more such agreements are in the pipeline.

Making skills acquisition something aspirational is a key imperative for the government today

Apprenticeships: a key part of the puzzle

In the OECD countries, apprenticeships are really the backbone of skill development. From a business angle, their appeal is clear: whatever a person's qualifications, one can only truly assess a candidate on the basis of their work. Apprenticeships therefore allow firms to see people at work, decide who to employ, and let the remaining apprentices go. Equally crucially, they are an excellent way of creating a wage premium for skills. In India, however, this is an area that sees only limited traction, mainly because employers view it as being heavily regulated – administered, as it is, by the Labour Department. Moreover, prior to 2014, the laws around apprenticeship involved tight control over the course content and structure. What has gone largely unnoticed, however, is a 2014 amendment that completely rewrote the law, removing much of the heavy-handed regulation that previously existed. Further, in 2015, the Centre launched the National Apprenticeship Promotion Scheme (NAPS), where the government co-pays 25 per cent of the monthly stipend of every apprentice hired by a private- or public sector employer. There are still relatively few takers of the NAPS, but the programme can succeed with greater employer connect.

THE NEED FOR A MANY HEADED HYDRA

Sorting distribution...

Ramping up vocational training will remain a big part of the government agenda. However, this is much more than just a 'numbers game', especially given the huge difficulties with the distribution of VET capacities in terms of disciplines. Currently, for instance, a disproportionate number of electricians are being produced, mainly because the capital investment required is low – and not because the market requires these skills on such scale. Geographically, too, distributions are skewed: Jaipur, for instance, has the highest concentration of ITIs per square kilometre, mostly because the state government pays service providers a per-student fee, and many respond by setting up small centres, including for trades that find few or no takers.

... prioritising soft skills...

There has also been little attention paid, thus far, to soft skills and life skills, all of which feed into employability: it is rare, for example, to find a driver who turns up in time, well-dressed and clean, and who can read a map. All of this will take time to correct, but the process has begun. (On a related note, there is a move towards creating a voucher-based system, so that the money goes to trainees into trainers, which improves the incentives for acquiring marketable skills.)

...and teaching skills

At another level, the government is working on a labour market information system, which combines both micro- and macro tools, and it is now building an Institute of Training of Trainers (ITOT), which channels of a whole stream of high-quality trainers directly from the workforce, including from the Armed Forces. There will also be much greater focus on quality and employability through better employer connect, which is currently an area of weakness. Finally, there is a plan to set up a statutory regulator for quality assurance – the discussions have begun, and there should be forward movement on it in the year ahead. ■

This article is based on discussions at IMA's 21st Annual CEO Roundtable in December 2017 with Dr KP Krishnan, Secretary, Ministry of Skills and Entrepreneurship, Government of India

India's Place in the League of Nations: Transforming Paradigms

In conversation with **Kanwar Sibal**, former Foreign Secretary, Government of India

With China moving into the ranks of middle-income countries, India is now arguably the world's most important developing country. However, on the basis of its physical size, economy, demographics, growth prospects, military resources, and some areas of technology (including nuclear and space tech), it is on par with many advanced nations. Few nations have had a greater civilisational influence on human history than has India. On current trends, India will become a pole by itself in an increasingly multi-polar world. For now, though, it has not fully achieved the status that it legitimately deserves. It is not a permanent member of the UN Security Council, nor a member of the Nuclear Suppliers Group – in both cases, largely owing to Chinese resistance. Not many realise this, but India still remains under sanctions in terms of dual-use nuclear/space technologies, so certain doors are still closed to it.

Some believe that India's foreign policy framework – as well as the results it achieves – has scope, or indeed need, for 'improvement'. This is a mistaken perception. In international relations, there is simply no control over many of the outcomes: no single body decides what the global order will be, or how bilateral relations will play out. Nor are there courts to enforce accountability across nations. On top of everything, the paradigms can sometimes shift quite dramatically – such as when communism collapsed, and new complexities came to embroil India, which had previously insulated itself by practising non-alignment. Moreover, as a large and growing power, India is no longer in a position – even if it ever was – to subordinate itself to a larger alliance or collective entity. Instead, it needs to forge its own destiny. Thankfully, there is in India today a new confidence and willingness to do so.

> India has unsettled borders with two nuclear-armed neighbours, and depends on imports for its energy and weapons

SETTING THE CONTEXT: AREAS OF VULNERABILITY

To understand India's foreign policy context, one must understand the major vulnerabilities it faces – more, perhaps, than any other large country. For one, it has unsettled borders with two important, nuclear-armed neighbours, creating complications along boundaries that span 3,700 kilometres. While it has managed so far to avoid serious conflict, this is a constant pressure point. The net result is that despite various agreements and confidence-building measures, India has had no option but to raise, at enormous cost, two extra mountain divisions and one brigade division, and to position jet fighters close to the Tibet border. Meanwhile, Pakistan's continued claims on Kashmir, and its close collaboration with China, including on the USD 46 billion China Pakistan Economic Corridor (CPEC), is a

source of tension. China's position in this regard – undertaking a massive economic project in disputed territory – is entirely contrary to its approach to Arunachal Pradesh, where it protests even the hint of ADB or World Bank funding for infrastructure. Moreover, given how unstable and terror-hit Pakistan is, there is no other way to view the CPEC but as a project with huge geopolitical implications, and which will further China's hegemonic ambitions, potentially at India's cost. The Belt and Road Initiative (BRI) would, for the first time in history, allow a single power to potentially dominate both the Asian land mass and the Indian Ocean, and it is CPEC that will serve as its connecting point.

Another major vulnerability is India's dependence on arms imports.

Protecting India's interests will be about being friends with as many countries as possible, and to the extent possible

Being the world's largest or second-largest importer of weapons is not a matter of pride, but ignominy, given the challenges India faces, and the fact that without a strong industrial defence base, it can never have a truly independent foreign policy. At the same time, the country's energy dependence – over 70 per cent of its oil and gas, rising in the next few years to 80 per cent, is imported – is a constraint, forcing India to ensure stable bilateral relations with oil-exporting countries, and to also work towards their internal stability. At a more general level, the larger issue of terrorism affects India. Islamic State has been countered for now, but its ideology persists. India has, for years, been a major victim of terror, and the rise of extremism all the way from Morocco to Pakistan is a serious threat. In this respect, the policies of Western countries, especially the US, continue to ignite fires. (The decision to recognise Jerusalem as Israel's capital, for instance, will have a backlash that will spread through the Islamic world, and is ill advised at a time of such instability.) Finally, India has neighbours who have grown used to playing the external card – and

especially the China card – against it. In Nepal, China has built a strong presence on the ground, while Bangladesh procures all its defence equipment from the Chinese. Sri Lanka has become a hub for the Maritime Silk Route, and is clearly trying to achieve the best of both worlds. The Maldives, meanwhile, has signed an FTA with China quite out of the blue, and this will have wider repercussions.

GUARDING INDIA'S INTERESTS: BALANCING A COMPLEX WEB OF RELATIONSHIPS

In this context and very simply put, the best way to protect India's interests is to be friends with as many countries as possible, to the extent possible. It has drawn much closer to the US, especially on defence, building a relationship of mutual trust that has been tested over a long period. America has a history of imposing sanctions, including on India, and is prone to lobbying, but there is sufficient strategic convergence for the relationship to continue to strengthen and deepen. India has also grown closer to Japan, underpinned by a shift in military thinking, as well as economic and technological considerations. For a time, India resisted including Japan in its Malabar naval exercise, uncomfortable with the idea that this would move it towards a US-led alliance. Today, however, the trilateral dialogue has moved ahead considerably, including on a political level. Australia, too, is getting roped in, for now at the Foreign Secretary level. China's rise is the common concern for these four countries, and the attempt is to signal that any overtly aggressive policies will be challenged. Hopefully, this will place some restraint on the Middle Kingdom.

At the same time, India has managed, despite deteriorating relations with both countries, to deepen its dialogue with Russia and China. It also participates in BRICS and in the Shanghai Cooperation Organisation (SCO). In some ways, these platforms allow India greater room for manoeuvre vis-à-vis the US. On the other hand, relations have improved beyond recognition with the Gulf countries, and especially the UAE. (The joint statement issued after PM Modi's visit there was surprisingly blunt, with a whole paragraph on terrorism that clearly targets Pakistan.) With Saudi Arabia, as well, there is a distinct shift for the better, though India will need to be careful not to get drawn into the ongoing Shia-Sunni struggle in the region. India also continues to maintain strong ties with Iran, despite US sanctions (which impose certain constraints on trade), and is actively involved in developing the Chabahar Port, which may eventually provide an overland route into Afghanistan. There is, moreover, a new impetus on developing a North-South Corridor linking India to Russia through Iran and Central Asia. In a remarkably deft feat of foreign policy-making, India has managed, while strengthening its ties to the Gulf, to shore up its relations, particularly in defence, with Israel.

> Unlike in the past, the NDA is standing up to China, but there is broad continuity in terms of the relationship with America and Japan

SIX KEY RELATIONSHIPS:

China: China's conduct in the South China Sea, particularly its defiance of international law and willingness to intimidate small countries, are signals for India. After all, what China does there, it will do to India as well – something it has already made clear in Doklam, and by making incursions into, and claims over Indian territory. Unlike with previous governments, though, the NDA is standing up to China, such as by openly opposing the BRI. Together with Japan and the US, it issued a joint statement highlighting the BRI's lack of transparency, weak adherence to international financial norms, and the issues of impinging on sovereign rights that it raises. This has influenced thinking in Europe, where the EU has also

Foreign Policy Goals – A Checklist for India

- Make the best of the current situation: be more confident in the conduct of foreign policy
- Maximise the US relationship, but don't support America's mistakes (of which there are many)
- Strengthen ties with Europe, especially France
- Stay close to Russia, because the defence and energy relationship is very important; expand the (currently limited) economic relationship. Pursue the North-South Corridor with vigour
- Maintain a position in Afghanistan, and help stabilise the Gulf
- Strengthen the Navy, and focus on India's Eastern Seaboard
- Ramp up connectivity projects in East India
- Keep engaging China, but make sure you don't become economically dependent on it
- Show no anxiety about the dialogue with Pakistan
- Strengthen the cyber-security framework: Digital India will mean greater vulnerability

refused to fully endorse the BRI, citing a lack of reciprocity.

The United States: Looking ahead, the Indo-US relationship will hinge to a great extent on the China factor. Plainly, America sees China as a threat, particularly in the Western Pacific, and wants India to help stem its naval ambitions both there and in the Indian Ocean. Yet, while there is a clear maritime vision, there is no real support for India on the existing land-border issues. The US favours a bilateral solution, but has been silent about Arunachal Pradesh and Doklam, as also about the CPEC and China's presence in Gwadar Port. America wants to bring India into an anti-China naval alliance, but has simultaneously brought China into the 'quad' that is handling the Afghanistan issue. Thus, the US relationship will need to be carefully calibrated, and India will need to be cautious not to either put all its eggs in this one basket, or allow itself to become an instrument of US policies in the 'half-containment' of China. Given the complexity of Sino-US ties, including their deep financial inter-linkages, 'full containment' is not an option. (Further complicating things is the seemingly excellent chemistry between Mr Trump and Mr Xi, someone with whom the US President thinks he can 'do business'.) From a defence technology standpoint, Mr Trump says that India will be treated on par with allies like Europe, but the actual transfers so far have been marginal. For its part, India will have to take care not to allow itself to be treated merely as a market for US F-16 or F-18 fighter jets. On inter-operability issues, too, it will need to tread with caution. In sum, while the bilateral understanding is strong, the US will have to do far more to put some 'meat' into the relationship.

Russia: American policy has pushed Russia into China's arms at India's expense. Earlier if India and Russia would balance China in the trilateral dialogue, today,

> There is a mis-perception that India has mismanaged its relationship with its smaller neighbours. In fact, this needs to be a two-way street

as a subordinate power, Russia increasingly sides with China. At the same time, India has to contend with the fact that Russia views its own closer ties with the US with suspicion. The key will be to engage more closely with the Russians, convincing them that neither this, nor the strains with China, is related to them. After all, both sides have invested heavily, over a period of 60 years, in the relationship, and at critical moments, Russia has backed India both militarily, and in terms of diplomatic support in forums like the UN.

Japan: Originally pushed towards India by the common threat of China, Japan has shown that it can be a very good partner, financially, politically, and on technology. Shinzo Abe also has a strong affinity for India. On the flip side, Japan remains the biggest investor in China, and it does have some points of convergence with the BRI. Thus, there may be limits to which it is willing to partner with India, particularly in dealing with China.

Pakistan: There have been ups and downs in the relationship with Pakistan, but arguably, India is today doing the best it can under the circumstances. In plain terms, there is no need to initiate a structured dialogue at this stage, because doing so would mean giving Pakistan a platform to discuss Kashmir. Unless India is willing to make concessions in this regard – which it clearly should not – there is no point in talking. Further, not only has Pakistan gone back on the Shimla Accord, but it also continues to use terror as an instrument of state policy, and has helped 'mainstream' people like Hafiz Saeed. In any event, it is not that there is no dialogue between the countries – in fact, there is constant communication at the diplomatic level, and, through back channels, between the NSAs.

India's smaller neighbours: There is a false assumption, including in the media and among politicians, that India has mismanaged its relations with its smaller neighbours. To a large degree, it is really circumstances – including a hostile China and Pakistan, and the fact that the smaller countries have played up this card – that may be to blame. Further, it is wrong to believe that it is only the larger country's prerogative to drive the relationship, or that any large country will have 'friendly' or 'stable' relations with smaller countries. (No small country will appreciate the characterisation that it has entered the larger one's 'political orbit'.) The reality is that any large nation – whether America (with Latin America), China (with everyone but Pakistan and perhaps Laos), or Russia (most of its neighbours) – is likely to have problems with its neighbours. To that extent, a country's rise as a regional or a global power is in no way tied to it first 'stabilising' its neighbourhood. India has taken many steps particularly in the recent past to prioritise its relationships with the neighbours. How this plays out in the future is dependent on a host of factors, not all of which can be driven by India. ■

This article is based on discussions at IMA's 21st Annual CEO Roundtable in December 2017 with Kanwar Sibal, Former Foreign Secretary, Government of India

Corporate Governance and Independence

Neeta Revankar
CFO and Member of the Board of Directors, Sasken Technologies

We have come to expect too much of independent directors. Compared to big shareholders, they have less to lose or gain if an organisation either succeeds or fails. On the contrary, they have a lot to lose if the entity falters on matters concerning legal compliance. Effectively, then, IDs end up as representatives of the government who are there mainly to ensure compliance. Perhaps it would be better to allow organisations to govern themselves, providing rewards for good governance, and stiff punishment for fraud or malpractice.

The Board's changing role

At one time, a Board of Directors was meant, primarily, to direct the management of an organisation on behalf of the owners, and to protect the interests of all stakeholders. Board members were expected to listen to the owners, and understand their perspective on various issues. They also had an obligation to report major decisions and results to the owners. Further, they were expected to help the owners understand the 'what' and 'why' of any decision, and the impact of its results. On the flip side, by keeping a pulse on the owners' expectations, the Board would ensure that there was no attempt of any premature or unwarranted bailout.

An organisation's results are a product of the collective efforts of people in critical managerial roles. In so far as the CEO and the management team are concerned, the Board's responsibility is to reflect on these results and assess how the management team might positively impact the firm's plans and performance. Additionally, the Board is expected to provide directional inputs for steering both the company's growth plans and its future trajectory. It also needs to play a role in assessing the performance of prominent leadership positions (the KMPs) and be a sounding board in their selection, redirection, and if necessary, replacement.

> Earlier, Boards were primarily meant to direct the management of an organisation on behalf of the owners

There are, however, particular nuances in the case of listed companies. There, ownership is diversified – often made up of a faceless number of unconnected people whose interests in the company will vary. Also, thanks to trading on stock exchanges, ownership is something that is continually shifting. The Board may consist exclusively of representatives of some of these owners – usually the founders or the principal shareholders – while other owners may be unrepresented.

Today, the Board is meant to ensure the longevity and success of an organisation - and it is the ID's job to help meet this purpose

The decisions that get taken thus tend to favour the founders or principal shareholders, at times even for mala fide reasons. Those owners who are not adequately represented may find themselves at the wrong end of such decisions. To obviate such situations, the laws were amended to require 'Independent Directors' to be part of the Board. To be genuinely independent, such IDs needed to have adequate voice/representation on the Board, and hence the requirement to have IDs occupy half of all Board positions.

In contrast, the current view is that the Board is responsible for ensuring the longevity and success of an organisation – and consequently, it is now considered the job of IDs to help meet this purpose. No longer are they meant, as they originally were, to merely serve the interests of minority shareholders.

Appointment and qualifications of IDs

Ironically, the process of selecting IDs usually begins with recommendations from owners or current Board members. The mandate is to induct people who not only have the necessary competence, but who can also work effectively with other Board members and the management team. So, effectively, the appointment of 'independents' is mainly dependent upon the owners/founders. This raises the question of whether such Directors are independent in the real sense of the word.

Certain criteria have been laid down for determining independence – and only those who pass the various tests of independence concerning the company and its Board qualify as IDs. While rules exclude the nomination of family members of founders/large shareholders from taking on ID roles, friends – but ones who do not have any material pecuniary interests in the same organisation – are considered independent under the law!

In the absence of objective competence thresholds, there are a limited number of well-known, competent Directors, who tend to be sought-after by the larger companies. (In some sense, this is a symbiotic relationship, where corporations get the rub off from the standing of the ID, and the ID from the company's reputation.) This can create situations where a Boards may have to make do with less-competent IDs. None of this, though, answers the question: Are IDs genuinely independent?

Concentration of power

The general norm is that a corporation needs to have one leader at the top. However, various committees that frame the criteria for governance tend to push for the reduction of such concentration of power in the hands of a single individual. The current trend is to separate the office of the Chairman from that of the CEO/Managing Director. Nearly anyone who has worked in an organisation with two power centres, though, will have witnessed situations where the two fall out with each other. Do we truly understood the repurcussions of having multiple power centers in and organisation? If the founder/large shareholder is actively involved in operations, is there really a need to get in another power center? Is it better for the government to have successful organisations, or should they be focussed on reducing the concentration of power?

The role of IDs has never been well understood, so if the Board is to ensure the corporation's success and longevity – and not serve the interests of any one stakeholder or set of stakeholders – is independence the best way to achieve that? Shouldn't successful organisations be precluded from the need to replace IDs periodically, since their purpose is already being met?

Is Board independence really the best way to achieve the goals of success and longevity?

Vested interests

Who is more vested in the success of an organisation – its founders, the government, small shareholders, or large shareholders? What is really the ID's stake? For the most part, it is the commission he or she earns, or possibly his/her reputation, that matters more than that of the entity itself. The quantum of the fee paid is far lower than the value of the founder's stake, or the large shareholder's stake. So who would be more vested in working towards the long-term success of the enterprise? Who stands to gain more or lose more if the organisation succeeds or fails? The implication is clear: in most organisations, the ID's impact is quite limited. More often than not, stringent regulations actually reduce the incentive to take up the role of an ID – and the person's focus, consequently, is more on regulatory compliance than on long-term success! Why would any reasonably competent person want to be an ID?

If the underlying principle of most rules, regulations or guidelines is that the founders or large shareholders are all people with malintent, then the incentive for risk-taking and being enterprising are significantly reduced. (The recent report of a committee on Corporate Governance is even more prescriptive. If accepted, it may have far reaching implications for business in the country.) Have we forgotten that one of the main reasons why Indian businesses have succeeded so far is the enterprise of a few individuals or families? Some have probably exploited the situation, but one would have thought that the way to deal with that situation is to take legal action against the fraudsters, instead of making tighter rules for everyone else. This will only result in stifling business and enterprise, making life tougher for true entrepreneurs while the fraudsters continue to thrive! ■

Gadgets

Our monthly roundup of new gadgets

Fujifilm

Fujifilm has blended compactness and performance in its latest X-E3 camera, a powerhouse that comes in a small body. The Fujifilm X-E3 sports a retro look and comes bundled with all the latest features. Weighing about 337 grams, the petite camera body comes with silver top and rubber body which definitely looks good and feels sturdy. The top panel comprises of two dials; one for shutter speed and one for exposure composition and auto-mode selector lever. The rest of the control buttons are located above and on the right side of the screen. The X-E3 does not have the standard navigation - what it has is a joystick to change your focus. The X-E3 features an APS-C 24.3 megapixel X-Trans CMOS III sensor and the X-Processor Pro image processing engine. It features a 325 autofocus system and 15 colour profile modes. Daylight pictures were very impressive, very sharp with a balanced bokeh effect. Like most cameras in this price bracket, the X-E3 can also shoot 4K videos.The quality and colour is great. The device also supports wireless connectivity and bluetooth for transferring files. The X-E3 uses a NP-W126S Li-ion battery and has a decent battery life. The X-E3 is priced at Rs 70,999 (body only), with 18-55mm kit it comes for Rs 102,999 and with 23mm F2 kit it is priced at Rs 89,999. ■

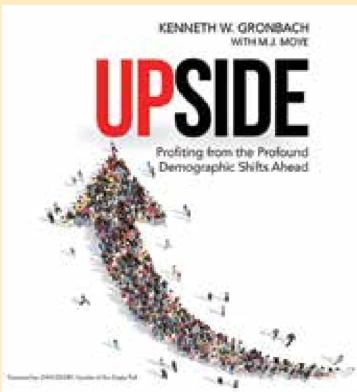
Bose

The latest headphone from Bose is the QC35 II --- in terms of design and looks, it looks exactly like its predecessor. The built-in Google Assistant on the left ear cup is new. The Bose QC 35 II doesn't disappoint in comfort. The ear cups have leather coating which is really soft and comfortable even if you use it for couple of hours straight. The plastic body feels sturdy and durable with the control buttons and the power on/off button located conveniently within reachable distance. The headband has a soft fabric on the inside and leather on the outside -- this ensures that it's lighter and softer on the head while still managing to look premium and durable. These are seriously light headphones and really make a difference for music buffs. The Bose QC35 II comes in two colours: black and silver. The moment you turn it on, the noise outside just seems to disappear. Bose has been synonymous with high-quality headphones and the QC35 II lives up to the legacy. It strikes all the right notes and doesn't miss a single beat - literally and figuratively. The audio clarity is excellent - even though it doesn't support Hi-Res audio - with the highs, lows and mids completely in sync. The bass could have been punchier but still delivers good output. From Bob Dylan to George Ezra, from George Michael to Sam Smith, from Lauren Hill to Kehlani and from Mick Jagger to Harry Styles, the Bose QC 35 II gives you a delightful listening experience. It comes with 20 hours of battery. With the QC35 II, Bose seems to have another winner on its hands. Price: Rs 29, 363. ■

Vitra

There's a new incredible office chair making the rounds in the business community, and it's reinventing the way people are thinking about how they buy the best office chairs. The company is called Vitra, the chair is called the Pacific, and it's popular enough that Jony Ive, the chief design officer for Apple, bought the very first one available and eventually made them a mainstay in Apple's gleaming, cult-like new headquarters. The Pacific is an interesting sort of chair, with a different design philosophy than the popular office chairs of past years. Past office chairs were designed with the idea that people were going to be spending a whole lot of hours in them, getting some serious computer work done. They were designed for minute, manual customisation, comfort, support, and ergonomics for long periods of work. The Pacific…is not. Instead, it's designed around the philosophy that many of today's workplaces are fast moving environments where people fill different roles and don't spend a lot of time sitting down. These chairs are designed for active conversations, energetic art or design work, fast-paced meetings, and getting things done. That philosophy extends to other features the chair has, as well: you customise a lot of when you first order the chair, and much less when it arrives: Most of the mechanical components are entirely hidden by the backrest. This leaves you with choices for just three different heights, light or dark colours, and movable or immovable armrests. If this stark, movement-oriented approach sounds good to you, you can get a Pacific hair for only around Rs. 76,098. ■

Demographics: Powering the Upside of Business



Title: Upside: Profiting from the Profound Demographic Shifts Ahead
Authors: Kenneth Gronbach and M.J. Moye
Publisher: Amacom
Pages: 288
Price: Rs 1278.00

Early in his book *Upside: Profiting from the Profound Demographic Shifts Ahead*, demographer Kenneth Gronbach tells a story from his advertising days – he is now an independent consultant – in which his firm lost one of its biggest and most profitable accounts ever: America Honda Motorcycles.

In the 1970s and early 1980s, Japanese motorcycles had enjoyed booming U.S. sales, and there seemed no end in sight. Yet, suddenly and for no discernible reason, Gronbach writes, the bottom fell out of the Japanese motorcycle market. "We ran the television, radio, billboard and newspaper ads for about 180 dealers from the tip of Maine to Pittsburgh to Washington, D.C.," he writes, "and then waited for the usual tidal wave of customers. It never arrived." By 1992, the era of the Japanese motorcycle was over.

What happened? It was not until 1996 that Gronbach understood the reason for the Japanese motorcycle market's mysterious disappearing act: It was all about generations.

During the 1970s and early 1980s, baby boomers – those born between 1945 and 1964 – were in the key 16- to 24-year-old motorcycle-buying age. By the mid-80s, boomers had aged out of the market and were replaced by 16- to 24-year-old Generation Xers. And here was the problem, Gronbach writes, a problem that strikes to the core of the theme of Upside: There were much fewer Gen Xers than boomers.

Gronbach explains: "The diminutive Generation X that followed the Boomers simply did not have the critical mass of 16- to 24-year-old men to satisfy the needs of the market left behind by the Boomers."

Business is a question of supply and demand, and for Gronbach, many businesses are not paying attention to one of the fundamental components of supply: the number of people buying. In the first part of the book, Gronbach lays out the numbers, dedicating a chapter each to the six generations in the U.S. market today, from the G.I. Generation, born between 1905 and 1924, to Generation Z, born (or will be born) between 2005 and 2024.

Gronbach offers some interesting perspectives on the generations. For example, the Silent Generation, the generation born 1925–1944, is smaller and less well known than the G.I. Generation (also known as the "Greatest Generation"), which came before it. However, the Silents are leading the way in terms of living long, healthy and active lives deep into their 80s and even 90s. The unexpected slowness of the "graying" of America reveals the challenge of businesses anticipating generational changes.

Shifting demographics explain why the bottom fell out of the US market for Japanese motorcycles in the late 1980s and early 1990s

Demographics is partly about births, how many people are born into each generation, but it is also partly about immigration and migration. For example, there are nearly 83 million Gen Xers (born 1965–1984) living in the U.S., compared to 78 million boomers (1945–1964). A key reason for the Gen X population boom is immigration, which will continue to have a significant impact on the demographics of the U.S. as well as Canada and European countries.

Within the U.S., migration can have a direct impact on the economy of specific regions. Population numbers in the Northeast are stagnating for a number of reasons, including the loss of manufacturing jobs and the number of people retiring to warmer Southern states. The Midwest is also stagnating, although Gronbach notes that there are pockets of population growth, while the South and the West are benefitting economically from increasing population growth.

In the second section of the book, Gronbach offers a snapshot of some key industries impacted by demographics, from funeral homes and health care — both about to be impacted in ways never before seen by the boomers — to housing and retailing, where millennials will be making the biggest impact.

Gronbach finishes with a cursory view of the rest of the world, but it is in the detailed chapters on the generations that this passionate ode to the power of demographics is strongest. ■

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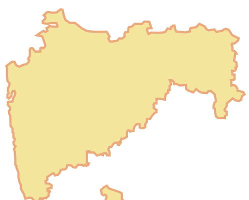
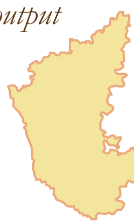
Federalism: India's Power Unleashed

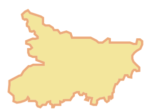
Most populous; 25.5 mn graduates & postgraduates; highest number of agri labourers



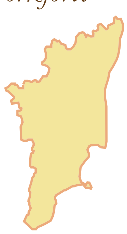
Biggest employer in the organised private sector; largest road network; largest manufacturing output



Among the fastest growing state economies; largest ICT workforce



Highest population density; lowest per capita income; second lowest urbanisation



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