NEWS ITEMS ON CAG/ AUDIT REPORTS

1. Auditing AI: What is it and why does it matter for India? *(orfonline.org)* Jan 30, 2024

To ensure that AI's benefits are realised and risks are addressed, algorithmic auditing can help analyse how these systems operate, and in the process, mitigate wider societal harms

With increased access to Artificial Intelligence (AI development tools and datasets, businesses, nonprofits, and government entities in India are deploying AI systems at an unprecedented pace, often impacting millions of users. In less than a year of its inauguration, the Indian government's facial recognition algorithm—DigiYatra—is being used by over 1.74 million passengers to board flights. From conversational AI chatbots such as Haptik to ML-driven content generation platforms like ShareChat, India's AI startups are fast growing and have impacted over half a billion users individually. In the midst of this widespread deployment, however, come valid concerns about the propensity of such algorithmic systems to replicate, reinforce, or amplify harmful existing social biases. To ensure that AI's benefits are realised and risks are addressed, algorithmic auditing can play a crucial role in analysing how these systems operate, whether they are functioning as intended, and in process, mitigate potentially wider societal harms. India's diverse population has unequal access to digital services, which can produce biased datasets. Considering India's public sector already relies on algorithmic decision-making to boost efficiency, forthcoming legislation must consider the importance of auditing AI systems.

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What is algorithmic auditing?
Unlike financial audits that are well-established, professionalised, and regulated along clearly defined parameters, there is a lack of consensus on what constitutes AI algorithmic audits. However, they are generally seen as a way to explicitly present evidence of how AI deployments fall short of performance claims. Auditing an algorithm would involve testing it in different environments to understand its functioning and assessing it with respect to some predefined normative standards, such as fairness, transparency, and interpretability. Such audits can be first-party (e.g., conducted by internal teams within companies), second-party (conducted by contractors), or third-party (conducted by independent researchers or entities with no contractual relationship to the audit target).

Why does it matter?
Algorithmic systems can propagate racism, classism, sexism, ableism, and other forms of discrimination that cause real-world harm. Top-performing facial recognition systems have misidentified darker-skinned females at rates five to 10 times higher than white males. Apple's credit card algorithms, used to determine the creditworthiness of applicants, have systematically given female customers nearly 20 times lower credit lines than men. A group of researchers that tested 13 publicly available natural language processing models found significant implicit bias against people with disabilities across

all the models. Such biases tend to perpetuate existing stereotypes and are present due to various reasons, including lack of diversity in training data, developer biases, and improper metrics.

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Biased algorithms, especially when applied to a country as diverse as India, present an issue that needs solving. With a population of 1.4 billion, India generates vast amounts of data every day—notionally providing excellent training material for AI models. However, less than 50 percent of Indians are internet users, and approximately 33 percent use social media. Internet access isn't randomly distributed either and has unequal distribution across gender, caste, region, rural-urban areas, etc. A poll of internet users undertaken by Google found an under-representation of Muslim and Dalit populations across collected datasets due to their lack of internet use, raising the likelihood of future algorithms producing biased results in the Indian context.

An increasing use of AI algorithms in India's public sector further complicates the situation. India's resource constraints demand governance be as efficient as possible; this is one of the reasons for automating processes using AI/ML. With one of the world's poorest police-to-population ratios, at present, over a dozen state law enforcement agencies in India are using facial recognition algorithms for identifying criminals. However, faulty AI models would see governance mechanisms used sub-optimally or even counterproductively, in some cases causing more problems than they solve. The Telangana government, for instance, used ML systems to make predictions about people's behaviour while processing thousands of welfare scheme applications. This ultimately led to the cancellation of 100,000 fraudulent ration cards, 14,000 of which had to be reinstated subsequently.

What is being done?

While audits are an important mechanism for public sector accountability, they have not been applied to the use of algorithmic systems in India. To date, discussions around the topic remain largely ad-hoc exercises conducted under the wider ambit of certain government agencies. Most recently, the Comptroller and Auditor General (CAG) of India, as part of the SAI20 Engagement Group Summit under the G20, called for initiatives to develop auditing frameworks and granular checklists on AI. But this discussion appears to be in its nascent stage, with a focus on existing country case studies. While the mandate involves both auditing AI algorithms and also using AI as an auditing tool, all of India's examples fall in the latter category.

The Comptroller and Auditor General (CAG) of India, as part of the SAI20 Engagement Group Summit under the G20, called for initiatives to develop auditing frameworks and granular checklists on AI.

Nevertheless, the importance of audits has already been noted across key government agencies in India. Apart from the CAG, NITI Aayog's 2021 approach document for responsible AI also emphasised the need to establish mechanisms for performing algorithmic audits by independent and accredited auditors at periodic intervals. Even the DigiYatra project reportedly has provisions for audits and assessments by independent teams and certain government agencies, though it's unclear how this has been implemented.

What is the way forward?

There is a long history of auditing as an accountability mechanism, but limited precedents of auditing AI use cases. Consequently, there are few strategic starting points for auditors, possibly a steep learning curve, concerns about biases within auditing teams themselves, and a lack of access to necessary data. This issue is compounded by the emerging and general-purpose nature of AI technology, with uncertain definitions and wide variance among AI systems and solutions. Additionally, the AI regulatory ecosystem generally has few widely adopted standards. In a survey of AI auditing individuals and organisations, less than 1 percent described current regulation related to AI audits across geographies as “sufficient.”

Without clear audit practices as well as standards and regulatory guidance, any assertions about an AI product getting audited—whether by first, second, or third party auditors—will be difficult to verify and is likely to aggravate, rather than mitigate, harm and bias. To address this gap, the Indian government should establish legislation that requires operators and vendors of AI systems to engage in independent algorithmic audits against clearly defined standards. So instead of letting owners of AI products choose whether, when, and how to conduct audits, policymakers can enact requirements for them to submit audits and also develop compliance mechanisms to ensure that audits lead to real change.

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Additionally, the Indian government can mandate disclosure of key components of audit findings for peer review, which are often undisclosed by first- and second-party auditors, citing client confidentiality concerns. The mandated degree of disclosure (e.g., disclosing all details versus only key findings, etc.) can be evaluated based on domain-specific considerations. Disclosed information can be made public or logged into a database made accessible only to vetted actors via requests. Furthermore, lawmakers can initiate a standardised harm incident reporting and response mechanism to enable quantitative considerations (apart from only structural or qualitative) of real-world harm in the audit process. Finally, to grow and diversify the talent pool of capable auditors, the Indian government can formalise the evaluation and accreditation of algorithmic auditors. This should be done without making it a ‘rubber stamp’ process and without locking out independent researchers, investigative journalists, or other civil society organisations with experience (and motivation) to expose harmful AI actors. These measures could be included in the proposed Digital India Act, which would be coordinated with provisions for more algorithmic accountability in the Digital Personal Data Protection Act, 2023 or Information Technology Rules, 2021.

On their part, corporations or government entities that own and publicly operate AI products can establish best practices in their internal processes, such as involving stakeholders that will most likely be harmed by AI systems in the audit process, or notifying individuals when they are subject to algorithmic decision-making systems.

To grow and diversify the talent pool of capable auditors, the Indian government can formalise the evaluation and accreditation of algorithmic auditors.

There is significant consensus amongst practitioners in the algorithmic auditing ecosystem around all of these recommendations, and progress in accomplishing these will enable India's regulatory entities and businesses to play a significant role in reducing harm. The audit process can be slow, boring, methodical, and meticulous—contrary to the current rapid pace of AI development. However, it might prove more beneficial to slow down as algorithms continue to get used across increasingly high-stakes sectors. https://www.orfonline.org/expert-speak/auditing-ai-what-is-it-and-why-does-it-matter-for-india

2. Galgotias University Hosts Event on "Ethical Audit" With CAG G.C. Murmu (IAS) As Chief Guest *(indiaeducationdiary.in)* Jan 30, 2024

Galgotias University recently hosted an enlightening event on "Ethical Audit," featuring G.C. Murmu (IAS), the Comptroller and Auditor General of India, as the esteemed chief guest. The event, held on Monday, provided an insightful discussion on the significance of morality in our lives and the imperative need for ethical conduct in all spheres.

Addressing the students, G.C. Murmu emphasised the vital role of morality in shaping our actions and decisions. He stressed the importance of being morally and legally responsible in every aspect of life, urging individuals to integrate ethical principles into their academic and personal endeavours.

Murmu highlighted the crucial role of education in fostering moral values, advocating for the incorporation of ethics into the curriculum to instil a sense of integrity and responsibility among students. He underscored that morality is indispensable for personal growth and societal progress, emphasising its significance in both joyous and challenging times.

Expressing gratitude for the success of the event, Dr. Dhruv Galgotia, CEO of Galgotias University, shares, "We are immensely grateful for the success of the 'Ethical Audit' event and the valuable insights shared by G.C. Murmu. At Galgotias University, we recognize the paramount importance of morality in shaping individuals and society. Through initiatives like the 'Ethical Audit,' we aim to instil ethical values and principles in our students, empowering them to lead with integrity and contribute positively to the world. This aligns perfectly with our vision of 'Viksit Bharat@2047,' an initiative by the Government of India to transform our nation into a developed entity by 2047."

Suneel Galgotia, Chancellor honoured the esteemed chief guest by presenting a meticulously crafted memento, symbolising our profound appreciation for his invaluable contributions to the discourse on ethical governance and societal integrity.

Suneel Galgotia, Chancellor, Galgotias University, reflects "In the pursuit of excellence, ethics becomes our guiding light, illuminating our path as we navigate the vast expanse of knowledge and innovation. It is not merely about achieving success, but about how we achieve it. Integrity, woven intricately into the fabric of our actions, becomes the cornerstone upon which true success is built.”

Galgotias University’s commitment to ethics is further demonstrated through its Centre for Ethics, established with the overarching objective of rebuilding and reenergizing an Ethical India (Naitik Bharat). The Centre for Ethics endeavours to reconstruct ethical values in society, institutions, business, government, and public and private life, while also promoting lasting movements for building an Ethical India. With the aim to establish a centre for higher learning in ethics and conduct research in the field, create awareness to prevent corruption, and design academic courses in ethics at higher levels. Additionally, the centre organises interactive lectures, training programs, webinars, and seminars on ethics, along with publications and efforts to create an ethical environment in educational institutions.

Aradhana Galgotia, Director Operations, Galgotias University, expressed “At Galgotias University, we believe that ethical conduct isn’t just a choice, it’s a responsibility. By fostering a culture of integrity, we sow the seeds for a future where every action resonates with honesty and purpose.”

The event concluded with the rendition of the national anthem, symbolising a collective commitment to upholding ethical values and principles in society. https://indiaeducationdiary.in/galgotias-university-hosts-event-on-ethical-audit-with-cag-g-c-murmu-ias-as-chief-guest/

3. ग्रेटर नोएडा के गलगोटियास यूनिवर्सिटी में बोले जीसी मुर्मू: नैतिकता के लिए नेतृत्व की जरूरत, यह सभ्यतागत पहचान है *(tricitytoday.com)* 30 Jan 2024

भारत के नियंत्रक और महालेखा परीक्षक (CAG) जीसी मुर्मू ने कहा कि नैतिकता जीवन का अहम विचार है। इसके बिना खुद के साथ राष्ट्र और समाज का विकास संभव नहीं है। नैतिकता हर सुख-दुख में मददगार होती है। इसलिए नैतिकता की अनदेखी नहीं की जा सकती है। उन्होंने कहा कि नैतिकता सभ्यतागत पहचान है। किसी भी समाज, किसी भी समुदाय, किसी भी राज्य और किसी भी राष्ट्र के लिए नैतिकता बेहद अहम है।

सामाजिक मूल्यों से सीखी जा सकती है नैतिकता

गलगोटियास यूनिवर्सिटी में एथिकल ऑडिट विषय पर आयोजित व्याख्यान में सीएजी जीसी मुर्मू ने कहा कि जीवन में नैतिकता कानूनी, सामाजिक और नैतिक रूप से भी हमारी जिम्मेदारी है। हमें इस बात का हमेशा अपने नैतिक कर्तव्यों का पालन करना चाहिए। उन्होंने विद्यार्थियों से कहा कि यहां आप छात्र होने के नाते, विभिन्न पाठ्यक्रमों का अध्ययन करके डिग्रियां हासिल कर रहे हैं। आपकी शिक्षा में भी नैतिकता होनी चाहिए, क्योंकि नैतिकता के लिए नेतृत्व की आवश्यकता होती है। इसके लिए मूल्यों की जरूरत है। नैतिकता पारिवारिक मूल्यों और संस्थागत नेतृत्व में सामाजिक मूल्यों से सीखी जा सकती है। उन्होंने कहा कि चाहे निजी क्षेत्र हो या सार्वजनिक, नैतिकता का योगदान हर जगह बेहद अहम होता है। नैतिकता ही हर सुख-दुख में मददगार होती है। इसलिए नैतिकता की अनदेखी नहीं की जा सकती। जीसी मुर्मू ने कहा कि नैतिकता एक सभ्यतागत पहचान है। किसी भी समाज, किसी भी समुदाय, किसी भी राज्य और किसी भी राष्ट्र के लिये नैतिकता बेहद अहम है।

एथिकल ऑडिट के क्षेत्र में जीसी मुर्मू का अहम योगदान

गलगोटियास यूनिवर्सिटी के चांसलर के सलाहकार और पूर्व आईएएस अधिकारी डॉ. प्रभात कुमार ने एथिकल ऑडिट के क्षेत्र में जीसी मुर्मू के योगदान की विस्तार से जानकारी दी। विश्वविद्यालय के चांसलर सुनील गलगोटिया ने मुख्य अतिथि का स्वागत किया। वॉइस चांसलर डॉ. के. मल्लिकार्जुन बाबू ने भी नैतिकता की अवधारणा की विस्तार से चर्चा करते हुए एथिकल ऑडिट विषय की जानकारी दी।

जीवन में नैतिकता बेहद जरूरी

विश्वविद्यालय के सीईओ डा. ध्रुव गलगोटिया ने कहा कि हम सभी के जीवन में नैतिकता का होना बेहद आवश्यक है। विश्वविद्यालय के स्कूल ऑफ़ बिज़नेस की डीन डा. सीमा गुप्ता ने कहा कि हमें चाहिए कि हम जो कुछ भी करें, उसमें ईमानदारी और नैतिकता जरूर होनी चाहिए। कार्यक्रम का समापन राष्ट्रगान से हुआ। https://tricitytoday.com/greater-noida/gc-murmu-spoke-on-need-of-leadership-for-morality-at-galgotias-university-greater-noida-51410.html

STATES NEWS ITEMS

4. Kerala's public debt comes down to ₹2.38 lakh crore *(thehindu.com)* January 30, 2024

Finance Minister says State's Own Tax Revenue grows from ₹47,661 crore in 2022-21 to ₹71,968 crore in 2022-23

Amid the financial strains that put the Kerala government in a fix making it difficult for it to meet its fiscal obligations efficiently, a document tabled by Finance Minister K.N. Balagopal in the Assembly on Tuesday revealed that the State's public debt has come down to ₹2.38 lakh crore at the end of March 2022-2023.

As per the accounts of the Accountant General, the State government's public debt was ₹2,38,000.97 crore in March 2023, around 23.8% of the Gross State Domestic Product (GSDP), which was pegged at ₹10,17,872.58 crore as per the 2022-23 Budget estimate.

According to previous documents tabled by the State government in the Assembly, the cumulative debt of the State, as of March 2022, stood at ₹3,32,291 crore, a big leap from ₹1,89,768.55 crore in 2016-17.

Debt-to-GSDP ratio

Similarly, Kerala's public debt-to-GSDP ratio was 24.26% during the 2021-22 period, while it was 27.07% in the 2020-21 fiscal. In short, the total accumulated public debt-to-GSDP ratio has also come down compared to the previous years. The drop in public debt-to-GSDP ratio was mainly due to the restrictions enforced by the Centre like whittling down the borrowing limit of the State.

Although the State was allowed to borrow ₹8,323 crore for modernisation works in the power sector in 2022-23, the public debt-to-GSDP ratio has come down, noted the Finance Minister. On the other hand, the State's Own Tax Revenue has registered a robust growth in the past couple of years. Kerala's Own Tax Revenue was ₹47,661 crore in 2022-21 which grew by 23.4% to ₹71,968 crore in 2022-23, said the Minister. https://www.thehindu.com/news/national/kerala/keralas-public-debt-comes-down-to-238-lakh-crore/article67793196.ece

SELECTED NEWS ITEMS/ARTICLES FOR READING

5. IMF raises India's FY24 growth forecast to 6.7 per cent *(financialexpress.com)* January 31, 2024

The IMF's estimate is also 30 bps lower than the RBI's estimate of 7.0% for FY24. On the Fund's projection, the finance ministry said the IMF has revised India's growth forecast for FY24 to 6.7% from 6.3% on account of the robust Q2 GDP outturn.

The International Monetary Fund (IMF) has raised India's GDP growth projection for FY24 by 40 basis points (bps) to 6.7%, and for FY25 by 20 bps to 6.5%, in its latest 'World Economic Outlook' report, citing "resilient domestic demand".

At 6.7% India would remain the fastest growing major economy in the world. However, the forecast for FY24 is still 60 bps lower than the National Statistical Office's (NSO) projection. Earlier this month, the NSO projected India's economy to grow at 7.3% in the current fiscal, based on data extrapolated for the first seven to eight months.

The IMF's estimate is also 30 bps lower than the RBI's estimate of 7.0% for FY24. On the Fund's projection, the finance ministry said the IMF has revised India's growth forecast for FY24 to 6.7% from 6.3% on account of the robust Q2 GDP outturn. In Q2 FY24, India's GDP growth came in at 7.6%, much higher than market expectations.

"The IMF has revised upward medium-term (potential) GDP growth to 6.5% (from 6.3%) reflecting strong public investment, positive labor market outcomes in the latest PLFS report, and adjustments to our model," the finance ministry said.

For the next fiscal year, the IMF's estimate is about 50 bps lower than the finance ministry's estimate. Chief Economic Adviser V Anantha Nageswaran said in a report that India's real real GDP growth will likely be closer to 7% in FY25 for the fourth year in a row.

He predicted India's economy to touch the $5 trillion mark by 2027-28, and subsequently become the third largest economy in the world. "It is eminently possible for the Indian economy to grow in the coming years at a rate above 7% on the strength of the financial sector and other recent and future structural reforms. Only the elevated risk of geopolitical conflicts is an area of concern," the finance ministry report noted.

Meanwhile, the IMF expects the global economy to now grow at 3.1% in 2023, 20 bps higher than its previous forecast on the back of declining inflationary pressures. It however says that the pace of expansion remains slow, and "turbulence" may lie ahead.

"The clouds are beginning to part. The global economy begins the final descent toward a soft landing, with inflation declining steadily and growth holding up," said Pierre-Olivier Gourinchas, chief economist, IMF.

"Global activity proved resilient in the second half of last year, as demand and supply factors supported major economies," he said. The IMF expects the US' economy to grow at 2.1% in 2024, 60 bps higher than its previous forecast, and China's economy at 4.6%, 40 bps above its earlier projection.

"We expect slower growth in the United States, where tight monetary policy is still working through the economy, and in China, where weaker consumption and investment continue to weigh on activity," Gourinchas said. "Many other economies continue to show great resilience, with growth accelerating in Brazil, India, and Southeast Asia's major economies," he said. https://www.financialexpress.com/policy/economy-imf-raises-indias-fy24-growth-forecast-to-6-7-per-cent-3379288/

6. Data point to strides in expanding direct tax base *(thehindubusinessline.com)* Updated: January 30, 2024

The Centre has been remarkably successful at meeting its fiscal deficit targets in recent years. Buoyant tax collections have had a big role to play in this. The latest time-series of tax data throws light on this growth. The data, compiled by the Central Board of Direct Taxes, highlights three positive trends.

First, a ten-fold expansion in the Centre's total tax revenues in the last two decades from ₹3-lakh crore to ₹30-lakh crore, endowing the Union with enormous spending power. This has made possible universal welfare schemes such as the PM Garib Kalyan Yojana. The growth in tax collections during the UPA period (FY05-FY14) averaging 14 per cent was much higher than during the recent NDA rule (FY14-FY23) at 11.6 per cent. But the latter was marked by the Covid setback to economic activity and a cut in corporate tax rates. Tax revenues in the last three years (till FY23) have managed to bounce back, reverting to their historical growth rate of over 14 per cent. Second, it has been a long-standing lament that the economy rests on an extremely narrow tax base. The data show that there has been considerable improvement on this front.

The number of entities filing returns has more than doubled from 3.3 crore to 7.4 crore between FY14 and FY23, with the growth in individual filers (3 crore to 6.9 crore) accounting for the bulk of this increase. Given that a majority of return-filers declare zero tax liability, the expansion seems to be driven by tax laws mandating returns for individuals claiming rebates, and the imposition of PAN and tax collection at source on a host of new transactions. Hopefully, tax revenues from these assessees will improve once their incomes rise beyond the exempt threshold. Third, the contribution of direct taxes to total tax revenues which had dipped to 49.6 per cent in FY17 has recovered to 54.6 per cent in FY23. Direct taxes are more progressive than indirect taxes which impose an equal burden on the rich and the poor.

One aspect of the tax data that needs attention is the sluggish growth in corporate tax revenues relative to personal income tax. In the last nine years, personal tax collections have grown at an annual rate of 14.6 per cent while corporate tax revenues have grown at 8.6 per cent. Companies were granted significant tax relief just ahead of Covid, with their base tax rate cut from 30 to 22 per cent, even as the top slab for personal taxpayers was kept at 30 per cent. Yet, as the economy has rebounded from Covid, personal tax collections have expanded by 69 per cent in the last three years (FY20-FY23), while corporate tax collections have expanded by 48 per cent. National income statistics and household savings data suggest setbacks to personal income post-Covid, while corporate earnings have multiplied. It is perhaps time the anomaly between personal and corporate tax rates is corrected by granting relief to individual taxpayers. https://www.thehindubusinessline.com/opinion/editorial/data-point-to-strides-in-expanding-direct-tax-base/article67792469.ece

7. Exploring the factors behind India's decadal high tax revenue collections *(businesstoday.in)* Updated: Jan 31, 2024

Economists highlight the role of technology in better compliance over the past few

The direct tax-to-GDP ratio is expected to reach a high of 6.5% in fiscal year 2023-24. In terms of overall tax revenue including indirect taxes, the gross tax revenue, currently standing at 11.6% of GDP in FY24, is on track to achieve a 16-year high. The projections for FY25 also indicate a surge to the highest levels witnessed in the past two decades.

Experts attribute the majority of the boost in the direct tax-to-GDP ratio to the growth in income tax collections rather than corporate tax collections. Personal income tax collections witnessed robust growth, with a 20% increase in FY23 and a substantial 29.4% in FY24 (till November). In contrast, corporation tax collections experienced growth rates of 16% and 20.1% during the same period.

Let's delve deeper into the surge in the direct tax collection.

Anubhuti Sahay, Head of South Asia Economics Research at Standard Chartered Bank, attributes this achievement to the increase in personal income levels, particularly in the higher income group, and a boost to corporate sector profitability amid low commodity prices.

"The effective use of technology, especially since 2021, has enhanced transparency around various sources of income generated both by individuals and by corporates. The deployment of information from GSTN has also helped to track and tax income better," adds Sahay.

Devendra Kumar Pant, Chief Economist & Head of Public Finance at India Ratings & Research, also agrees with higher corporate profitability, owing to subdued input price rise. "The increased monitoring and compliance, and the expansion of formalisation of the economy have also helped," says Pant.

Deepak Agrawal, CIO & Fund Manager of Debt at Kotak Mutual Fund, notes that from April to November 2023, direct taxes have grown at a healthy rate of 25% over the previous year, much higher than the budget target of 10.5%. "This is underpinned by strong growth in both corporation and income tax collections owing possibly to higher incomes (particularly capital gains), margin expansion-driven gains in corporate earnings, and increased compliance," says Agrawal.

Jiger Saiya, Partner & Leader of Tax & Regulatory Services at MSKA & Associates - a member firm of BDO International, points out that the number of taxpayers has increased from about 87 million to 93.7 million. "Interestingly, at Rs.8.33 lakh crore, Personal tax collections have outnumbered corporate tax collections in FY23, which were around Rs.8.25 lakh crore.

“The personal taxes are contributing significantly to growth in overall tax revenues. The growth in direct tax collections has exceeded that in Indirect taxes,” says Saiya.

Saiya cites key reasons for this growth, including a strong economic recovery post-COVID, changes in the tax framework focusing on lowering tax rates and increasing compliance, strengthening tax administration with the help of risk-based assessments, and deployment of technology.

Santanu Agarwal, Deputy Managing Director of Paisalo Digital Limited, mentions that a crucial aspect contributing to the heightened ratio is the deliberate expansion of the tax base, bringing previously untaxed sectors into the formal economy. “This strategy has proven successful in enhancing revenue collection. In addition, India's economic recovery post-pandemic has been instrumental. As businesses regain their footing, corporate profitability improves, thereby expanding the taxable income base,” he says.

So, what’s the outlook ahead?
“While year-on-year growth in direct taxes is likely to slow in FY25 amid moderating GDP growth and the plateauing effect of low commodity prices, the improvement in the direct tax-to-GDP ratio is likely to remain a permanent fiscal buffer,” says Sahay.
https://www.businesstoday.in/latest/economy/story/exploring-the-factors-behind-indias-decadal-high-tax-revenue-collections-415553-2024-01-31

8. India needs investment appetite for green energy *(economictimes.indiatimes.com)* 30 Jan 2024

The Indian power sector is now at a critical juncture. On the one hand we must meet the growing energy needs of the country, and on the other hand fulfill the ambitious energy transitionrelated goals. Although the government must be commended for undertaking various initiatives and bringing substantive improvements in the sector viz. reduction in receivables, streamlining award of projects and honouring of contracts, adding more PSUs as REIA viz. NHPC, SJVN, rollout of AMI implementation under RDSS scheme etc., more needs to be done in this regard.

There is an urgent need to increase RE capacity addition from the present level of 15 GW per year to 50 GW per year, along with a tripling of investments. The upcoming Union Budget 2024 is an opportune time to make suitable provisions for increasing the investment appetite in the sector. Our expectations are as follows:

Scaling up finance: Measures like allocation of higher loan capital towards RE in PSBs, additional capitalisation in organisations like IREDA, raising capital through tax saving renewable bonds, suitable regulatory framework for attracting insurance firms and pension funds, providing regulatory certainty and procedural ease for InVIT and AIFs, will increase the availability of finances for RE projects.

Relaxing norms for improving investment climate: Presently, RE projects are developed through Holding Company-SPV route. Some relaxation of norms such as the exemption of holding company from being recognised as NBFC/CIC, exemption of corporate tax on dividends received by holding co for re-investment into RE assets, consolidated tax filing at group level instead of individual SPV level, will improve the investment climate.

Streamlining land acquisition process and Right of Way (RoW) issues: As land acquisition and RoW issues often delay RE projects, there could be merit in creating a suitable mechanism through a land bank and streamlining land acquisition process for faster execution.

Viability Gap Funding for Battery Energy Storage Systems: Absorption of high RE requires utility scale battery storage solutions. Presently, it is unviable due to high costs. The government may provide support through VGF to battery storage systems till it achieves scale and reduction in cost. Similarly, capital subsidy may be considered for promoting pumped storage projects, which has a higher capex compared to battery storage, but offers much better life and utility.

Capital Subsidy for Smart Grid implementation and other technologies:
Smart and robust grid is needed for bringing flexibility to the demand and supply. While the capital subsidy for AMI implementation should be continued, the scope may be enhanced by including in its ambit implementation of other technological solutions including decision support system, AI etc. necessary for improving discoms' operational efficiency and strengthening of the grid for integration of renewables.

Reduction in Taxes & Duties for promoting domestic manufacturing: Extending the concessional corporate tax of 15% to new domestic manufacturing companies till March 2027 and making it applicable for green hydrogen and hydrogen derivatives business is recommended. GST rates can also be reduced to 5% for manufacturing of green hydrogen, electrolysers, and solar modules. The custom duty on solar cells may also be reduced to foster domestic manufacturing.

Boosting R&D and capacity building: As the advent of renewables has made the power sector very dynamic, the government could consider promoting R&D and bring innovation in technologies such as battery, green hydrogen, and smart grid. There is also a need for continuous capacity building to be able to handle newer developments taking place in the sector. https://economictimes.indiatimes.com/industry/renewables/budget-2024-india-needs-investment-appetite-for-green-energy/articleshow/107270249.cms?from=mdr

9. Economy to grow at 7 per cent in FY25: Govt *(financialexpress.com)* January 30, 2024

Backed by reforms in the last ten years and new reforms to be initiated, India's real GDP growth will likely be closer to 7% in FY25 for the fourth year in a row, the finance ministry said on Monday. The sanguine forecast is notwithstanding the emergence of new geopolitical risks.

The economists led by Chief Economic Adviser V. Anantha Nageswaran said the Indian economy will become the third largest economy in the next three years with a $5 trillion economy. The International Monetary Fund (IMF) has projected the tag of India by 2027-28.

"It now appears very likely that the Indian economy will achieve a growth rate at or above 7% for FY24, and some predict it will achieve another year of 7% real growth in FY25 as well," Nageswaran wrote in the report 'Indian Economy – A Review' ahead of the interim Budget for 2024-25.

Indian economy grew by 7.2% in FY23 and the National Statistical Office (NSO) has pegged it at 7.3% for FY24. The World Bank has projected India's economic growth at 6.4% for FY25.

"It is eminently possible for the Indian economy to grow in the coming years at a rate above 7% on the strength of the financial sector and other recent and future structural reforms. Only the elevated risk of geopolitical conflicts is an area of concern," it said.

The economists said priority areas for future reforms include skilling, learning outcomes, health, energy security, reduction in compliance burden for MSMEs, and gender balancing in the labour force.

"Furthermore, under a reasonable set of assumptions with respect to the inflation differentials and the exchange rate, India can aspire to become a USD 7 trillion economy in the next six to seven years (by 2030)."

Ten years ago, India was the 10th largest economy in the world, with a GDP of $1.9 trillion at current market prices in 2014. Currently, India is the 5th largest economy with a GDP of $3.7 trillion in FY24, "despite the pandemic and despite inheriting an economy with macro imbalances and a broken financial sector."

"Recent events in the Red Sea may have brought back concerns over reliance on global supply chains, further aggravating the slower growth in global trade in 2023," the economists said.

If supply chain disruptions in 2024 persist, it could impact trade flows, transportation costs, economic output and inflation worldwide, they said, adding that India is "quietly confident of weathering the emerging disturbances."

"The robustness seen in domestic demand, namely, private consumption and investment, traces its origin to the reforms and measures implemented by the government over the last 10 years," according to their economic review.

The headline retail inflation will gradually slow, the economists said but did not specify a time frame. Annual retail inflation rose to 5.69% in December from 5.55% the previous month. https://www.financialexpress.com/policy/economy-economy-to-grow-at-7-per-cent-in-fy25-govt-3378229/

10. Strategic fiscal priorities in India's pre-election budget: A focus on tax reforms and economic growth *(newindianexpress.com)* 31 Jan 2024

As the country approaches the Union Budget on February 1, 2024, coinciding with the general elections, it's crucial to understand the nuances of an election year budget.

As elections approach, the Indian Budget in February is anticipated to be a Vote on Account rather than a comprehensive budget. This means dramatic announcements are unlikely. However, there is a substantial wishlist that includes initiatives to simplify tax procedures and compliances, prepare for the imminent adoption of Pillar Two reforms, and bolster India's economic growth with a focus on sustainability and inclusion.

As the country approaches the Union Budget on February 1, 2024, coinciding with the general elections, it's crucial to understand the nuances of an election year budget. This budget will be the last one presented by the Modi government before the parliamentary elections in April-May 2024.

In an election year, the government presents a 'Vote on Account' rather than a full budget. This is due to the constitutional provision under Article 116, which allows the Lok Sabha to grant the government permission to spend for a part of the financial year, pending the completion of the procedure for the voting of the Demands. This means that the government is authorized to incur expenditure for a limited period until a new government presents the full budget. Any big ticket changes are generally announced in the full budget post elections.

The 'Vote on Account' typically remains in force for about four months of the fiscal year, i.e., April 1 to March 31. The interim arrangement allows the new/ incoming government the flexibility to design its own economic policies without being obligated by the previous government's full-year budget.

A key feature of a 'Vote on Account' is that it does not include new tax proposals, that are generally reserved for a full budget. Instead, it focuses on the expenditure side of the budget, ensuring continuity of government operations till the new budget is presented and approved.

Given the proximity to the elections, expectations from this budget are shaped by its interim nature, focusing on immediate fiscal needs rather than introducing broad long-term economic reforms. In the last interim budget for FY 2019-20 in India, while the overall tax structure remained unchanged there were certain specific tax rebate and standard deduction concessions.

While major announcements may be deferred until after the 2024 Lok Sabha Elections, the budget is expected to address ongoing concerns and lay the foundation for future economic growth. This strategic approach aims to balance immediate fiscal responsibilities with long-term economic objectives in a pre-election context.

For the changes proposed in budget 2019-20, please see notes below:

Tax rebate for taxpayers whose annual taxable income did not exceed Rs 5 lakh,

Standard deduction for salaried employees was raised by ₹10,000,

Increase in TDS thresholds under Section 194A for interest and 194I for rent,

Exemption from tax on notional rent of second self-occupied property, Benefit of rollover of capital gains under section 54 increased from investment in one residential house to two residential houses subject to certain conditions. https://www.newindianexpress.com/business/2024/Jan/31/strategic-fiscal-priorities-in-indias-pre-election-budget-a-focus-on-tax-reforms-and-economic-growth

11. What 7% hides: GOI eco review right on growth momentum, but sustaining it needs reforms, and millions need quality jobs *(timesofindia.indiatimes.com)* January 31, 2024

GOI's review document of a decade's economic journey highlighted the strong growth impulse propelling India's economic momentum. India's performance this year is set to beat expectations. And IMF says it will remain the fastest growing major economy next year.

7%+ trajectory | GOI's advance estimate of economic growth in 2023-24 pegged it at 7.3%. Last year, Economic Survey estimated a baseline GDP growth of 6.5%, which gives a sense of the unforeseen economic momentum.

Jobs challenge | The review identifies building a skilled workforce as a challenge going forward. This aspect represents one of the low points of India's economic performance. GOI's jobs data shows a marked worsening in quality of employment. Since the pre-pandemic phase, 2018-19, there's been a shift of workers back to agriculture. The least productive sector of economy is now supporting a larger share of the workforce.

Impact on consumption | Private consumption makes up about 61% of GDP. The drift of workers back to agriculture, which now supports 45.8% of the workforce, will depress rural wages. This, in turn, will be a drag on consumption. It's already shown up in data. GOI's advance estimate of GDP for 2023-24, projected private consumptionto expand 4.4% while headline growth is expected to be 7.3%.

Reforms need acceleration | Two critical reforms that were rolled out last decade were GST and bankruptcy code. However, India can no longer afford to put off reforms to improve the productivity of factors of production such as land and labour. Changes in these areas are prerequisites to improve Indian industry's competitiveness. Moreover, these reforms will also pull a larger proportion of the workforce out of agriculture and into manufacturing.

India's growth momentum is stellar. It needs reforms to keep it going, and jobs to make it more meaningful. https://timesofindia.indiatimes.com/blogs/toi-editorials/what-7-hides-goi-eco-review-right-on-growth-momentum-but-sustaining-it-needs-reforms-and-millions-need-quality-jobs/

12. The right track to growth: Infrastructure is key driving force for realising India's vision of $40 trillion economy by 2047 *(financialexpress.com)* January 31, 2024

Infrastructure is the key driving force for realising India's vision of a $40 trillion economy by 2047.

Infrastructure is the key driving force for realising India's vision of a $40 trillion economy by 2047. The Railways has been one of the most crucial partners in infrastructure development, gearing up for a high-speed network both for the passenger segment as well as for freight movement.

Consequent to the growing GDP, the Indian Railways (IR) network will have to handle a large increase in freight traffic in the short and longer-term. IR's dedicated freight corridors (DFCs) along with feeder routes are aimed at ensuring the availability of sufficient capacity in the face of rising demand for transport. The two DFCs—Eastern (EDFC) and Western (WDFC) —have 3,381 km of track commissioned with an approved expenditure of Rs 81,459 crore that connect manufacturing hubs like Ludhiana and Mumbai with important ports, allowing exclusive freight movement, decongestion, and improved on-time performance.

These corridors are level-headedly planned to lighten the burden on existing railway trunk routes of Delhi-Howrah, Howrah-Mumbai, and Mumbai-Delhi, which have a line capacity utilisation varying between 115% to 150%. These corridors are paving the way for a high-capacity rail network, capable of handling faster (about 45 kmph faster than IR), heavier (about 6,600 tonnes higher capacity per train than IR, more than double), longer (about 700-800m longer train length as compared to IR, almost double), and higher-volume (about 2.6 times higher than IR on an average) freight trains.

The Railways has historically had mixed corridors where both mail/express/passenger (MEP) trains share the track with the freight trains. Although more revenue is obtained from freight traffic, the MEP trains usually take precedence over the freight trains. As a result, the average speed of freight trains turns fairly low and over the years, freight share too has dwindled, from 88% in 1950-51 to just 26% in 2021-22.

As part of the National Rail Plan (NRP), IR is aiming at increasing the modal share of freight to 45% by 2030. This is attainable given the elasticity of the rail transport demand with GDP growth rates being in the vicinity of 1.1-1.2% . Notably, the focus is on the congested Golden Quadrilateral, where the current rail infrastructure is overburdened. In this context, Dedicated Freight Corridor Corporation of India Limited (DFCCIL) has assumed a crucial role of operating and maintaining freight corridors to ensure a smooth and uninterrupted movement of goods across the routes.

The cohesive approach of DFCCIL pledges optimal utilisation of resources by delivering operational efficiencies and economies of scale, endeavouring to benefit both the industry and consumers. Since freight lines are dedicated, DFCCIL plans an average speed of over 70 kmph, which is almost three times higher than the average speed of 25 kmph of the conventional lines.

Moreover, to augment the capacity of the container traffic, two containers are stacked on another in WDFC with surety of arrival of goods by trains for the transporters. In addition, the DFC corridors are supported by Multimodal Logistics Parks, with seamless connectivity between rail and road modes, thereby making first- and last-mile connectivity faster and integrated. Due to these factors, the DFC corridors have the capacity to substitute freight traffic from the road significantly.

DFCCIL has commissioned more than 2,000 km (73%) of the total network and the remaining sections will be commissioned by March 2024. There were certain direct benefits envisaged by DFCCIL, such as decongesting the Golden Quadrilateral and enabling higher share of railways in freight transportation. Key factors for facilitating freight transportation and reduced logistic cost of DFCs are displayed in the accompanying graphic.

Determining how a DFC compares with the Golden Quadrilateral and other modes on these parameters are important to ascertain its competitiveness in freight transportation along the Eastern and Western corridors. There are several indirect and induced benefits that arise from DFCs at the national level, reflecting 'spillovers' beyond the envisaged direct benefits through the multiplier effect.

An estimation of their indirect contribution is not only important for national and international perception and policy implications, but also to generate considerable investment interest for the pending North-South and Southern DFCs. https://www.financialexpress.com/opinion/the-right-track-to-growth-infrastructure-is-key-driving-force-for-realising-indias-vision-of-40-trillion-economy-by-2047/3379322/

13. One Nation, One Tax Dream: Can Budget 2024 address GST complexities and pave the way for a truly unified tax regime? *(livemint.com)* Jan 31 2024

Finance Minister Nirmala Sitharaman will present the interim budget on Thursday (February 1). Expectations for Budget 2024 include advocating for a progressive tax structure, targeted relief for SMEs, promoting digital transactions, and reviewing the GST structure. Tax incentives for sustainable practices and strategic investments in social sectors are also proposed.

India's complex GST structure with its multiple rate slabs has stalled the dream of 'One Nation, One Tax.'

"Streamlining rates and procedures could unclog the wheels of compliance and boost tax revenue – paving the path to an efficient unified regime. The upcoming budget must frontally address procedural headaches to realise a simplified GST's full potential," said Ashish Aggarwal, Director, Acube Ventures.

GST was envisioned as a landmark tax reform to integrate India's fragmented market. "However, complex filings and frequent rate changes have harmed compliance. The budget must spur fresh thinking to resolve issues like inverted duty structures, while pushing export and job growth. With targeted changes, a simplified GST can yet become the tax law that unites India's market," said Agam Gupta. Executive Director at Share India Fincap Pvt. Ltd.

The coming budget is likely to serve as a precursor to the long-term policy endeavors that the incoming government may embark upon post-elections. "This may include an emphasis on fostering public-private partnerships for financing, which could potentially catalyse private sector investments in sustainable projects, aligning with India's pledge to attain net-zero emissions by the year 2030," said Saurabh Srivastava, Co-founder, of India Angel Network

The slew of positive measures taken by this government to kick-start the entrepreneurial ecosystem have already made India the third-largest startup ecosystem in the world.

Given the phenomenal potential of startups to create employment while solving India's many challenges in affordable healthcare, education, environment etc, the ecosystem hopes that the remaining tasks will also get addressed. “These include the same tax treatment for LTCG and STCG for listed and unlisted equities, taxation of ESOPs on sale and not on exercise, an enabling framework with possible incentives (like tax credits given by the US, Singapore and Israel) to increase the flow of domestic and foreign capital to startups and help increase the number of SEBI registered India focussed AIFs by removing their current disadvantage re GST payments vs overseas VC/PE funds," said Saurabh Srivastava.

Our expectations for Budget 2024 are grounded in the pursuit of tax parity, fostering a resilient fiscal environment, said Kuljeet Singh, Director of Finance at GI Group Holding.

“Key measures may include advocating for a progressive tax structure, incentivizing compliance, and providing targeted relief for Small and Medium Enterprises (SMEs) to enhance economic inclusivity. We propose promoting digital transactions through incentives and calling for a comprehensive review of the Goods and Services Tax (GST) structure for simplification. Recognizing environmental responsibility, we suggest tax incentives for sustainable practices," said Kuljeet Singh.

Following the positive push for fintechs in the previous budget, we look forward to continued favorable policies this year, said Ramanathan RV, Co-founder, of Hyperface.

"The fintech industry, in particular, stands to gain significantly from increased subsidies and support, providing a crucial boost for startups like ours and fostering overall growth and innovation in the country, said Ramanathan RV.

We are hopeful that the budget will further support fintech startups by extending tax benefits, encouraging new ideas, and addressing key areas like regulatory backing, incentives for financial inclusion, and digital progression, he added.
https://www.livemint.com/industry/one-nation-one-tax-dream-can-budget-2024-address-gst-complexities-and-pave-the-way-for-a-truly-unified-tax-regime-11706684031113.html

14. Why ‘Make in India’ in defence cannot succeed without private sector *(hindustantimes.com)* Jan 31, 2024

In her joint address to Parliament today, President Draupadi Murmu said that ‘Make in India’ and ‘Aatmanirbhar Bharat’ had become strengths of new India and lauded that defence production had crossed the one-lakh crore mark.

Bharat’s defence exports, according to Finance Minister Nirmala Sitharaman are expected to touch USD 2.8 billion or ₹24000 crore in 2024. The Indian defence exports have grown 23 times in the past nine years, surpassing USD 1.9 billion or ₹16000 crore since Prime Minister Narendra Modi came to power in 2014. The defence export figure in 2013-2014 was mere ₹686 crore even as India is now preparing to supply BrahMos land attack supersonic missiles to Philippines, which is facing the brunt of Chinese military coercion in the South China Sea.

While all these point to a positive growth trajectory to Indian defence manufacturing and exports but the Narendra Modi government will also have to shoulder the responsibility of amending the tedious and long winded Defence Procurement Rules in order to allow the government to buy from Indian private sector manufacturing latest defence platforms. The Indian defence private sector is at the mercy of a moribund Defence Ministry bureaucrats, Defence PSUs and DRDO, who all make tall talks but deliver very little on ground. To add to this mess are the Indian armed forces, whose qualitative requirements (QRs) from the vendors are twisted in such a way that Indian manufacturers are often kept at bay and foreign vendors make a killing. For example, the QRs for fighter aircraft or submarines are made in such a way that one should not be surprised if the Navy did not want submarines to fly and the Air Force wanted the fighters to transform into sub-surface combatants.

It is quite evident that PM Modi has invested a lot into the 'Make in India' initiative but the defence start-ups will fade away if the government does not provide them adequate support to manufacture the desired platform but also ask the armed forces to buy them. Simply put, why should any third country buy from Indian manufacturers if its own armed forces do not patronize them. The government needs to hammer into the Indian military-defence bureaucracy that Indian private defence manufacturing must be supported as Defence PSUs and DRDO alone cannot deliver. Take for example, the DRDO's drone project which has totally failed to deliver even though countries like Iran and Turkey are exporting to third countries including Russia and Pakistan.

Rather than focusing on their core competence, the DRDO has developed a habit of growing berries in Leh to drugs for immunity to COVID to building ICBMs, and fiercely protects its fiefdom. Even if the DRDO does not have the technology, it is sure to write a letter to the government to prevent the armed forces getting a better developed and proven product. A classic example is how the DRDO stymied the US Javelin and Israeli Spike shoulder fired anti-tank guided missile (ATGM) projects. It is another matter that India had to buy Spike ATGMs from Israel as part of emergency purchases (at much higher prices) after China transgressed into Ladakh in May 2020 as the DRDO product was still undergoing trials. Fact is that the DRDO letter is a project killer as the same will be leaked to the media to ensure that the government shelves the acquisition or else gets accused of taking bribes from a foreign or even a joint venture vendor.

If the 'Make in India' project of the Modi government has to succeed, then tough decisions must be taken in coming months to ensure accountability on part of the DRDO and the Defence PSUs. The Indian private players must also be subjected to the same accountability so that indigenous defence manufacturing ensures that India is not dependent on any third country to defend itself. One must remember, the Indian Navy's latest submarines were planned in 1999 and the Air Forces' shelved MMRCA project was planned in 2001. The first of the 36 Rafales landed in India in July 2020 at the peak of India-China tensions with the bloody Galwan skirmish happening only a month before. 'Aatmanirbhar Bharat' is a measure of Indian confidence in its own capabilities and strength. PM Modi will have to go for disruption if Bharat is to come out as the factory of the world. https://www.hindustantimes.com/india-news/why-make-in-india-in-defence-cannot-succeed-without-private-sector-101706690086585.html