# IMPACT OF BUSINESS PLAN AND ASSOCIATED ENVIRONMENTAL ISSUES FOR EMERGING INDIAN ECONOMY

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## *ABSTRACT*

***Writing a business strategy is an essential aspect of starting and running a business. Without a clear strategy, it is difficult to set meaningful goals and objectives. In determining your business strategy, a logical analysis of the environment in which you operate will both inform and influence the outcome. This analysis – commonly called PESTLE, for political, economic, sociological, technological, legal and environmental – paves the way for identifying opportunities and threats, and effective business planning.***

***The strength and performance of the local, national and international economy can all impact a business, presenting both opportunities and threats. Different types of taxation and other duties can also hit your bottom line hard, so a deep understanding of the fiscal environment is essential in order to prepare viable financial forecasts.***

***KEYWORDS: S-Strategy, E-Environment, S-Sociological, O-Opportunities***

## THEORY BACKGROUND AND HYPOTHESIS DEVELOPMENT

Environmental concerns have become important in recent years, with the wider impact of doing business increasingly recognized by consumers as a factor in their buyer behavior. Responsible business owners should look for ways to minimize the environmental impact of their operations. For example, many businesses are looking for ways to lower the impact of their energy consumption. The positive effect of a responsible environmental attitude is that it may attract new customers who prefer to purchase more ethically derived products. As companies develop their growth plans, environmental issues are playing a bigger role in determining their options, capital allocation decisions and the ability to carve-out or sell an entire business or its assets. Meanwhile, senior management and corporate boards are being challenged to better identify, understand, assess, price and manage the risks associated with their companies' operations.

Significant value can be attributed to proactive and effective environmental performance, and this is likely to increase given the new price on risk. Companies should be positioning themselves to anticipate the drivers of regulatory and stakeholder expectations, consider their alignment to business priorities and evaluate the company's readiness to respond to the implications of environmental performance as it relates to operations, brand image, compliance structures and even company valuations. To do so, they need to understand how regulatory and enforcement trends are evolving, their potential impact on business strategy, operations and entity valuation, and what their companies can do to align management of environmental exposures with their strategic decision-making.

### Potential Actions to Consider

Strengthening environmental performance management in such a way that it enhances overall business performance is no easy task. Nevertheless, there are steps that executives should consider to help accomplish their strategic growth objectives and align management of environmental exposures with their company's overall strategy:

#### 1. Identifying the Impact of Environmental Performance on Strategic Growth, Access to Capital Markets and Competitiveness (Cost Efficiency)

From an investor's standpoint, the issues and opportunities presented by environmental exposures are not only becoming a factor in strategy development and influencing buy/sell decisions, but are also integral to managing companies' day-to-day operations. Applying a strategic, structured approach that balances growth aspirations and sustainability considerations may help give appropriate priority to different projects and assist management in allocating time efficiently. Furthermore, it may help the business meet both public expectations and government requirements for environmental exposure. Such an approach also may provide a foundation

to use sustainability as a business growth driver, where leading sustainability practices are applied across business units locally and globally.

### 2. Embedding Environmental Considerations in Capital Planning and Budgeting

Business concerns over operational and financial risks are mounting since environmental and social performance is impacting access to emerging markets, operating permits and investment capital. Availability and price volatility associated with raw material inputs such as natural gas and water are presenting commodity risks, and businesses are achieving cost savings by reducing outputs (such as wastes and by-products) as well as their dependence on inputs.

The importance of weighing environment-related risks and opportunities in capital planning decisions is intensifying. Influencing factors include the changing global economic environment and corresponding demand and supply imbalances, as well as high-profile events—from product recalls to industrial accidents. Taking a fresh approach to capital budgeting decisions when investing in technologies and processes that reduce consumption and waste can help improve overall return on investment in environmental policies.

### 3. Factoring Environmental Issues into Strategic Buy/Sell Decisions

Forward-looking business leaders understand that environmental issues may present an opportunity for both risk management and value creation. They also know that there are infrastructure constraints that extend beyond the scope of a company that is looking to restructure its business by acquiring or carving off some of its assets. Which environmental risks or opportunities can affect a company's value, and how do environmental risks and opportunities impact key valuation metrics and deal structure? Which risk or opportunities should be targeted first? Where are the early successes and differentiators, and where are the significant risks that should be managed or mitigated? Answering these questions can help companies not only leverage the competencies, but redefine performance expectations of the new entity as a result of M&A.

Certain externalities may only be addressed through collaboration with nontraditional business partners, including the government, supply chain partners and even competitors. Business sectors that are engaged in joint ventures that seek to reduce contractor-related risks might consider implementing environmental and social contractor performance requirements in advance of formal regulatory requirements.

## Viewing Environmental Policy as Risk and Reward

The regulatory environment and determining potential liability are two common concerns for executives today; however, a company's environmental strategy should not be merely a reactive response to financial or regulatory threats. Thought should be given to how access to emerging markets, key raw material inputs, operating permits and capital loans are increasingly being influenced by environmental and social performance. As environmental expectations and performance requirements develop, companies can move from short-term risk avoidance and regulation compliance to long-term development of brand, as well as

competitive and operational advantage. Moreover, companies that choose to address the environmental opportunity through a disciplined and structured approach may reap the rewards of increased returns (such as energy and water operational efficiencies) and tax incentives.

Proactive environmental management presents an opportunity for companies to differentiate themselves as leaders in the industry, the environment and society, supporting long-term business success. In fact, the markets are demonstrating a similar approach to environmental exposures—where contaminated property, exposure to increased operating costs due to regulatory requirements, and dependency on natural resources are increasing the cost of capital or are being factored into the attractiveness of investment opportunities. Applying a systematic, enterprise-wide approach to assessing environmental risks and opportunities may help management significantly increase the focus on those sustainability activities that create a higher return on invested capital or create more value for shareholders.

The COVID-19 pandemic is a result of degradation of natural areas, species' loss and exploitation, UNEP country head Atul Bagai said, underlining that countries, including India, must intensify their efforts to prevent and reverse ecosystem degradation.He also highlighted that climate change, pollution and loss of biodiversity are three crises facing the entire planet and India, and are interconnected.India is going through a period of unprecedented economic liberation, opening its vast consumer base to international firms. However, it is a notoriously difficult place to do business, and having local help on board is the key to unlocking the country's vast economic potential.India is an enormous country with vast economic potential, but traversing the diverse and complicated corporate landscape can be a daunting task without the right help on board.Not only is India one of the fastest growing countries in the world, it is also going through a period of unprecedented economic liberation, granting overseas investors more access to its vast and varied market than ever. A large, young population and a strong export sector await expanding businesses, with a potential consumer base that far outstrips most other nations in the developed and developingworld.

Political stability and broad consensus on reforms is also a big pull for expanding companies, and the well developed banking system and vibrant capital market highlight the maturity of its financial system. But doing business in India can still be a troublesome endeavour, and having local help can really make the difference to the success of your venture.
Managing amid the COVID-19 crisis

The impact of COVID-19 (coronavirus) on employees and businesses is continually evolving – from supply chain disruption to order cancellation; from sick pay calculation to changing tax and accounting deadlines.

TMF Group is responding to the crisis, protecting employees and safeguarding our service delivery to clients around the world.

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**The country is experiencing a lopsided economic recovery with some sectors performing better than others. However, the scars of the pandemic are deep, and the economy is likely to witness stress even if there is a V-shaped recovery.**

After having battled one of the biggest recessions it faced in recent memory, there was some cheer for India's economy that recorded a positive—albeit marginal—growth in Q3 FY 2021. Till recently, economic activity seemed to be gathering momentum at a sustainable pace with people demonstrating greater confidence in stepping out and spending. The vaccination drive has made good progress too; over 132 million people (at the time of writing this article)—mostly from the vulnerable segment of the population—have been inoculated in a span of three months.

Of course, the recent spike in infection and the imminent threat of variants cast a cloud of doubts. Mobility restrictions that hurt the economy the most, are being imposed back (although in a calibrated manner) by a few States. While it is easy to lose hope in tough times, similar experiences around the world provide some comfort. Much the same way the United States witnessed a sharp increase in infection rates during the second wave (starting November) yet experienced economic impact that was relatively low compared to the first wave, we expect the economic and health impact of the subsequent waves in India to be contained to a quarter or two.

We are cautiously optimistic and expect growth to touch 11.7% in FY 2022. Growth in FY 2022 will likely be a story of two halves, with economic activity picking up rapidly in the second half. While we expect a strong revival in the years ahead, it might be naïve to not accept the scars the pandemic may leave behind on the economy. One of the apparent aftermaths is the rise of a dichotomous world that we are currently witnessing. In this article, we take a sneak peek at the rising inequalities that may have implications on all walks of the economy.

## A growth story of two halves

We were among the first few to have predicted double-digit growth in FY 2022 back in December 2020. We continue to remain optimistic about growth despite the rising number of infections. This is because of the strong rebound in manufacturing and several services sectors, while the agriculture sector—the knight in the shining armor amid the pandemic-led recession—continues to perform steadily. On the demand side, recent data suggests that capital investments have seen a strong rebound after a prolonged period of lull. The momentum is expected to continue as held-up or postponed investment decisions will likely see implementation after a lag of one year. More importantly, the base effect will give a big thrust to overall growth.

After a contraction in FY 2021, we expect the economy to grow at a modest pace in the first half of FY 2022. Growth is projected to reach 11.7% in FY 2022 in our baseline scenario. That said, slow recovery in a couple of quarters will likely have an impact on next year's numbers as well. In FY 2023, we foresee growth of 6.9% (figure 1). In addition to the low base effect in FY 2021 and Milton Friedman's plucking[1] theory playing out, we believe five drivers will steer growth over the next two years:

- The rapid pace of vaccination and low death rates despite high infection
- Strong growth in private investment, and its rebound stimulated by reforms and schemes
- Pent-up demand backed by savings made by high- and mid-income consumers who are waiting to spend

- Fiscal spending on building assets and infrastructure (that have a high multiplier effect on income, jobs, and private investments) that will likely start gaining momentum on the ground

- Global economic rebound in late 2021, especially driven by the United States, as predicted by our US economists2

The baseline accounts for the downside risks such as the possibility of a modest performance in the hospitality sector due to uncertainties around movement restrictions. While it's highly likely that the aforementioned drivers will persist, our alternate growth projections show a modest recovery in the years ahead in case they don't.

The **environmental impact of agriculture** is the effect that different farming practices have on the ecosystems around them, and how those effects can be traced back to those practices. The environmental impact of agriculture varies widely based on practices employed by farmers and by the scale of practice. Farming communities that try to reduce environmental impacts through modifying their practices will adopt sustainable agriculture practices. The negative impact of agriculture is an old issue that remains a concern even as experts design innovative means to reduce destruction and enhance eco-efficiency. Though some pastoralism is environmentally positive, modern animal agriculture practices tend to be more environmentally destructive than agricultural practices focused on fruits, vegetables and other biomass. The emissions of ammonia from cattle waste continues to raise concerns over environmental pollution.

When evaluating environmental impact, experts use two types of indicators: "means-based", which is based on the farmer's production methods, and "effect-based", which is the impact that farming methods have on the farming system or on emissions to the environment. An example of a means-based indicator would be the quality of groundwater, that is affected by the amount of nitrogen applied to the soil. An indicator reflecting the loss of nitrate to groundwater would be effect-based.[3] The means-based evaluation looks at farmers' practices of agriculture, and the effect-based evaluation considers the actual effects of the agricultural system. For example, the means-based analysis might look at pesticides and fertilization methods that farmers are using, and effect-based analysis would consider how much CO2 is being emitted or what the Nitrogen content of the soil is.

The environmental impact of agriculture involves impacts on a variety of different factors: the soil, to water, the air, animal and soil variety, people, plants, and the food itself. Agriculture contributes to a number larger of environmental issues that cause environmental degradation including: climate change, deforestation, biodiversity loss, dead zones, genetic engineering, irrigation problems, pollutants, soil degradation, and waste. Because of agriculture's importance to global social and environmental systems, the international community has committed to increasing sustainability of food production as part of Sustainable Development Goal 2: "End hunger, achieve food security and improved nutrition and promote sustainable agriculture".The United Nations Environment Programme's 2021 "Making Peace with Nature" report highlighted agriculture as both a driver and an industry under threat from environmental degradation.

## Overall progress and challenges[

Kolkata Police North traffic guard distributing food among poor during Corona crisis in Kolkata, India.Despite the progress, research shows that more than 790 million people worldwide still suffer from hunger. There has been major progress in the fight against hunger over the last 15 years. In 2017, during a side event at the High-Level Political Forum under the theme of "Accelerating progress towards achieving SDG 2: Lessons from national implementation", a series of recommendations and actions were discussed. Stakeholders like the French UN mission, Action Against Hunger, Save The Children and Global Citizen were steering the conversation. It is unlikely there will be an end to malnutrition on the African continent by 2030.

To achieve progress towards SDG 2 the world needs to build political will and country ownership. It also needs to improve the narrative around nutrition to make sure that it is well understood by political leaders and address gender inequality, geographic inequality and absolute poverty. It also calls for concrete actions including working at sub-national levels, increasing nutrition funding and ensuring they target the 1st 1000 days of life and going beyond actions that address only the immediate causes of malnutrition and look at the drivers of under-nutrition, as well as at the food system as a whole.

## Economic pressure to develop

"My government firmly believes in the path of sustainable development. We are ensuring that development happens without harming the environment," tweeted Prime Minister Narendra Modi on February 17, 2020. Modi's NDA government has a poor record of caring for the environment since it came to power in 2014. Modi's first term was punctuated by campaigns that incentivised manufacturing (Make in India) and start-ups (Startup India).

Environment Minister Prakash Javadekar has consistently projected a business-friendly image for the MoEFCC, promising to improve the 'ease of doing responsible business' while bringing in faster clearances for businesses in India. Javedekar took additional charge of the ministry for Heavy Industries and Public Enterprises in November 2019.

Modi set a target to make India a $5-trillion economy by 2024-25, within 50 days of being re-elected for a second-term. In 2019, India's economy, before the COVID-19 pandemic impact, stood at $2.7 trillion.The $5-trillion gross domestic product (GDP) goal, say economists, can be achieved by spending on public infrastructure. "It's urgently needed," Jayan Jose Thomas, associate professor of economics at the Indian Institute of Technology-Delhi, told **IndiaSpend**. "A fall in public investment since around 2011 is one of the key reasons for the current economic slowdown."

Investment in infrastructure projects such as highways, port facilities and power would attract private investment and give a much-needed boost to the manufacturing sector. This, in turn, is key to generate jobs needed to employ India's growing working age population, expected to number over 800 million by 2050.

Stakeholders and environmental observers warn that India's push for infrastructure and attempt to lure investments is resulting in undesirable and ill-conceived projects at the cost of the environment. They say that the environment ministry is rejecting minimal proposals under the guise of development, endangering the last remaining pockets of biodiversity and reserves of natural resources, thereby weakening our resilience to climate change challenges.

"There's an approve-now-deal-with-the-consequences-later approach among successive governments," Kanchi Kohli, senior researcher at the Centre for Policy Research (CPR), told **IndiaSpend** just before the COVID-19 outbreak in India. "As long as we reach the $5-trillion mark with the economy, there's a belief that everything can be handled after."

## Environment or Economy?

India must choose between the environment and the economy, said transport minister Nitin Gadkari in July 2019, when discussing the merits of a poor country spending on mitigating initiatives that help conserve wildlife.

Two months later, in September 2019, Javadekar signaled a change in the government's stance, telling the Parliament that development and the environment must go hand-in-hand to achieve the $5-trillion economy goal. Javadekar's statement came after the United Nations General Assembly's special envoy for climate change, Luis Alfonso de Alba, visited several countries, including India, urging leaders to be more ambitious in their climate change battle.

Earlier too, Javadekar has said that the MoEFCC can balance business interests with environmental ones. He has said that the ministry's move to drastically reduce the time taken to grant environment clearance--down from 640 days pre-2014 to 108 under his leadership--to projects will not impact the quality of their evaluation (more on this later). The 87% environment clearance rate adds little weight to Javadekar's words.

A significant tool in India's armour to ensure that development and environment indeed go hand-in-hand is something called an Environment Impact Assessment (EIA)*. An EIA is the first step on the basis of which an environment clearance (or approval) is granted to any proposal to commence infrastructure, mining, processing or manufacturing undertaking. The EIA aims to red-flag potentially damaging impact on the environment of any large project proposal. Clearances are given either by the Centre or the states depending on the scope and nature of the proposed project. Separate forest* and wildlife clearances* might be required based on the proposed project site.

In the early days of the COVID-19-induced lockdown in India, the Centre released a new draft of the EIA notification in March 2020. The draft seeks to allow *post-facto* approval of projects that have gone off the ground before acquiring an environment clearance. It also exempts certain activities, such as extraction, sourcing or borrowing of ordinary earth for linear projects such as roads and pipelines from seeking an EC. The draft also proposes to exempt activities such as dredging and desilting of dams, reservoirs, river, and canals, among other proposed dilutions.

Days later, even as the COVID-19 toll continued to mount, on April 7, 2020, Javadekar announced in a series of tweets that the National Board of Wildlife (NBWL) had granted wildlife clearances for projects including highways, railways and hydroelectricity, in 11 states.

"Right now, a lot of ecologically rich and fragile land is being encroached upon. There are different ways to reach this [GDP of $5 trillion] target without exploiting the country's natural endowment," Saudamini Das of the Institute of Economic Growth told **IndiaSpend** before the COVID-19 pandemic led to downward revision of growth estimates.

The MoEFCC denied that India's sustainable development is being compromised. "It is my understanding that it [EC approval] is done after a rigorous evaluation process," said Sharma. "When approvals are given, whether for certain townships or industries, there are norms with regards to air, water, land pollution that might happen, and [there are conditions] how to tackle them."

**IndiaSpend** reached out to Maharashtra's principal secretary (environment) Anil Diggikar and Gujarat's additional chief secretary (forest and environment division) Rajiv Gupta for comment on the large number of ECs for projects in their respective states. This report will be updated as and when they respond.

## Counting numbers, undermining value

India's GDP growth slid from 8% in 2015-16 to 7.2% in 2017-18. While India was projected to grow at 7% in 2019-20, credit rating agency Moody's revised it to 0.2% in the aftermath of the COVID-19 pandemic.

India's projected GDP loss due to environmental degradation could be over 1.5% by 2050 if it continues on the 'business as usual' path i.e. high environment degradation and carbon emissions, according to a February 2020 report by the World Wildlife Fund (WWF). Of this, loss due to changes in pollination alone is estimated to be between $0.8 and $3 billion, and up to $9.2 billion due to water scarcity for irrigation, according to the

report. The world is staring not only at an environmental crisis but "heading for an economic crisis too", the report summarises.

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