

ILLUSTRATION BY BINAY SINHA



ON PHILANTHROPY

The recipe for philanthropy is an inheritance tax and improved management of not-for-profit bodies, says NITIN DESAI

Bill Gates and Warren Buffet have launched an appeal to all rich individuals to pledge half of their wealth to charity. If this plea is heard by the richest 1 per cent of Indians, who own 16 per cent of the ₹100 trillion or so of household wealth, then a truly formidable sum would become available for charitable purposes.

Not that this is very likely. The actual level of private giving by individuals, according to a 2002 survey by PRIA*, was around ₹42 billion a year, which, with 10 per cent growth, would have become around ₹75 billion in 2008. Corporate and business donations in that year may have amounted to around ₹10-12 billion, judging by the tax loss figures in the Budget. Institutional giving by foundations is difficult to assess. The Tata trusts, which are most professionally organised, disbursed around ₹2 billion. There are not many in the same league and ₹10 billion is a generous estimate of total disbursements by Indian foundations. There is also some blurring of the distinction between corporate and personal charity with so many companies being run as family fiefdoms. This annual flow of giving amounts to about 0.2 per cent of GDP.

The problem is not in any cultural barrier to giving. According to a large-scale survey done by PRIA, 41 per cent of the households contribute to charity and two-fifths of these are poor households with an income below ₹25,000 a

year. Of course, much of the giving is for religious rather than social, humanitarian or developmental purposes.

The real problem for philanthropy is the absence of a significant incentive to persuade super-rich Indians to part with some of their wealth. The Ambanis and K P Singhs of India have assets that are far beyond the requirements of even the most opulent lifestyle. Why cannot they give at the same scale as foreigners like Bill Gates and Pierre Omidyar are doing in India?

What makes the rich US citizens so much more generous so that they donate 2.2 per cent of their GDP every year? The high level of giving in the US is at least partly a product of the high level of inheritance taxes, which can go up to as much as 46 per cent for estates above \$2 million. The prospect of heirs losing so much to the government persuades high net worth individuals to pledge very substantial amounts to charity. A related motivation is the maintenance of control over corporations by placing large holdings in family-run charitable foundations. This stimulus for giving is totally absent in India, where the rather ineffective estate duty was abolished in V P Singh's 1985 Budget.

The modest tax set-offs available under Section 80G and 35 AC are clearly not enough to stimulate really large donations of the scale contemplated by the Gates/Bufet appeal. For that, the disincentive of a stiff inheritance

tax (which is also justifiable as a relatively non-distorting revenue measure) combined with provisions that allow charitable trusts to retain shares in family-controlled companies may well be necessary if we want large-scale giving. Perhaps awarding Padma Bhushans to the big givers rather than to shady restaurateurs may help.

The lack of incentives to give to charity is only one part of the answer. There are many rich Indians who are prepared to give if they can find potential users they can trust. But because they cannot find reliable partners, they end up doing the social, developmental or environmental work themselves. This is inefficient and cannot go to scale easily — not unless the corporation, in effect, enters a new line of business. Management competencies and personnel skill available in a company for the corporate business are best used for making money. The charitable work they want to promote in education or health or environmental care and the work with local communities that this requires should be done by people who have the domain knowledge and personal relationship with the ultimate beneficiaries. The trouble is that the not-for-profit organisation (NPO) sector is quite disorganised and sifting the good, the bad and the ugly is quite difficult.

The PRIA survey shows that India has well over one million NPOs, half of them unregistered and nearly three quarters with one or no paid staff. They

depend largely on volunteers who account for 85 per cent of their employment. Many depend on a single charismatic and often headstrong individual. Barely 5 per cent have 10 or more paid staff. These NPOs received ₹179 billion in 1999-2000, about half from self-generated receipts from fees and services, about one-third from the government and the rest from private donations.

If we want charitable giving to increase, we need changes at the NPO end also. The best would be a rating system that grades them by probity and efficiency. Another approach would be to fund by results, with outcomes being audited by an independent body — so much per child immunised, so much per child who completes a full year of school and so on.

But all this is a counsel of perfection. We need something more immediate to raise standards of transparency, particularly in the handling of money, reliable and accurate reporting of performance and governance that ensures continuity of effort. What we need is a measure of self-regulation and this task can be taken up by some of the apex organisations that have emerged recently to lobby for NPOs.

Another major gap is the absence of trusted intermediaries who can put together potential donors and NPOs, acting to increase each party's level of comfort with the other. Such an intermediary can act like a venture fund, providing a channel not just for money but also for management support.

The government also needs to re-examine the new Direct Taxes Code which makes it very difficult for NPOs to finance some of their activities from fees and to carry forward funds from one year to another, a necessity when government grants are often released in the last quarter and some multi-year grants are given upfront. As for the delay and corruption in the regulatory offices, the less said the better.

This then is the recipe for philanthropy — an inheritance tax, a tax code, a regulatory system that is more sensitive to the compulsions of not-for-profit bodies, and a more structured, more transparent and better managed NPO sector.

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* *Invisible, yet Widespread: The Non-Profit Sector in India*, PRIA, New Delhi, December 2002