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*“Unlocking the full potential
of the U.S.-India relationship”*

Bridging the Gap? New Philanthropy in India

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Standard & Poor's recently cut its outlook on India's investment rating from stable to negative. The decision was met with shock from India's Ministry of Finance, but it echoed a sentiment currently running through policy discussions about India—that investors and policymakers in and outside of India are looking at the central government with disbelief and disappointment over the stalling of further economic reforms.

At the individual level, too, there is a palpable perception of economic unease, as illustrated by a recent Gallup poll, which revealed that an increasing number of Indian citizens consider themselves to be “suffering.” Gallup had asked them to classify themselves as “thriving,” “struggling,” or “suffering,” and between 2011 and 2012 there was an increase from 24 to 31 percent in the latter category. Given the global economic downturn, and India's slowing growth rate, it is not an altogether surprising finding. But given India's increasing number of “super-rich,” a vastly expanded middle class, and the massive government handouts that are supposed to target those in need, this is indeed a somber surprise.

Enter the Philanthropy Factor

Just before the Gallup survey was released, Bain & Company published their third annual report on philanthropy trends in India. In it, there is promising news. Last year, the report highlighted the fact that charitable giving had increased by 50 percent between 2006 and 2011. This year it notes that within the growing population of India's wealthy there is “an especially strong commitment to ‘giving back.’” Since government assistance can realistically only reach a portion of India's vast needs, these new philanthropists can begin to address the existing gaps. That India's wealthy are stepping up to give in new ways is a welcome and significant change.

Giving in itself is not new to India. But there are big changes underway, which are evolving into a new type of giving—new donors, new intermediaries, and a new trend in giving for the greater social good, beyond one's household help and religious institutions. One encouraging point is that more than 70 percent of those polled are considered novices, and a majority of them are under 40. They also report an interest in venture philanthropy—a sustained method of giving over time to the same organization as it grows and reaches targets. This group of philanthropic novices is committed to giving more, and as they become more seasoned, they can significantly increase the community's quality of life and drive a level of professionalism in the philanthropic ecosystem that is not yet widespread.

UID Helping Those in
Need

With nearly half a billion citizens living in poverty and nearly half of all children under age 5 malnourished, there is an urgent need for the Indian government to support innovative projects to improve the delivery of government services to the poor. Combined with India's current political and economic doldrums, it is vexing to observe the continuing political opposition and setbacks facing India's Unique ID (UID) program. The UID program will be the world's largest and most advanced biometric database when completed, and it has the potential to fundamentally change how government services are provided and accounted for.

Spearheaded by IT entrepreneur Nandan Nilekani, the UID program seeks to provide every Indian with a unique number based on biometric information (such as iris scans and fingerprints) accessible from a central government database. A recent study showed that the UID was the first “portable ID” (such as a driver's license) for more than 56 percent of enrollees, with 87 percent of those in households earning less than \$2,000 annually. By providing more recipients of government aid with this kind of ID, the UID program would help eliminate the vast inefficiencies that plague many government initiatives. Hundreds of billions of rupees are spent annually on food subsidies for the poor. The amount siphoned off by endemic corruption disproportionately affects India's youngest and most vulnerable, who go hungry. Integrating the UID system into existing programs would likely have a greater impact than would simply providing additional aid.

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Literally thousands of NGOs and charities will have to compete to attract this growing group of young, wealthy, socially conscious donors. Many “want to adopt Western practices that favor more structured ways of giving, with a focus on outcomes,” notes the Bain report. It also advises that “...this growth [in philanthropy] is contingent on organizations demonstrating impact and raising confidence in the returns on giving.” India’s nascent philanthropic ecosystem will have to become more transparent, accountable, and outcome oriented.

Wide Space for Philanthropists in India

Over 400 million people in India live below the poverty line (less than \$1.25/day). One-third of the world’s malnourished and stunted children live in India, with nearly 50 percent of children under 5 considered “stunted due to chronic under nutrition,” a situation Prime Minister Singh called a national shame. The government is often unable to provide essential services such as primary school education and basic healthcare to a large swath of the population. Philanthropists have an opportunity to help bridge these gaps in services.

Today, India’s philanthropic donations amount to just 0.6 percent of GDP. While this may surpass other BRICS economies, these efforts are insufficient given the scale of current challenges. It may take decades to reach the current level of giving in developed economies (2.2 percent of GDP in the United States), but if the goal is to decrease chronic poverty, then government incentives for giving must change.

Increase Incentives, Decrease the Burden

If there is one thing that India’s economic reforms in the early 1990s proved, it is that when its private sector is unshackled, it flourishes and succeeds. The same should be done for the philanthropic ecosystem. The Indian government can empower philanthropists and in the process ease the burden on themselves and permit philanthropy to thrive.

Philanthropists’ most consistent complaints are of an NGO sector lacking in capacity and professionalism, little access to capital and mentors, and tax laws that don’t incentivize giving. The first two complaints are being addressed by a growing group of dynamic young professionals. But the Indian government is the only actor that can amend the code to incentivize greater giving. It would not only increase donations, but those same donations will ease the burden and dependence on government handouts in the future. Donors in India currently receive a tax break on 50 percent of their donations or 10 percent of their taxable income, whichever is lower. They receive 100 percent deductions for some giving, but the eligible organizations, listed in India’s Income Tax Act of 1961, are very few. A blanket 100 percent deduction on contributions to registered charitable organizations would incentivize more donors, as it does elsewhere.

It has long been recognized that the level of philanthropy in India is not proportional to the accumulation of wealth in the country, although in recent years there have some notable exceptions to this by leading industrialists and entrepreneurs. The Bain report makes it clear that many more Indians are taking up the banner of “giving back.” If the Indian government can stimulate further wealth creation (by pushing ahead with stalled economic reforms) and more tax incentives, a synergistic effect will be created that, over time, will surely have a major impact on India’s population most in need and on its economic outlook.

As of January 2012, the UID program had issued over 110 million IDs and is on pace to reach 400 million by December. This is astounding given the obstacles the program has had to overcome. A turf war between the nascent UID Authority and a similar biometric ID program for homeland security purposes threatened to derail the entire project. Several state governments have argued that there are more cost-efficient ways to reduce corruption, Parliament has balked at the broad mandate of the program, and there are myriad privacy concerns. At every turn Nilekani has worked relentlessly to achieve the goal of more accountable public services.

The benefits of the UID program are beginning to show. The government is developing systems to integrate UID numbers into health care delivery systems, create bank accounts for the poor, and assist with direct payments for pension plans. Thus far the program has been successful at reaching its primary target—the forgotten poor. With economic growth slowing and rampant poverty lingering, a more efficient use of existing state funds may prove to be one of the current government’s most significant and lasting accomplishments.

—Sameer Punyani

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