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Spaced out losses?

CAG begins probe into Isro-Devas deal

Given the government's stance on the Rs 1.76 lakh crore losses associated with the 2G scam, presumably its spokespersons will dismiss reports of Rs 2 lakh crore loss on a deal between Isro and Bangalore-based Devas Multimedia as merely presumptive. The loss is based on the preliminary questions sent by the CAG to Isro—the final report is still some months away—on its deal to build two satellites for Devas that come bundled with 70 MHz of spectrum. The Rs 2 lakh crore figure has been arrived at on the basis of the Rs 3,000-odd crore per MHz that the government got in the latest 3G spectrum auction. Devas, which is led by MG Chandrasekhar who is a former scientific secretary to Isro, has denied any wrongdoing and said the spectrum continues to belong to Isro (this is largely irrelevant if Devas has the exclusive right to use it to offer ISP and multi-media services to its clients), that the deal has been approved by the Cabinet, that the firm developed an innovative satellite system to offer the services and that there were no takers for the spectrum six years ago when it first began negotiations with Isro.

Since it is early days yet, it's difficult to say just how accurate the estimates are of the losses, if any. It is clear, however, given the rapid increase in the number of scams related to natural resources, that the government needs to come out with a clear and transparent policy on the use of such resources, on how to price them and how to allocate them. Should scarce spectrum be auctioned or should it be given out free as some have suggested on grounds that this will lower consumer tariffs (assuming tariffs are related to auction costs, though they are not, how do you choose between suitors if there is no auction?). Should spectrum or land or minerals be given to value-added industries/services (free land for hospitals in return for low-cost medical facilities or captive iron ore mines for steel producers)? Unless there is some clarity on such issues, it's likely such allegations will be made about all deals in the future. That's probably the last thing we need at the moment.

Haats off to rural India

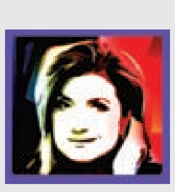
Traditional markets, new knowledge

They are the traditional hypermarkets of rural India, selling anything from fresh farm produce, agri inputs and equipment, groceries, consumer expendables, garments to durables like pressure cookers. Haats—weekly rural bazaars that spring up weekly across India's heartland—may not exactly be a new phenomenon for marketers, but a new study by Rural Marketing Association of India makes for a better understanding of rural markets for corporate India as it tries to sell more and more of its wares to a humongous mass of people rapidly climbing the consumption ladder. At 43,000, the number of haats outnumber the number of stores of the world's biggest retailer, WalMart, five to one. And even though sales are dominated by low-value, small-ticket items, they still add a sizeable Rs 50,000 crore annually. Though a majority of these haats existed before Independence, it's interesting how their wares have changed with the changing nature of the rural economy, livelihood and lifestyle. So even though agri products still account for around half of all sales at haats, manufactured products (fifth of all sales) and processed foods (6%) are rapidly gaining traction with buyers here. The sales of branded consumer expendables like soaps, shampoos and toothpastes as against unbranded, local lookalikes are on the rise at haats across the country as consumers prefer the variety offered here vis-a-vis the permanent village shop. Branded products now constitute a third of all FMCG sales at haats, pointing to the opportunity that awaits big brand marketers like Hindustan Unilever, Marico and Godrej in upgrading consumers to their offerings. Understanding from where and how sellers at these haats source the goods can be a good beginning. Haat sellers mostly buy on credit from wholesalers and sell on cash, largely ignoring the company-owned stockists in nearby cities who tend to merely copy the urban distribution pattern of their respective marketers.

Most (98%) rural folk are regular visitors at haats, with women accounting for two of every five haat visitors, making haats a fertile ground for any big bang communication aimed at rural consumers. And these may not necessarily be for consumer goods, but even awareness building for programmes like government schemes, weather warnings and conducting surveys on rural health. Around 60% of all haats have access to electricity and half have potable water facilities, though just a third offer toilets, pointing to the distance state governments have go in providing basic infrastructure in a place where most of rural India congregates weekly. Even as high food prices force the government to focus on measures to bridge the farm-to-fork supply gap, and pushing foreign investment in big-box retail is touted as key here, it must not forget the upliftment of these age-old bazaars where Bharat still shops.

HUFF PULPIT

Arianna Huffington made opinions sexy. AOL wants her to do the same to it



AT A TIME when ad revenue for the rest of the industry grew 17%, AOL's revenue from ads fell 26%. The company that once told America 'you've got mail' has, after its disastrous stint with Time-Warner, made an attempt to reinvent its Internet business by purchasing the Huffington Post. As AOL consolidates its online businesses, Arianna Huffington will be the fearless leader managing AOL's national, local and financial news operations. With all its editorial content now overseen by a proponent of the liberal view, AOL's carefully cultivated image of being non-partisan looks set to undergo a change.

The nearly 25 million visitors every month on the HuffPost represent the million AOL stands to earn in advertising revenue by expanding its reach. This strategy looks pretty solid, given that the HuffPost has more readers than the online Washington Post (reports the Guardian), even though it has its set of sceptics—who think AOL is still confused about what it wants to represent. For AOL, this acquisition is an opportunity to counter its image of a sub-par content provider to one that generates high quality, high-impact news and editorials, which appeal to search engines, thereby increasing visibility and ultimately revenue. The challenges are many—maintaining an independent voice and regaining the trust of its followers angered by the sale for HuffPost and hedging its bet on journalism as the saviour of its digital business for AOL.

50 black, 50 white

There's no rational explanation for the 50% black economy figure. It seems more an article of faith

EVERYONE is interested in black money now, especially black money stashed away abroad. There seem to be five reasons behind this renewed interest in black money. First, the Swiss have diluted their banking secrecy laws, under pressure from the G-20, OECD, US and even EU (though Switzerland isn't a member of the EU). So, under international tax cooperation clauses, and for foreign clients, even if there is tax evasion and no tax fraud, Swiss will provide information. For UBS, though there is nothing comparable yet for Credit Suisse, they have done that with US and details of 4,450 UBS accounts have been provided. We are unlikely to get that information unless someone in the US embassies has talked about it and it surfaces through WikiLeaks. That's a long shot. But there is a short shot too. A former UBS employee, Rudolf Elmer, has leaked to WikiLeaks. This leak has a list of 2,000 UBS accounts and presumably, there are Indians there. We have to wait and see. Second, there is another so-called tax haven named Liechenstein. The Germans got hold of information about 4,500 bank accounts in Liechenstein bank through a disgruntled ex-employee and offered this information to whichever country wanted it. After some waffling, India did want it.

At the Seoul meeting of the G-20 in November 2010, the OECD's Deputy Secretary General and Chief Economist cited large revenue gains, using this information, in Germany, the UK, France, Italy and Greece. So India got this information and there is speculation there are 26 Indian names on this list. They aren't necessarily resident Indians, some might be NRIs too. The Supreme Court has been given a CD with this information and there is a PIL pending on whether all of us have a right to know these names. How can we be content only with a name like Hasan Ali Khan? Third, we are re-negotiating double tax avoidance agreements to bring in clauses on exchanging tax information, or negotiating tax information exchange agreements. So perhaps, as the Finance Minister said in his press conference in late January, we are now really joining the global crusade against black money and will unearth tax defaulters. Fourth, this is the season of scams—CWG, 2G, Adarsh, Arvind and Tinu Joshi, and even the original Bofors has resurfaced. Fifth, there has been the Global Financial Integrity (GFI) report, more so, the one that surfaced in November 2010. This didn't estimate black money in India, it estimated capital flight abroad.

BIBEK DEBROY

Just around a fourth of GDP comes under the purview of the taxman, and India's tax-GDP ratio is 16%. So we're confusing the informal economy with the black one

What is black and what is white? Is black something that doesn't show up in measurements of GDP? GDP is the marketable value of all goods and services that are produced in an economy over a period of time. Consequently, there are some transactions that are definitionally not part of GDP. Domestic work is the classic example. The use of the word "black" connotes a sense of illegality. However, there is nothing illegal about domestic work. It doesn't show up in GDP and leads to the standard argument that GDP is underestimated. In contrast with developed economies, India has a high share of the informal/unorganised sector. There is a high share of self-employment, a low share of employer-employee relationships. Monetisation is low and transactions occur in cash. Under GDP definitions, these ought to be part of the GDP and there is no conceptual problem. But there is a measurement problem because these are below the radar screen of collection of statistics. Stated differently, there is an informal economy that ought not to be confused with a black economy. Sometimes, there are deliberate reasons why people/enterprises wish to remain in the informal economy.

Tax evasion may be one reason, but it isn't the only one. Vito Tanzi has been a pioneer in estimating the size of the underground economy, not just in the US, but elsewhere too. While the thrust of that work was on tax evasion, Tanzi himself recognised there were other reasons for the existence of an underground/black economy. The high compliance cost of registration is one, which is one reason why the SSI sector remains unregistered. Labour laws can be another. Therefore, one should not jump to the conclusion that there is a black economy simply because one wishes to evade taxes, or because there is criminality associated with the source of income. And one should be careful in separating the informal economy from the black economy. Let's think this tax evasion argument through. Both on direct and indirect taxes, tax evasion is one thing and legitimate availing of exemptions is another. Without exemptions, our tax/GDP ratio will probably be around 22%. If it is 16%, is that because of evasion or exemptions? Yes, the exemptions should go. Yes, the agricultural/rural sector should pay taxes. Yes, we need to jack up the effective corporate tax rate. Yes, lawyers and doctors should be brought under the tax net effectively. Yes, one should not avoid direct taxes by claiming deductions through registration under the Shops and Establishments Act. While these arguments are true and we should have tax reform, as long as those reforms aren't introduced, illegality may not necessarily be involved.

There is a difference between tax evasion and tax avoidance. Whichever one we are thinking of, we essentially have the organised/registered sector in mind and the rural/agricultural sector is excluded. How much of GDP is the organised sector? Let's say the shares of national income are 60% for services, 24% for industry and 16% for agriculture. If 40% of industry is SSI, we only have 14.4% of GDP left in industry. The bulk of services is imperfectly taxed. Hence, from the tax point of view, it is difficult to see how one can have more than 25% of GDP in mind. To complicate matters, some examples of corruption are transfer payments. The 1985 NIPFP study estimated the black economy to be 21% of GDP, Arun Kumar said 35%, GFI extrapolates (and interpolates) on the basis of a 1982 Gupta and Gupta study to suggest 50% of GDP in 2008. One of the problems with linear extrapolation based on a regression on time, is that we will eventually find that 100% of GDP is black. Reportedly, the finance ministry is commissioning a new study, roping in NIPFP, NCAER, CBDT, CBEC and DEA. Perhaps we will have more light then. Right now, the 50% figure seems to be based on faith, like the 50% below the poverty line is.

The author is a noted economist

Reinventing governance

TAGUP is the ultimate privately-driven solution to track the efficiency of government expenditure

So it wasn't that difficult, to give up a majority share holding and still retain government control over things that matter. But obviously you wouldn't expect the political bosses to come out with that sort of thought openly. Probably in a wise move, they have let Nandan Nilekani say what we should have thought was obvious. Making social inclusion really come alive does not require the government to have majority holdings in companies that deliver. Strategic control can be equally retained by executive order or means like golden share. The key is to organise into one place several best practices of the government to create a template for fast execution.

The report of the Technology Advisory Group for Unique Projects (TAGUP) led by Nilekani has added up those best practices to tell the government and India something very obvious. If we want to create headroom to deliver social justice through government services, the way ahead is to embrace technological revolution and private sector participation, big time.

What the report suggests is to take the government out of its bread and butter role of measuring the result of the day to day functioning of projects like the NPS, goods and services tax, debt management or monitoring results of government expenditure. Instead, the report says, the daily grunt stuff should be left to the IT skills of a new set of companies, freeing the government to focus its limited resource on policy issues. These companies would have majority holding from the private sector but with strategic government control. Once that's done the government departments would set the policy for the projects, execute them thoroughly but leave the job of tracking and measuring the results to those who have made a career of doing so.

But wouldn't such savvy back offices usurp quite a lot of the freedom government officers enjoy to play favourites? Also the checks and balances this plan lays out could also sharply emasculate the role of the audit department.

As a concept, this can be a huge game changer. Take the plan the report has suggested to track expenditure. For the past many years, the finance ministry has come out with an outcome document to give some indication on if the money spent has served its purpose. But as D Swarup former PFRDA chairman and expenditure secretary explains, there is a big catch here. As soon as the finance ministry releases a crore of rupees to a state for a programme, the money is counted as spent. It might take more than a year for the sum to shape up as a village road, but that last mile execution is impossible to track for most projects.

SUBHOMOY BHATTACHARJEE

This is where Swarup, Nilekani and others who worked on the report recommended a quality revolution. They have suggested establishing companies as national information utilities. Once those are mandated by the government for specific projects, government officers will not have to waste their time thinking up detailed compliance reports, which still do not say when a rupee slotted for a village has reached it because the feedback method in the government just does not allow such micro management. Even where a feedback loop exists, its a rare government department that will give an accurate report of the efficiency of its own programme. The backroom efficiency of the NIU will come in useful here to track funds from the time it leaves the finance ministry to when it actually reaches the project that needs it. This automatically creates the mechanism to measure the efficiency of a project delivery.

Essentially what TAGUP is suggesting is a very powerful tool for the government to use and create value.

It is also here where the problems are bound to crop up. The primary road block is of course going to be handing over such key overlordships to a private sector led entity. The Indian government will create its own obstacles to baulk at it. Yet, as the report explains, without being freed from government management, it's impossible to bring in top notch professionals at every level to set up these companies. The other is how seriously the departments take the report. NIU for tax information network or expenditure management can conceivably give daily reports of cash utilisation for projects and kilometres of road built. This can be most annoying for departments. We have a highly under-used ministry of programme implementation. Will that one be wound up?

The other is, of course, the emasculation of the audit departments. What can an audit report say about a project six months later that an NIU would not have flagged already?

Postcript: Despite the strong complementary role for the private and government it assigns for the projects, the report does not mention public private partnership even once. A possible indication of how badly the term has fallen out of favour?

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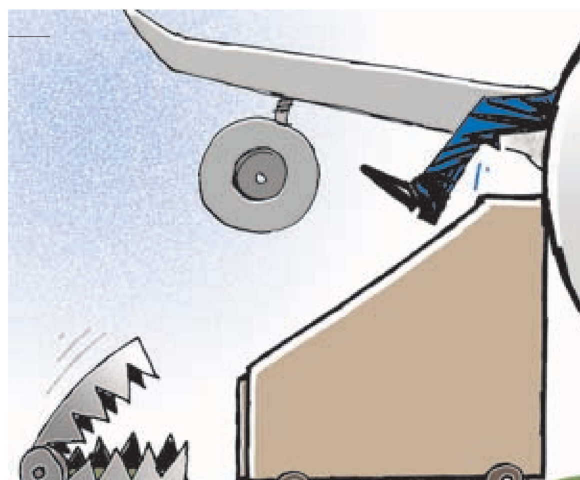
EAVESDROPPER



ROHNIT PHORE

Hitting the taxman

Dr Parthasarathi Shome, who returned to India after a 30-month stint with the UK's tax collection agency to head Icrier, has been hit with a whopping tax notice by India's tax authorities. Shome was earlier advisor to P Chidambaram and was seen as the brain behind taxes like the Banking Cash Transaction Tax and the Fringe Benefit Tax. Apparently the Indian taxman feels Dr Shome has to pay for some of the fringe benefits he enjoyed while with Her Majesty's government.

Making India purr

It's become so predictable, but we still don't get it. Barack Obama used it when he wanted India to give him $10bn worth of orders. When Commerce Secretary Gary Locke came visiting, he said the same thing about the US supporting India's candidature for a permanent seat at the UN Security Council. CII's presser on the visit very proudly states: "US supports permanent seat for India at the UN Security Council."

LETTERS TO THE EDITOR

Puppet & Puppeteer

Apropos of the column 'Doubting Thomas' by Sunil Jain (*FE*, February 7), there have always been persistent doubts on the process of selection to senior postings in general, by the government.Even as the corruption issue is centre stage, an appointment as crucial as that of the CVC is being handled rather unprofessionally and with seeming green fingers. An entrenched Indian civil services is at once a puppet and a puppeteer, just biding time alongside politicians. Together, these two institutions have managed to rewrite the rules to suit themselves.

The suggestion that selection records to senior appointments be necessarily disclosed under RTI ignores the fact that it is the very same self-serving coterie that constantly strives to negate the fair implementation of the Act. It either slow pedals generation of information or worse still, constantly gnaws at the Act and enfeebles it.

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