CFA
Centre for Financial Accountability

POCKET MONEY

Briefs on what they kept from you about your money this week

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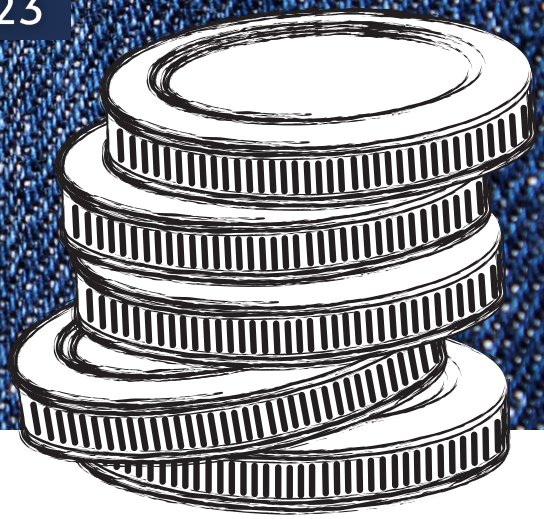

01 Relief for SEBI as SC assures not to do 'witch-hunt' on Adani, only asks for response

As opposition has escalated questions on the role of securities market regulator SEBI for going easy on Adani Enterprises and letting the billionaire run conglomerate manipulate stock market without interference, the SC observations came as a sigh of relief. In the face of mounting criticism SEBI, which has been maintaining a studied silence in instituting any inquiry against Adani in view of the Hindenburg report, has reluctantly decided to investigate the role of two anchor investors in the now withdrawn FPO of Adani Enterprises. Yet a full investigation of Adani's dealings is nowhere on the horizon, nor did the SC insist upon it. SEBI's reluctance to conduct an inquiry mirrors PM Modi's refusal to even mention Adani. The SC's general injunction to strengthen the SEBI's regulatory framework ideally should mean institution of financial safeguards, especially for public sector banks.

02 Need to keep a close eye on the amendments proposed in IBC

Recently the Ministry of Corporate Affairs had sought public comments on changes being considered in the Insolvency and Bankruptcy Code 2016. In consultation with experts and civil society we submitted our responses. In the last six years we have seen the process being swayed largely in favour of big corporates rather than the creditors. Reports point out that the cumulative recovery rate has come down from 43% Q1FY20 to 32.9% Q4FY22. Even in the cases that were resolved the creditors have taken haircuts even close to 70% and 90% in some cases, which is a mockery of public money. Some of the changes proposed this time still seem to favour the corporate defaulters. The proposal to reduce the threshold for Financial Creditors, for instance, is one such step. It is dangerous as some of them could be bought over through influential corporate debtors to sway decisions in their favour. Again, when malicious intent is established, just an imposition of fines, as proposed, might be a deterrent for smaller companies, but not against those with financial means to pay the fine. Such amendments are only going to tilt the process in favour of big borrowers. Here we share all our suggestions/critical notes that we have submitted at the ministry.

03

The top continues to pay less taxes

Hoping is good. But not unless standing on sound foundations. The government continues to hope that tax cuts and lower taxes for the ones at top will draw out the “animal spirits” and shore up the private sector investments. But what this has only achieved is a grotesque concentration of wealth at the top. And if we look closely, it is a very thin crust that is profiting the most while the share of labour in national income is dwindling.

In 2019-20 of the 9 lakh plus companies who had filed returns, 433 firms had reported profits in excess of Rs 500 crore. In 2020-21, despite the devastating pandemic and lockdown when millions were left without work, this number rose to 517. These 517 companies accounted for 62.08% of total profits of the corporate sector in 2020-21. Add to this 1558 companies whose profits ranged from Rs 100-500 crore, and together these 2075 firms accounted for 77.41% of all profits. They represent just 0.2% of the entire corporate sector. Irony is that for these 517 companies, the effective tax rate works out to just around 19.14%, which is much lower than that for the smaller-sized companies. For firms with profits in the range of 0-1 crore and 1-10 crore, the tax rate was 24.82% and 23.13% respectively.

There is a need to immediately revisit our tax system and turn it upside down.

04

No lessons learnt: Govt on course to develop 'Great Nicobar Project' without safeguards

Centre for Financial Accountability and Peoples' First organised a two day online deliberation on 'Understanding the Great Nicobar Development Project.' Even as Joshimath crumbles under the weight of massive infrastructure, ground is being laid for a similar disaster in the pristine Great Nicobar where a 72,000 crore mega project is planned comprising a sea port, an airport, a power plant and a township on primary forest land and unsullied sea waters. The first day featured Prof Pankaj Sekhsaria of IIT Bombay, Swathi Seshadri of CFA and Com. Thomas Franco. On the second day M G Devasahayam, Admiral Ramdas, C R Bijoy and Manish Chandi spoke. The deliberation saw engaged and proactive participation from the audience. The deliberation covered the issues of ecological and biodiversity fragility of the islands, the flawed manner of approving environmental and wildlife clearances, name-sake public consultation, the larger policy and regulatory landscape which favours pro-corporate development, the complicated response of the local populace among others. The developments in Great Nicobar are yet another instance of approving and financing big infra projects without ensuring robust environmental and social safeguards at the level of government and financial institutions.