Emerging Trends in CSR Spending & Need for a Code on Charity Governance

The 2% that matters

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There has been much debate surrounding the 2 percent mandatory CSR spending law since it came into effect. 4 years on, the results should start trickling in and trends beginning to emerge. We should now be able to see, which underdeveloped sector tugs most at the heartstrings of India's uber urban corporate leaders.

As conscientious citizens of society, I am sure that some of us have sponsored a child's education or provided healthcare support to someone in need at some point in our lives. Some of us have the privilege of defining the social development agenda for the corporates we work for – it is then no surprise that there is a similarity between corporate and individual spending patterns that accord instant signifi-cance to healthcare and education.

In 2017, education and healthcare accounted for over 56 percent (INR 4,045 crore) of the total CSR spends in India, according to KPMG's annual 'India CSR reporting survey' that concluded on 30 September 2017. I acknowledge the corporate bias in favour of these two sectors, spending in these areas is critical to the success of India as a social and financial superpower. An educated and healthy country can lay the foundation of a successful one and illiteracy is perhaps the biggest problem affecting our society. Moreover, spending on education and healthcare ensures that that we have a robust, well-groomed and healthy workforce and a strong supply chain.

There are many patterns and trends that can indicate the future of so-cial responsibility – corporate or otherwise in India on the basis of the last few years. NGOs have become ancillary bodies that corporates use to dispense their social duties. I am particularly fascinated by their as a catalyst of social growth – especially after the introduction of the CSR mandate. The not for profit sector has suddenly arrived as a messiah of social development – with or without the credentials to prove their effectiveness. This is not to belittle the role of NGOs in In-dia's growth – there are hundreds of not for profit institutions that have been instrumental in scripting India's growth story. But blindly using not for profits to show compliance is bound to be counterproductive if we are serious about achieving a socially equitable society.

Sample this, a recent report by Crisil Foundation interviewed almost 1200 companies eligible for (and executing) CSR spending in March 2018. Their findings indicated that CSR spending had seen an upward shift by 14% in the last two fiscals. However, in 2017 alone, 967 CSR projects out of the overall 1,895 were executed through implementing agencies with an expenditure amounting to INR 3,014 crore. This amount is higher than even the direct implementation quota of 2%! However, the catch here is highlighted in the Crisil Foundation report - more than two-thirds of the respondents of the survey had less than 5 dedicated personnel for CSR activities. In fact, more than 74% of the respondents admitted to using not for profits to execute CSR projects on their behalf.

Understandably, one cannot expect a profit driven industry to sudden-ly change gears and jump into social development. Not for profits are an easy escape for corporates – it allows us the flexibility of choosing our causes and ensuring compliance without any of the headache that comes with executing CSR activities at the ground level. As a result, NGOs today executing social projects on behalf of corporates have the capacity to spend thousands of crores on an annual basis. And while the corporate's efforts are directed towards maximising profits, the lack of supervision may result in the 2% spend not being utilised in the right manner or even optimised to reach out to the least common denominator.

In my article last year, I had written at length about having a system in place for not for profits who now have the power to define the social structure of New India. But "with great power comes great responsibil-ity," therefore, it is imperative that not for profits are brought under an auditory system that has sufficient safeguards against money laundering. Governance has always been a grey area due to lax monitoring in the charitable entities and 'not for profit' sector. This has undermined their positive purpose.

The income tax act of 1961 gives all categories of charitable entities equal treatment in terms of exempting their income. Donors to not for profit organisations may claim a rebate against their donation made. Such a rule, though laudable, can also easily be misused. Recognis-ing the possibility of this, the Institute of the Company Secretaries of India (ISCI) came out with a code for charity governance in 2017. I had the privilege of chairing the committee that drafted the code, which acts as a set of guidelines for charitable entities with the hope that it will someday become the foundation of a legal act that governs the operations of charitable entities.

The basic premise of the code is to promote transparency. As a valu-able partner in India's growth, charities must be held accountable to their stakeholders, donors and the authorities. Charities hold a sub-stantial part of the nation's wealth and assets, some of them are often as big as a medium or large scale enterprise – with a sizeable em-ployee base. Given this, it does become crucial to that some kind of accreditation process be put in place for charitable institutions. To strengthen the impact of the 2% spent by corporates, there needs to be a documented trajectory of projects executed from arrangements between corporates and NGOs. Some kind of accreditation, audit and governance process must be put in place for such institutions.

Also, financial disclosures through online filing and complete digitisa-tion of the accreditation process should be mandated for such entities so that they can be effectively monitored. Such a disruption is neces-sary – not only to bring good governance in the country but also pro-mote stakeholder confidence in charitable enterprises.

Additionally, to strengthen the impact of the 2% spend by corporates, the next amendment to the Companies Act – must clearly enshrine the responsibilities of corporates and NGOs who have entered into a CSR arrangement. Along with the need for evidence based growth germinating from such arrangements. Checks and balances are man-datory to optimise growth and assess the zeal of corporate India in making the country a better place.

Geopolitics of CSR

One of the main factors that led to the CSR mandate was the need to ensure equitable growth across all regions in the country. But this 'need' remained undefined in the first draft of the CSR bill that was fi-nally implemented. Corporates were given the liberty to choose the place, sector and amount per sector as the aim of the bill was to ca-jole them into spending first. Predictably, the corporates have chosen to spend closer to 'home'. Maharashtra, Uttar Pradesh, Tamil Nadu, Karnataka and Odisha are the top five states benefitting from CSR projects, with Maharashtra topping the list for 3 consecutive years – unsurprising since the biggest corporate offices are in Mumbai.

The north east has only recently begun to see some traction, as per the KPMG report with over 70 CSR projects being executed in the seven sisters. That is a 51-percent rise in the number of projects since 2014-15!

It is a similar case with India's backward districts. According to Niti Aayog, there are 116 backward districts in the country whose devel-opment is imperative to the overall social development of the country. Contrary to government expectations, only 15% of corporate CSR budgets were allocated to such districts. But the real reason for this skewed allocation is the geopolitical volatility in most of these districts. A lot of them suffer from Naxal violence and Islamic terror, which makes it near impossible for a civilian driven, corporate set up to en-ter.

Gender Diversity for gender neutral environments

The same KPMG report had a very interesting observation on the role of gender in CSR. Out of the116 CSR activities undertaken to reduce inequality in 2017, 67 percent of them were implemented by compa-nies with women in their CSR committees. This is an innocuous fact with a damning commentary about urban India. And in this day and age, if companies are still looking for a good enough reason to have gender diversity on their boards – this is it. While urban India has done well to raise their daughters as they raise their sons, there is a marked difference between how each gender interacts with their sur-roundings. Men and women encounter different problems in India, men often overlook the problems of the opposite sex simply because they don't face them – or choose to ignore them.

Women members on boards can play a crucial role in the social de-velopment of the country because they have the power to execute a ground level shift in the gender imbalance in our society. CSR can be a powerful tool to achieve this - the domino effect of social activities will also undoubtedly have an impact on the gender diversity ratio in corporate India also.

In conclusion, I would like to say that governance in CSR is a grey ar-ea which needs to be compartmentalised into black and white if we are serious about our commitment to the nation and society. As re-sponsible citizens and organisations working in India, we must be conscientious towards building a more equitable society where every-one has the basic necessities for sustenance and progress.