

CHANNELIZING CSR EXPENDITURE FOR BETTER IMPACT

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ABSTRACT

Spending money for CSR as mandated by Companies Act 2013 is indeed appreciable initiative. However, the act has given flexibility to companies towards spending money as per their own choice. The paper presents the view mentioning that to generate better impact on most essential social sectors of the nation, it is advisable to channelize the spending by taking policy level decision on most essential cause for better impact through mission based approach. The author supports his argument with the illustrative case study of Gujarat.

KEYWORDS: *CSR, Mission Based Approach*

INTRODUCTION

India's present CSR law provides a lot for the development of different sectors of society. The cash outflows towards social development causes in the country have been estimated in thousands of crores rupees per year. To regulate the CSR expenditure, the Ministry of Corporate Affairs has prescribed certain guidelines in terms of 'eligible' and 'not eligible' heads to be considered for CSR expenditure. These areas range from poverty alleviation to heritage protection to Prime Minister Relief fund. Also, it is up to company to decide up on the area of CSR expenditure to be incurred. This is indeed good approach where in company specific CSR committee generally selects the spending in causes which company believes to serve or which is strategically helpful to the company. However, in long run, this may result in scattered spending across lots of areas creating difficulty to monitor for the ministry as far as social impact is concerned. Additionally, though many companies would be preferring to spend on critical social segments like poverty, education and health etc, expenditure on other 'eligible' sectors may lead to unintentional ignorance towards most deserving social segments of the country in long run. It is well evident that the impact of social development will only be observed, if the approach is more focused towards highly essential areas of society.

Further, the task of impact assessment of CSR expenditure is a big challenge for companies because as per CSR law, companies are not only responsible to spend money on CSR but also are required to ensure monitoring as well. Here, the bigger challenge is that either companies will do self-evaluation without much expertise or need to rely NGOs or any agency to get the assessment done. This makes the process complicated.

To ensure uniform social development in critical areas of the country, the argument presented here is to adopt the mechanism where in at least half of each eligible company's (i.e. at least 1%) CSR expenditure goes as focused expenditure for most essential sections of the society (as decided by the government). For example, it is well accepted fact that primary/secondary education and to that extent higher education (especially technical education having potential to transform the society in a big way) can contribute a lot towards nation building. There are limitations associated with the government led municipal primary/secondary schools (in comparison with private and trust based schools) and to an extent

government engineering colleges (in comparison with IITs) where availability of limited funds result in inadequate infrastructure facility limiting the growth of child/youth to intellectually blossom at its best possible extent. To overcome the limitations of funds, available CSR funds can be used to develop infrastructure facilities of municipal schools and government colleges. This is very much essential to curb the social divide as well where on one hand well-to-do middle level and higher level income families provide best possible education to their children whereas large segment of the society is not able to give basic education to their children due to lack resources. Spending CSR funds for infrastructure of municipal schools and colleges (of company's choice) and may be to the extent of adopting municipal schools as a part of CSR activity will go a long way in social contribution. This will, in a way, provide direct or indirect way to leverage branding opportunity as well for corporates. However, there is a scope to identify alternative method for better implementation of such projects. The seprojects can easily be coupled with effective monitoring mechanism as well. Similarly, in education sector only, the CSR funds can be channelized towards developing state funded government engineering colleges for better infrastructure facilities with improved learning and research opportunities - partly in line with IITs. This may prove to be a strategic CSR for companies considering the availability of talented engineer youth with better employable skills. The mechanism could be such where in the engineering colleges can be given funds to purchase latest equipments and machines to enhance learning and research activities.

To implement such mechanism, government can come up with policy decision to spend tenure based minimum 1% of CSR expenditure on most essential sectors of the country. In execution, different companies belonging to same/different sectors may collaborate to take forward the proposed model to be implemented in their respective/choice based states.

Analyzing the CSR spending mathematically, one estimates states that the CSR spending of the top BSE 100 companies for the year 2014 – 15 is Rs. 5,240 crore (less by still 26% for the projected one, Rs. 7080 crore) in comparison with the year 2013 – 14, Rs. 3,000 crore. Similarly, prescribed CSR expenditure for the year 2015-16 is expected to be Rs. 8,016 crores. This indicates that not all, but if for example, half of the CSR spend (i.e. 1 %) of actual CSR expenditure for 2014 - 15 goes towards upliftment of education sector, the Indian corporate would contribute around Rs 7,860 crore in total (assuming project based CSR expenditure to be same for next 3 years) towards education which would have been approximately 27.44% (only for 1 % CSR amount for 3 years) of the budgeted amount of Rs. 28,635 crore allocated towards Sarva Shiksha Abhiyan for the year 2014–15). The statistics indicates that such focused approach of CSR expenditure will significantly contribution towards most needy sectors of the society. The following example, in the form of case study, of Gujarat will help to get more clear perspective towards the model.

Case Study of Gujarat

One estimate indicates that Gujarat has the potential to garner CSR contribution to the tune of about Rs. 900 crore per year from around 15,000 eligible firms. Analyzing the budget (as given in table 1) allocated for the state's primary education for the year 2015 – 16, it is (only for the mentioned heads) amounting to total around Rs.34.32 crore to uplift the state run primary education. This indicates that it needs only 7.62 % of amount allotted (of 1 % of total CSR) to fulfill the requirements. Assuming the availability of half of the amount of CSR expenditure through project based model i.e. Rs. 450 crore (for the year 2015 - 16), assuming the same constant for next 3 years, will result in approximately Rs. 1,350 crore - a huge amount which can result in significant transformation in the state primary education provided the CSR funds are channelized as suggested. Here, the estimate is presented for only one state & one sector. The center may take policy level

decision to channelize such mission driven approaches where in minimum 1 % of CSR expenditure can be spent by companies as per their own desire whereas remaining 1 % can be contributed (individually or collectively) for mission driven projects. This mechanism will also reduce efforts in monitoring the implementation of CSR activities for companies.

Table 1: Budget Allocated for Primary Education for 2015 - 16

Primary Education Requirements (Selected Only)	Proposed Expenditure
Sports equipments for the students of primary schools	Rs. 9,94,72,000
Development of primary schools' library	Rs. 6,30,49,000
Maths and Science Kits	Rs. 3,55,76,000
15-Smart Schools	Rs. 4,50,00,000
Cleaning kits	Rs. 10,01,26,000
Total	Rs. 34,32,23,000

Source: budget estimates of education department for 2015-2016, Govt. of Gujarat

Similarly, the same approach can be replicated in upliftment of state technical education. As per the Gujarat government's budget for the year 2015 – 16, approximately Rs. 22.96 crore has been allocated for purchase of machinery and equipment as a part of infrastructure development of government engineering colleges. This again can be observed as only 5.10 % of estimated amount from 1% CSR (for one year). Support from CSR funds to develop infrastructure of government engineering colleges will contribute a lot to well equip students' technical skills which in turn is very well available to IIT students through support infrastructure.

One can observe from the above example that there is a possibility to turn around the most essential sectors of the society in the time of 3 to 5 years by only channelizing the funds collectively.

To conclude, policy level decision to modify the mechanism of CSR expenditure a bit may be in the ratio of with 50: 50 towards corporate driven and mission driven (by state/centre) projects respectively will help a lot to ensure judicious mix of development of society i.e. most needy sectors of nation and priority sectors of companies' choice. As mentioned earlier, the idea can be executed to state specific needs in terms of '3 years mission based' approach, starting with health or education sectors as they are one of the most essential areas -considering them as the need of the hour for India. To conclude with the quote, 'persistent efforts in one direction will be more impactful than scattered efforts in different directions.'

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