

Gist of the deliberations of Round Table Discussions organized by

CHAMBER OF INDIAN MICRO SMALL AND MEDIUM ENTERPRISES (CIMSME)
&
NEETI FOUNDATION
on
Governance through CSR – Indispensable Part of Corporate DNA

Held on 4th Feb, 2014 at India International Centre, New Delhi.

The panel discussions were chaired by Dr Bhaskar Chatterjee, Director General and CEO, Indian Institute of Corporate Affairs. Mr. Nikhil Khanna, Director, Neeti Foundation and Mr. Jyotirmoy Jain, Secretary General, CIMSME, welcomed the panelists and delegates and briefly outlined the purpose of the discussions and also the relevance of MSMEs in actively associating for delivery of CSR initiatives. While the number of corporates covered within the ambit of CSR under the new Companies Act 2013 will increase substantially, large opportunities will emerge for MSMEs in providing social enterprises as well as delivery channels for CSR projects. Thereafter the discussion started when the member panelists shared their views, apprehensions, worries and suggestions on the various dimensions of CSR and how it could be taken forward to enhance social-economic fiber and encourage responsible businesses. **The Chamber was represented by Mr. Mukesh Mohan, President, Chamber of Indian Micro Small & Medium Enterprises.**

Based on the discussions, the following key issues emerged which reflected the wider concerns of the members as also the good initiatives taken by the government to extend its coverage for corporates for inspiring them to spend on social good as also demonstrate the fact that CSR may be seen as an important step in widening the scope and area of social good with a human touch.

While some concerns were expressed as to the mandatory requirements of CSR there was a word of caution that the delivery mechanism needs more robust controls to avoid possible misuse of funds by vested interests. Some panelists echoed that this may drive corporates already spending beyond 2% on CSR as they are bound to be questioned by their stakeholders and analysts for such additional spending. It was generally accepted that CSR is a brand enhancing tool and creates market respect and product acceptability.

The mandating of CSR spending to the extent of 2% of profits, has since become a reality and a part of the **New Companies Act 2013**, Despite initial hiccups, there was unanimous applaud for the government for this bold and enabling initiative. Panelists called upon the corporate to begin their constructive implementation for its seamless delivery across the board. One of the panelists even expressed exuberance that CSR will bring in huge opportunities for the MSME sector as they may become hub of delivery of projects and services to cater to the emerging needs of almost 15,000 new corporates coming for the first time to this fold. It was suggested that such activities or projects must endure sustainability and reflect responsible social behavior. This certainly brings the need of social enterprises which would arouse social entrepreneurship to take

up such challenging time bound projects which at presents, by and large, fall in the domain of NGOs. It was also informed that the enterprises into consulting as well as delivery can now be a profit making as against 'Not for Profit' to attract meaningful competition and quality in the delivery channels.

Some panelists were of the view that with the increase in business prospects, it was essential for the NGOs or Social Enterprises to increase their absorption capacity/ capacity building and scalability from say x to 5 or 6 or 7 x as the case may be to adequately address the needs of the corporate to meet the deadlines. In these value chains, lot of MSMEs may have backward or forward linkages.

It was also stressed by one of the panelists that with the right use of CSR activities, in addition to expanding the health care space, the cost of health care also needs to be lowered to enlarge the area of benefits to the lower strata of the society by increased research on the orphaned diseases like TB. Education and Health care seems to be the key areas where substantial thrust is yet to be achieved, was another concern expressed by some panelists. Creation of jobs and social entrepreneurs are the key concerns to be addressed with CSR funding.

On the issue of operationalization of the provisions of the CSR under the Companies Act, the draft rules have been finalized and are likely to be notified very shortly. In this connection one of the panelists informed that CSR will bring in a uniform, equitable and structured approach for the select corporates, avoiding discrimination and distortion in the implementation of CSR issues. Rules have been finalized to provide an enabling environment, a participatory approach and to bring CSR from back room to board room. It also spells out how to utilize CSR funds for vocational training to create entrepreneurs.

It was also suggested that each corporate be encouraged to create one entrepreneur out of the allocation for CSR which in a wider connotation will create large number of industry ready entrepreneurs so essential to enhance job creation and shape up better MSME sector.

After the powerful discussions, the floor was opened for the delegates for question answer. The questions more essentially were directed on issues of what is CSR, Can a marketing strategy that surely targets commercial advantage be termed CSR, what are the essential ingredients of CSR and how it needs to be taken forward for first time corporates. Can Social enterprises play a positive role in expanding CSR initiatives.

While appreciating the concerns of the delegates as well as exhibiting his displeasure in the context of lack of information on the CSR provisions among several members and public at large, Dr Bhaskar Chatterjee modestly dispelled the major misconceptions in this regard before addressing to the queries.

He informed that the word Mandatory or Compulsory do not find any mention in the CSR provisions. It is the intent of the government that there is no compulsion for the applicable companies to do any CSR. They have taken the global expression of **Comply or Explain**. The applicable companies only have to inform their shareholders in the annual financial reports about

this and the reasons thereof. Such a reporting is a part of the MCA 21. However every applicable company is required to frame a CSR policy as on the first day of the fiscal commencing 01.04.2014 duly approved by the board and under the overall supervision of the CSR committee comprising of three or more Directors out of which one of them should be an Independent Director. The CSR policy must contain the details of the projects to be implemented, time schedule, locations, amount allotted and requires to be closely monitored by the Committee members. The implementation report should be filed on the first day of the next fiscal i.e 1st April, 2015 and so on. Engaging an NGO or an implementing agency should have a three year sound track record. Cheque book charity is prohibited.

He also contended that **Indian Institute of Corporate Affairs** will also extend support to the CSR activities in choosing an NGO / Agency and also in selecting good, doable, sustainable, replicable, scalable projects to suit the needs of corporates.

While clarifying the applicable criteria, he informed that

Section 135 of the 2013 Act states that every company having:

- net worth of Rs 500 crore or more, or
- turnover of Rs 1000 crore or more ,or
- net profit of Rs 5 crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board

2% CSR spending would be computed as 2% of the average net profits made by the company during every block of three years. For the purpose of First CSR reporting the Net Profit shall mean average of the annual net profit of the preceding three financial years ending on or before 31 March 2014. Reporting will be done on an annual basis commencing from FY 2014-15.

It was also clarified that 2% CSR spending is the minimum.

On replies to the queries of the delegates he shared his thoughts on the following key points:

- 1) He described the concept of shared value in the context of applicability of CSR activities. If the corporates are involved in social good even if they are doing good business, they are perhaps in a shared value orbit. However he emphasized that CSR must be rupee measurable and any good done which is widely accepted as very good or philanthropic will not necessarily pass the test of CSR spent. Finally he exhorted the corporates that a time has come when they can :
 - i. increase their brand value
 - ii. CFOs can do lot of good things they wanted to do but could not do.
 - iii. Social Enterprises will usher in social change for an equitable, fair and wider distribution of corporate prosperity.

Finally Dr Baskar Chatterjee thanked all the participants in the discussions and the organizers for this power packed, enlightening session and hoped that he was able to clear the air for a better understanding and fruitful involvement of all stakeholders to take this CSR mission to the next level.

List of Participants :

Chairperson

Dr. Bhaskar Chatterjee, DG and CEO, Indian Institute of Corporate Affairs

Panelists :

- **Mr. Mukesh Mohan**, President, Chamber of Indian Micro Small & Medium Enterprises
- **Ms. Poonam Madan**, Advisor, PwC
- **Mr. Suhel Seth**, Managing Partner, Counselage India
- **Mr. Jitendu Roy**, Director, Integrated Association of Small and Medium Enterprises
- **Pavan K Vijay**, Managing Director, Corporate Professionals Capital Pvt. Ltd
- **Mr.Y.L.Madan**, Former Executive Director, IOB

Few snapshots of the event are below:

