Corporate Social Responsibility enlightened self-interest?

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There is a long-running debate regarding business’s role in society. The traditional view is aptly paraphrased by the Nobel laureate economist Milton Friedman that the “business of business is business”. In other words, the sole legitimate purpose of business is to maximize profit and create shareholder value. One may also remember the famous saying of Adam Smith: businessmen never get together without conspiring against consumers.

On the other side are the proponents of corporate social responsibility (CSR)-a rapidly growing global movement that argues that businesses have a responsibility to address social issues. Once a sideshow, CSR is now seen as mainstream in corporate strategy. However, the idea of CSR is still evolving and it may mean different things to different people. A vast range of activities now comes under the umbrella of CSR, spanning everything from volunteering in the local community to looking after employees’ welfare, from helping the poor to saving the planet. With such a fuzzy, wide-ranging subject, many companies find it hard to know what to focus on. No wonder, beyond the corporate world, CSR is providing fertile ground for think-tanks and consultancies.

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Tax concessions for encouraging CSR activities

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In recent times, Corporate social responsibility (CSR) has emerged as an important concept in discourses on development. The concept, however, is not free from ambiguity. In designing tax concessions for CSR activities, the conceptual clarity is crucial. The reason is that entitlement of tax concessions, by its very nature, has to be enjoyed as a reward for meeting certain specific obligations. In my view CSR activities have to fulfill some attributes briefly discussed below.

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The confusion surrounding the subject is also reflected in the variety of ways companies package their CSR activities. Some prefer to describe this kind of thing as “corporate responsibility” (dropping the word “social” as too narrow), others call it “corporate citizenship”, or “building a sustainable business”, or even “how we do business”. What these new labels essentially convey is that CSR is much more than corporate philanthropy. For example, smart CEOs are finding that attending to the issues of ethical standards and social accountability is not just an irritating distraction thrust upon them by social pressures, but that it can help long-run business prospects as well. In other words, CSR is increasingly being seen by companies as largely a matter of enlightened self-interest.

Good businesses need to be built on public trust. Companies can be both loved and hated by the public depending on their trustworthiness. The now-defunct oil giant, Enron, could easily claim the title of America’s most hated company when it was revealed that nobody outside its boardroom quite understood what they were doing other than engaging in huge financial frauds. Public opinion about tobacco companies became sour not because of their marketing a harmful product, but when company documents were leaked to show that they had for long pretended not to know about the mounting evidence of the hazards of smoking.

Beyond outright dishonesty, there are more subtle elements in the public perception about companies. In America again, Wal-Mart has faced public hostility on the allegations of underpaying female and illegal immigrant workers and putting small local stores out of business. Microsoft is equally hated for its market power. But both Wal-Mart and Microsoft are loved at least as much as they are hated, because they offer consumers low prices and useful services. Clearly, business strategists have to tread a thin wire between such love-and-hate relationships with society.

The ongoing global economic recession, which originated from a near-collapse of the financial system of the industrialised West, has added to the public demand for corporate responsibility. This can clearly be seen from the extent of resentment and discontents often expressed by various campaign groups, rightly or wrongly, around the issues of economic globalisation and the role of big business. Clearly, the traditional mindset of “business of business is business” needs to change. Instead, the popular business mantra now is “doing well by doing good”. It remains to be seen, however, how far in practice the companies can act in the broader interest of society even while they satisfy the interests of shareholders.

It is generally agreed that the market economy represents an amoral and cruel system; but the problem is that, after the end of the Soviet Union, there seems to be no better alternative to it at the moment. The concept of CSR thus needs to encompass good business practices that help to mitigate some of the sharper edges of a market economy. Most societies enact laws to protect minimum labour rights or to prevent marketing of harmful products or to reign in monopoly business power or to prevent industries from polluting the environment, in developing countries like ours, where there is a great deal of laxity in law enforcement, abiding by the law is a fundamental precondition for good, socially responsible, corporate practice.

While CSR is increasingly being seen as part good business practice, the traditional role of corporate philanthropy remains important. In fact, the later role assumes increasing importance in a low-income country like ours, where the government faces capacity and resource constraints in meeting the increasing demand for social development. A new form of social partnership needs to emerge, whereby the government, civil society organizations and the business sector can complement each other’s social development effort. For this we need to create an enabling environment, including fiscal measures for encouraging private giving.

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More than two centuries ago, Rousseau’s “social contract” helped to seed the idea among political leaders that they must serve the public good, lest their own legitimacy be threatened. The CEOs of today’s corporate world must recognize the need and potential of a similar social contract between business and society. The contract has obligations, opportunities and mutual advantage for both sides. And only by adopting such an implicit contract, society and business will be able to work in harmony.
Policy support and role of Bangladesh Bank in making the banking sector more proactive in CSR

Because of ethical and public interest dimensions of CSRs, many of the desired social and environmental practices are compulsorily mandated by laws and regulations (e.g., safe and healthy work environment, equal opportunity and fair treatment in respect of gender and ethnicity in hiring and career advancement, avoidance of forced labor or child labor, and so forth). Bangladesh Bank as the regulatory authority of the monetary sector of Bangladesh is active enough in promoting the accomplishment of more social responsibilities by the banks operating in this country. Bangladesh Bank has taken initiatives in respect of formalizing CSR in the banking sector of Bangladesh and issued an elaborate directive to the banks and financial institutions on June 1, 2008 in this regard. It defined the strategic objectives for CSR engagement, provided some priority areas with a suggestion to foster CSR in their client businesses, and suggested a first time CSR program indicating some likely action plans.

It would be of strategic, longer run competitive advantage for banks and financial institutions in Bangladesh to embrace CSR in their management approaches and operations, with initiatives chosen in broad-based, extensive stakeholder engagement. In addition, BB also encourages that adoption of socially and environmentally responsible practices in own internal operations, banks can make major CSR contribution by speeding up financial inclusion of the large socially disadvantaged rural and urban population segment; drawing them in with appropriate financial service packages and with financing programs innovatively designed to generate new employment, output and income. However, BB has indicated the following priority areas among the broad range of possible useful initiatives:

- Self-employment credit and Small and Medium Enterprise (SME) lending programs, taken up solo or in association with locally active Micro finance Institutions (MFIs), designed to create productive new on-farm/off-farm employment; such initiatives are of particular urgency for regions with endemic high seasonal unemployment (e.g., the manga afflicted Northern districts);
- Financing programs for installation of biomass processing plants (e.g., biogas plants), solar panels in rural households, for waste recycling plants in locations populated by urban poor; and for effluent Treatment Plants (ETPs) in manufacturing establishments;
- Credit programs for diversified production of crops, oilseeds, spices, vegetables, fruits etc. by rural households, financing the growers directly or through suitable intermediaries in the value chain. Credit support for combinations of farming activities (like co-production of a minor crop with a major one, fish/duck farming with aman rice of deepwater variety in low lying fields), may also be worthwhile;
- Mobile phone based/local MF outlet supported programs promptly delivering remittances from migrant workers to recipients in remote rural households; programs for card based/mobile phone based delivery of financial services to such households;
- Financing programs supporting folk crafts, folk musical and performing arts, aimed at promoting domestic tourism and markets in cultural products/events besides income and employment for the population groups involved.

Bangladesh Bank has been monitoring CSR adoption and CSR performance of banks and financial institutions, as an additional dimension of their management performance. The Sustainability Reporting Guidelines developed by the Global Reporting Initiative (GRI), provides a general framework for sustainability reporting by corporates in all economic sectors.

Bangladesh Bank already offers refinance scheme for SME, Biogas plant, Effluent Treatment Plant, Solar panel etc. and encourages banks and financial institutions to enjoy this refinance facility to take active part in development initiatives. With the employment and new income generated by successfully executed programs, the targeted population segments can eventually constitute big new client bases for financial products and services.

Bangladesh Bank has been monitoring CSR adoption and CSR performance of banks and financial institutions, as an additional dimension of their management performance. The Sustainability Reporting Guidelines developed by the Global Reporting Initiative (GRI), provides a general framework for sustainability reporting by corporates in all economic sectors. The Colloquio Declaration on Financial Institutions and Sustainability enunciate six principles (commitments to sustainability, to do no social or environment harm, responsibility, accountability, transparency, sustainable markets and governance); BB suggests banks to use these principles and the performance indicators discussed in the Reporting Guidelines for drawing up the to-do lists (i.e., the CSR programs) with targets and timelines.

Bangladesh Bank also suggests some likely action plan which might be included in first time CSR program of a bank. These are for:

- Ingraining environmentally and socially responsible practices within the organization;
- Engaging with borrowers in scrutiny of the environmental and social impacts of their proposed undertakings;
- Reaching out with financial services to the less well off population segments of the community;
- Community investment by way of donations to initiatives of Civil Society Organizations, NGOs and institutions involved in health, education and culture; for social and environmental improvement including nutrition, health, and education in the disadvantaged population segments (many banks in Bangladesh have already significant outlays of such charitable expenditures, these can fit in appropriately as elements in the new structured CSR programs).
Bangladesh is a country of high population density and about forty percent of our population lives under poverty. It is difficult for our public sector to address all the problems alone. Public Private Partnership or joint initiatives in development process are required. If the corporate society who possesses the potentiality to help the poor segment of the population strengthens their affluent hand to the disadvantaged then it will accelerate human development and the ultimate beneficiary from this will be corporate houses also. Bangladesh Bank is always ready to provide any kind of help to the financial institutions in performing their social responsibilities.

The people in rural and coastal areas are marked as one of the most deprived people, so reaching them with basic necessities and employment will be of great work. The poor population particularly the women are the most deprived segment of our society in getting health care. So financing health care especially maternal and child care to the slum dwellers or poor will be a big contribution to the society. In addition, our people have limited awareness about basic health care. Researchers and specialists fear the epidemic of non-communicable diseases in future. So huge investment is now needed in preventing non-communicable diseases rather than communicable diseases. Besides, we are suffering from lack of leadership in various societal works though our population is of big number. The corporate society can consider these areas which need urgent help to address their problems.

Finally, there are challenges to implement CSR properly in Bangladesh. In a developing country like Bangladesh with limited resources, it is of crucial importance that we utilize our resources efficiently to attain maximum benefit from them. And, hence, we should take initiatives to have an overall ‘National Policy on CSR’ that starts from building understanding of CSR incentives and pressure points and improving strategic interactions and alignment between public policy goals and the CSR-related activities of businesses. We should prioritize those CSR activities which will contribute to poverty reduction and will supplement government’s efforts towards achieving the millennium development goals. The core imperative of the CSR strategy should be how to increase opportunities for the deprived and disadvantaged. Nevertheless, we have to commit ourselves for an inclusive growth process which has not only an ethical dimension but also an element of self-interest which covers the long term goal of sustainable development for all of us.

### Tax concessions for encouraging CSR activities

#### Attributes of CSR

(i) **Externality:** The beneficiaries of the activities should be predominantly the members of the society in general - those who are not direct stakeholders of the company. The objective is to bring about an improvement in the quality of life of various segments of population, particularly the disadvantaged and the underprivileged. In this context, it may be noted that ensuring occupational health and safety of workers employed by a corporate entity cannot be viewed as CSR. The beneficiaries in this case are the company itself through enhanced productivity and the workers who are direct stakeholders of the company.

(ii) **Additionality:** For an activity to be deemed as CSR, it must be additional to those which a company is enjoined to undertake because of legal compulsions or requirements of business. Thus, provision of efficient treatment and fulfillment of other legal compulsions with respect to environmental standards, avoidance of employment of child labour and ensuring satisfactory working conditions under the dictates of the buyers, paying fair wages on time to the workers, timely payment of due taxes, maintenance of quality standards of products etc. do not qualify as CSR.

(iii) **Continuity:** A company can not be considered as CSR compliant if it engages in sporadic philanthropic or charitable activities. Thus occasional contribution to government relief fund, an educational institution or an orphanage, however insincere in its own right, should not be viewed as CSR. Besides, in many instances, such contributions are used as advertising tools for the benefit of the company and thus violate the attribute of externality.

#### Tax concessions for CSR in Bangladesh

In the tax regime of Bangladesh, there was no specific provision for CSR. Certain tax concessions were already offered to corporate entities for welfare – enhancing activities, though those do not strictly qualify as CSR according to the above mentioned criteria. As noted by Mr. Mohammad Abdul Mazid, former Chairman, National Board of Revenue in the article “CSR in Bangladesh – concepts and compatibility” (CSR Review Vol. 1, June 2009), investment and expenditure for establishment and operation of training and educational institutions and hospitals for the benefit of the employees or their families and dependents were considered as business expenditure in calculating taxable income. Furthermore, contributions to Provident Fund and Gratuity Fund for employees and workers were given full tax exemption. It is obvious that these activities do not conform to the criterion of externally.

In recognition of the above, I had initiated tax concessions specifically for CSR in the fiscal year 2008-09. These are additional to the above provisions. The relevant notification issued by the Internal Resources Division provides for 10 percent tax rebate for expenditure on CSR. For example, if a company has a taxable profit of Tk. 1000/- and is subject to 40 percent tax, its tax liability would be Tk. 400/-. If the company spends Tk. 500/- on CSR, it would get a rebate of Tk. 50/- (10 per cent of Tk. 500/-). Its tax liability would thus be Tk. 350/-(Tk. 400/- - Tk. 50/-).

The activities identified as CSR are (i) Clean water management (ii) Afforestation (iii) Beautification of cities (iv) Waste management (v) Establishment and management of old persons’ homes (vi) contribution to organizations involved in raising consciousness about HIV/AIDS. (vii) contribution to organizations engaged in the welfare of mentally or physically handicapped (viii) Contribution to organizations engaged in movements relating to women’s rights and anti-dowry practices (ix) Grants to Public Universities (x) Grants to organizations engaged in treating cleft lips, cataract, cancer and leprosy (xi) Grants to organizations engaged in treating acid victims (xii) Grants to educational institutions approved by Government for education of rootless children (xiii) Donations for rescuing the hardships caused by natural calamities such as earthquake, cyclone, tidal wave and hurricane channelled through government organizations (xiv) Expenditure incurred through educational institutions recognized by Government for providing technical and vocational education for poor, meritorious students and (xv) Special financial assistance through institutions approved by Government for facilitating higher education of meritorious students.
Talking CSR and Tax

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The issue of CSR (Corporate Social Responsibility) has gathered a lot of momentum over the last few years. CSR is seen as a moral and social obligation. Globalization has made CSR practice an imperative for Bangladesh business. Awareness and sense of necessity for practicing CSR is becoming more and more pronounced in the country.

CSR’s definition is different to different people. However, certain ideas are becoming commonly accepted. One thing is common to all now that CSR is not about philanthropy or charitable work. It refers to something much more fundamental. It is about how companies take responsibility for their actions in the world at large. Companies can incorporate CSR in their business approach by attempting to address social issues and by engaging in community welfare activities that yield no financial return.

There is a perception that though corporate houses are doing CSR, many more companies need to actively participate in the process. There is also a view that corporates are elitist -- one needs to change that image.

Businesses in general are not against getting themselves involved in CSR. But they feel that the government should encourage companies to invest in corporate social responsibility initiatives by giving tax incentives instead of making it a binding.

The government may consider incentivizing CSR activities through tax incentives. The question is who has the right to do CSR? My humble submission here is that a company gets the eligibility of doing for CSR activities when it makes itself fit for corporate governance. The basic areas of corporate governance are: right salary of workers at the right time, staff welfare, product quality, responsibility to protect environment and payment of right tax on regular basis. CSR should be at the heart of the business and be integrated into the all aspects of the company starting from its HR policies to business practices to marketing strategy and so on.

Lack of good governance, absence of strong labor unions or consumer rights groups, and inability of the business community to perceive CSR as a survival pre-condition are some of the elements undermining the evolution of CSR practices here.

There should not be any scope to get involved in CSR through cheating. Sharing the society from genuine profit is fundamental to sustainability of CSR. The government here has the responsibility to monitor the company’s corporate governance rating which is taking advantage of tax benefit through CSR.

I think the CSR activities should not be made mandatory and companies should be encouraged to adopt the norms on voluntary basis. If such a compulsion is imposed on companies it may turn counter productive as companies may resort to camouflaging activities to meet such regulations.

The immediate past caretaker government approved the long-awaited proposal for tax exemption facility at the rate of 10 percent on a part of the corporate income to be spent on complying with CSR. The exemption facility is aimed at encouraging private companies to be involved more in CSR practices.

I recall the speech of the then Finance Adviser Mirza Azizul Islam who said “The government will lose a very insignificant amount of money for giving the tax exemption facility, but the move will encourage many local business groups to launch CSR activities.”

I fully agree with him and I believe that the present government also thinks in that line. The government must put in place an enabling environment so that companies can run businesses without hindrances. We need a corruption free environment in the government offices which is raising the cost of doing business in Bangladesh. If the cost gets down, surely it will be spent for social benefits.

When we talk about tax incentives, I strongly perceive that only genuine CSR should get it. If a company fully maintains all ethical standards in every respect, why the government would not consider it as allowable expenditure?
So what form of CSR merits Tax breaks in Asia?

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In Bangladesh the NBR SRO 08 makes it clear that donations to community projects made by socially compliant factories will be eligible for a 10% Tax Exemption. However, to be able to consider the Regional situation affecting CSR and Tax Regimes it is necessary to first ask the question ‘what kind of CSR’ is included. For example, is this CSR restricted to corporate philanthropy, or is it a rule keeping view of social compliance, or is it companies going beyond the Laws and Regulations affecting labour relations, occupational health and safety and environmental protection - an ‘in factory form of CSR’?

In 2010 a Social Responsibility guidance ISO will be published internationally as ISO26000 and this covers seven key themes.

Pakistan

At the August 2009 launch of the CSR Pakistan Year Book speakers encouraged the Pakistan Government to play a positive role in promoting CSR by creating an environment conducive to investment, and by working with the corporate sector on the implementation of community development programmes at grassroots levels. The same article finds that 40% of companies in Pakistan think CSR means paying taxes and that only 5% understand CSR means directly implementing social development activities and projects.

About 40 per cent of the corporate companies in Pakistan think CSR means merely paying taxes. Another 30 per cent believe CSR is contributing to community welfare or donating to organisations for social development purposes and community development, while 15 per cent think the CSR equates employee welfare, and 10 per cent think the CSR means working in areas where the company’s interests lie. According to a recent report from Lahore by a Staff Reporter of Pakistan Dawn.Com. Only five per cent clearly understand the CSR means directly implementing social development activities and projects. The Pakistan Government has not been regulating CSR in Pakistan because it does not really know how to do so according to Ammanullah Khan, Senior Programme officer at the Islamabad-based Pakistan Centre for Philanthropy. Mr. Naveed Khwaja, Chief Operating Officer of English Biscuits Manufacturers was reported as saying at this launch that public-private partnerships between the government and non-profit organisations could play a pivotal role in expanding community development programmes.

Thailand

Thailand is considering tax incentives for carbon trading and promoting consolidation of small Clean Development Mechanism (CDM) projects to jumpstart the development of greenhouse gas emission reduction schemes. According to reports by Naeraat Wiyapiyong published in the Bangkok Post. The Thailand Development Research Institute (TDRI) is conducting a study on tax incentives that could attract interest in CDM ventures from the private
sector writes Wiryapong. Ratchada Singalawanija, Director General of the Industrial Works Department said if the country is unable to develop strong CDM activities locally, we might be forced to buy carbon credits from projects overseas in the near future. Ratchada said his Department was taking steps to help consolidate small-scale CDM projects to enhance their chances of financing. E.g. ten biogas projects on pig farms in the central region might be consolidated.

Investment incentives in Cambodia include tax credits, income tax holidays and duty exemption on imported raw material and equipment though none of these are directly linked to specific CSR activity.

Indian Minister for Corporate Affairs, Salman Khurshid, has mooted the idea of rewarding companies with strong CSR initiatives, by creating a system through which their CSR endeavours might be traded. There is no precedent of CSR credits being traded anywhere else in the world according to the Minister who has asked his Officials to look at a framework that is akin to the carbon credits trading mechanism. Addressing a conference on ‘Companies Bill 2009’ in New Delhi recently, Khurshid suggested that the incentives for CSR could provide fiscal incentives that are proportionate to the CSR initiatives being undertaken. The Economic Times reported Khurshid to have said: Today, for charity, you get tax exemptions and for CSR you get nothing. That report continued quoting Khurshid as saying “I think there must be a way of quantifying CSR and there must ultimately be available a trade or an exchange to deal in CSR credits”. Khurshid also indicated the Ministry is considering ideas about how to set off CSR expenses through exemptions or other means. Backed with some tax incentives, the Indian Government expects such a framework to encourage companies to take up CSR initiatives more seriously. According to Vikas Vatsa a Partner in Ernst & Young, The idea of quantifying CSR and linking it with incentives is a worthwhile idea. The incentives could be tax-linked as also non-tax linked but you need to define the parameters well”, he said. Another suggestion by Vatsa if a company runs a school, the Government may say that it will bear 25% of the cost burden, something which is a direct incentive”. According to Khurshid “there must be a way of quantifying CSR activities by Indian companies and making it available for traders or an exchange dealing in CSR credits.”

When the draft of Indonesian Law No 40/2007 for Limited Liability Companies was circulated in early 2007 it provoked widespread complaints from the business community in Indonesia. This Law, which was considered to be the first in the world to mandate companies to ‘undertake CSR’, stated that the law would be applicable to all Limited Liability Companies. The law was subsequently amended and made the front page of the Jakarta Post when it was reported that Article 74 of the bill requires “natural resources companies” to enact CSR programs, stating that “they will be liable to sanctions if they fail to do so”. No details were included as to how CSR funds must be spent and in what amounts or where it should be spent. The law simply specifies that CSR programmes must be budgeted for and calculated as an operating cost that can be offset against taxation liabilities. Maria Radjati, a lecturer from Trisakti University who is also a member of a team drafting an implementing regulation for Article 74 of the 2007 Corporate Law, comments “there would not be a cap on the minimum CSR allocations by companies since this would be disastrous.” Recent reports in the Jakarta Post seem to confuse CSR with a philanthropy tax and local community investment projects rather than the holistic approach of how to run a business. It seems as though the Government of Indonesia has dropped its original intention of requiring companies to spend five percent of their profits on CSR programs and that this spending should be administrated by the local administration.

So in conclusion

The National Board of Revenue and the Government of Bangladesh has a SRO which when fully implemented will encourage the corporate sector and businesses of all sizes and sectors to continue to donate to ‘good causes in the community’. The Government has also implicitly recognised the subsidy the corporate donations provide for what would otherwise be Government expenditure on schools, universities, clinics, hospital and environmental ‘clean up’ campaigns. The Tax regimes in neighbouring countries have not set such an explicit target for the promotion of corporate donations but they have however recognised a broader view of CSR including environmental protection, as carbon trading for example, and business innovations leading to poverty reduction such as encouraging companies to relocate to remote and rural areas.
EDITORIAL

Public policy support for CSR initiatives

The corporate social responsibility (CSR) involves a voluntary process through which the businesses in today's world respond to social expectations and involve themselves in community partnership through extensive and border stockholder engagement for promoting the goals of sustainable development. It is not related to profit-maximisation efforts that are the normal business of a business enterprise, reflecting its core competence.

Though voluntary in nature, CSR activities have gained wider acceptance as a supportive move to help reduce social exclusion and to address the key sustainable development challenges. Though CSR is not running a business about profit, it certainly means doing business with integrity and fairness for achieving the objectives of a caring society.

In the context of the socio-economic development needs of low income countries like Bangladesh, CSR assumes a great deal of importance for confronting multi-dimensional poverty alleviation issues in a sustainable way. It is heartening to note that the business entities in this country have shown an increasing awareness about their responsibilities towards the community, now the society at large. Not all the activities that the businesses in Bangladesh as much as in many others countries do now seek to support, and advance to demonstrate their 'ethical' and 'public interest' dimensions of their operations, can, however, be considered CSR in a proper sense. "Philanthropy", "donation" or "charity" is not synonymous with CSR. Connections between some tangible objectives and outcomes are the essential traits of CSR activities. Some clarity about procedures, practices and performance are, therefore, the critical elements of CSR, as far as its generally accepted conceptual framework worldwide is concerned. This is so, notwithstanding the fact that CSR involves a voluntary process.

In this second issue of the CSR newsletter that is being published at the initiatives of Management & Resources Development Initiative (MRDI) with the support of Manusher Jonna Foundation (MJF) under the project, "Mainstreaming CSR to Address Poverty", the issues relating to some of the attributes of CSR activities have been highlighted by a number of esteemed contributors. The write-ups shed light on internal corporate governance and legal compliance matters, sporadic philanthropic or charitable activities, and enterprises' operations having relevance only to their direct stakeholders and thus, their own productivity earnings and profitability etc., that should not be confounded with CSR. Promoting sustainability (or continuity), moving beyond legal compulsion or requirements of business (or, additionally), broader stakeholders' benefits (external or going beyond direct stakeholders) etc., are matters of consequence to consider what CSR activities are or what they are not.

So far so good. The sustainable nature of CSR activities, in pursuit of the goals and objectives of "corporate citizenship", "building a sustainable business", "maintaining ethical standards", "encouraging community growth and development", "supporting actions for addressing problems of environmental hazards and degradation", "encouraging social induction", "taking public interest into decision-making by a business", "paving the ground for a caring society" etc., make it clear CSR is much more than charity or philanthropy. It is, in essence, more about issues of social accountability that unmistakably helps to build public trust in businesses and to improve public perception about them.

A wide range of activities does now come under the umbrella of CSR. But the voluntary nature of it, from the conceptual point of view, has not changed. But this does in no way suggest that the government should pursue a hands-off policy towards CSR activities by businesses. Far from it, the government needs to provide appropriate and effective policy supports to facilitate a pro-active role and engagement on the part of the businesses in CSR activities.
to promote public interest in priority areas for inclusive, sustainable and, thus, equitable social development, and national progress. This is particularly more so in countries like Bangladesh where “the government faces capacity and resource constraints in meeting increasing demand for social development.” In this situation, CSR activities can help forge a new form of “social partnership” so that the government, civil society organisations and the business sector “can complement each other’s social development effect.”

This new “social partnership” can largely be facilitated by a government policy support for creating an enabling environment. Fiscal measures are important inputs of such support. The tax concession specially for CSR activities by the businesses that were announced by the government in fiscal 2008-09 and later published in an extraordinary issue of Bangladesh gazette on January 18, 2009, merits attention here. It provides 10 per cent tax rebate for expenditure on CSR. The features of this particular tax concession for activities identified as CSR, has been explained well by Mirza Abdul Islam, former Finance Adviser to the last Caretaker Government, in his write-up, being carried in the issue of the newsletter. Quite clearly, such provisions require the companies to fulfill some conditions relating to their internal governance and state of compliance with existing laws of the land in relevant areas, to avail themselves of tax concession for their CSR activities which would, of course, not include any of their approved cost items in their manufacturing, commercial and profit/loss accounts. Measures have, thus, been taken rightly to prevent any misuse of tax concessions on CSR expenditure. It is too early to assess the impact of the new tax incentive for encouraging the businesses proactively in CSR activities. Also none would disagree here that “tax concession obviously implies that the Government forgoes what it could otherwise earn as revenue.” But it is also equally true that expanded CSR activities, facilitated by such a tax concession, will also mean that the Government will also be saving some public expenditure, or will partly be relieved of the pressure to provide the additional funding in some areas -- and the need for such funding on a larger basis in many areas cannot be disputed -- where the businesses are channelling their CSR funds with some positive outcomes.

The scale of tax concession to businesses on their CSR expenditure will thus, need to be reviewed from time to time, considering the nature and extent of CSR profile of businesses, in some tangible form, linking inputs with outcomes. This makes the case a dynamic one for the government to assess objectively its tax concession and to enhance the rate thereof, if the private sector contributions to CSR do encourage a rise on a continuing basis, in response to the fiscal measures that are meant to help crowd-in such funds. A pro-active public policy on CSR should, therefore, be put in place for this purpose. It should also function as a built-in mechanism for monitoring CSR activities and promoting accomplishment of more social responsibilities of businesses on a voluntary basis, following, of course, the standard requirements about reporting process relating to tangible objectives and outcomes of CSR activities.

The public policy supports for CSR activities can also move beyond some tax concessions on related expenditure by businesses. Effective awareness campaign about CSR as a voluntary process can be supportive of expanding activities coming within its fold. Some countries in this region are also considering ways of quantifying CSR, defining well its parameters, creating a system “through which CSR endeavours of companies may be traded” in the form of exchanges of CSR credits, sharing by the government of cost burden of community projects initiated by companies as part of their CSR activities, linking both tax and non-tax incentives with CSR etc. All such public policy initiatives are obviously aimed at rewarding businesses with strong CSR initiatives. In this backdrop, Bangladesh will need to keep a close watch on related developments in the domain of public policy in countries in this region and outside to put in place a proactive framework to encourage the businesses to take up CSR initiatives more seriously.
Felt-needs at the grassroots for sustainable development

Management and Resources Development Initiative (MRDI) undertook an initiative in partnership with Manusher Jonno Foundation (MJF) in the year 2006 to sensitize the corporate sector and the media on CSR and how CSR funds could effectively be used for supporting sustained development efforts. The year-long programme had been able to provide a strong message to both corporate professionals and media people; if properly guided and channelled, CSR funds could not only be used on edge of the society’s needs, but also utilized to tackle core development issues.

On completion of that initiative, MRDI, on its part, strongly felt through its engagement with the corporate sector that CSR funds should be allocated to the priority areas for supporting pro-active moves, a clear roadmap has to be shown to the corporate professionals. With this view in mind, it took another initiative, as a follow-up move, to meet the pressing development challenges of underprivileged communities with CSR funds to help reduce poverty and mitigate deprivation.

This approach emanates from the rationale that partnership between community organizations and private sector can go a long way in dealing with urgent priorities of communities, serving the needs of both, the people at the grassroots and the corporate sector. The corporate sector can, through such an approach, ensure its ‘good corporate citizenship’ role and build goodwill. This can also lead to better corporate governance in a caring society and, at the same time, pave the way for much larger inflow of an alternative development fund. This is also evident in the developed world.

CSR is recognized globally as a strong process for the corporate entities to serve community needs. However, sufficient efforts are not yet visible in Bangladesh to mainstream corporate funds into sustainable development works. MRDI conducted a one-to-one interview with 50 corporate officials to know their views about CSR. Out of them, 90% expressed that they would provide CSR funds to address properly identified development needs of the disadvantaged community. The corporate sector requires technical support in identifying the needs of the target community. There is also a need for proper intermediation so that the link between the corporate sector and the grassroots people is established to pave the way for channelling CSR funds, in support of community development. A number of cross-cutting issues such as development-need identification, sensitization of the corporate sector, commitment building, community participation and group bonding and ground intervention, are involved here.

In support of this role as an intermediary, the MRDI considers the media and journalists as a pivotal tool. The media, through their outreach, portray the felt-needs of the communities and as such they represent a suitable tool for identification of priority issues for CSR activities. On the other hand, the journalists through their professional investigative capacity can analyze the identified issues for devising programme strategies. The media can also work as the sensitizing tool for building corporate commitment.

This initiative aims to utilize CSR funds in addressing poverty alleviation issues in an effective and sustainable manner. Before going for direct interventions, a multi-phase needs assessment exercise has been conducted through media content screening to identify the areas related to poverty and deprivation. Also the officials of corporate houses with major involvement in CSR activities have been interviewed, besides the publication of news/feature stories, published/broadcast in national dailies and electronic media.

Based on the findings of the assessment, the project team initially selected the following three issues of intervention and locations for their implementation. This process will, however, continue and more development issues for possible interventions through CSR activities will come up in the future.

Skill development training centre
The proposed centre aims to improve overall poverty situation in two river erosion-prone areas of Nilphamari and Lalmonirhat districts. More specifically, it will help generate 11,550 work opportunities for vulnerable poor people in next ten years.

The probable location of the skill development training centre would be within the vulnerable communities. The proposed site is Doani in Hatibandha upazila of Lalmonirhat district where there is a Water Development Board complex near the Teesta Barrage. Part of this complex could be rented. The other alternative is buying or renting land nearby. Another proposed location is Borokhata Bazaar of the same upazila (also on purchased land).

If the centre could be set up at the proposed site, it is expected to play a significant role in helping the people of the area bring about broader changes in their lives. The project could thus transcend its immediate goals of developing necessary skills and providing jobs to people who need it badly.

for details please visit www.mrdi bd.org/csr/investigation/skill_training
Livelihood programme for poor women

The programme aims to create work opportunities for 200 poor and marginalized women of a village in Jessore district in three years by providing them with training in tailoring and embroidery. This will be done by setting up a training centre, equipped with all necessary materials and personnel, in order to help the target women attain self-reliance.

This project intends to design its training in a way so that the trained women can earn by sewing and embroidery works. A study in the area found that women can earn by making blouses, petticoats, frocks and short pants for women and children. They can supply these materials to the local market. They can also supply finished embroidered materials like quilts, bags, cushion covers, etc., for the well-off buyers in urban areas.

For details please visit
www.mrdibd.org/csr/investigation/livelihood

Support for higher education to poor meritorious students

MRDI wants to help the poor meritorious students to continue higher education with the support of corporate houses by channeling their CSR funds. A survey conducted in a poverty-prone district in northern Bangladesh shows a large number of students drop out or cannot pursue higher education due to poverty. The survey also found that banks, insurance companies and corporate houses spend a significant amount of CSR funds on education. But these funds are disbursed among the students of primary and secondary levels. Poor meritorious students living in remote rural areas aspiring for higher education have hardly any scope to realize their dreams. Many of these young talented students have to put an end to their education at a prime time.

Against this backdrop, MRDI has taken an initiative to create a common fund from which stipends will be provided to the genuinely needy and meritorious students.

For details please visit
www.mrdibd.org/csr/investigation/education

An in-depth investigation, involving target beneficiaries and community gatekeepers, followed the process. The investigation was conducted by three separate teams, comprised of national and local journalists under the supervision of Team Leaders and experts on the selected issues. The community people themselves identified and prioritized their needs in the light of their deprivations.

To be a part of the initiative, please contact info@mrdibd.org
CSR Evening 2009

Meeting Social Goals

Management and Resources Development Initiative (MRDI), in partnership with the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), the Dhaka Chamber of Commerce and Industry (DCCI), Foreign Investors Chamber of Commerce and Industry (FICCI), Bangladesh Federation of Women Entrepreneurs (BFWE) and Monusher Jonno Foundation (MJF) organized an event -- CSR Evening – 2009: Meeting Social Goals -- on October 24, 2009 at Dhaka Sheraton Hotel. Business leaders, representatives of corporate houses, development partners and policy makers were present on the occasion.

Dr. Manishur Rahman, Adviser to the Prime Minister on Economic Affairs was the chief guest at the event.

Mr. AHM Mustafa Kamal MP, Chairman of the Parliamentary Standing Committee on Ministry of Finance was the Guest of Honour at the function.

Dr. Aitor Rahman, Governor of Bangladesh Bank and Dr. Nasiruddin Ahmed Chairman of the National Board of Revenue were the special guests on the occasion.

In his address as the Chief Guest, Dr. Manishur Rahman said, Corporate profits and social benefits should be identical and negative externalities have to be avoided. If negative externalities, he noted, are inevitable in the process of asset creation and income generation, they should be accepted on the condition that they are tolerably small and have adequate mitigation mechanism and also that compensations are paid by the corporate bodies to the affected persons.

The essential pre-condition for CSR is to produce net social benefits, he stressed.

Referring to tax benefits, Dr. Rahman said, “The government has now provided some tax relief for CSR contributions – 10% relief for the contribution which is included in the taxable income. The purposes of contribution are also specified, including contributions for certain physical ailments and disabilities, technical and vocational education, scholarship, old home etc.” About the qualifying criteria for tax benefit, he said, “The corporate entities have to meet certain conditions to qualify for the tax relief which include satisfactory

The need for fully exempting CSR activities at the institutional level from tax merits consideration at this stage because such activities help foster sustainable development.
compensation and welfare expenditure for the employees; compliance with laws against child labour, waste treatment plant and tax payment. If satisfactory debt servicing is included as a condition, many corporate entities, I believe, would be ineligible for tax relief."

“We have society and economy, characterized by capacity of wealth creation. But there is also lack of capacity for securing equity, imperfect and limited governance, urge for social justice, and the value of individual contribution of public good as well as welfare. It seems that CSR fits into this scheme of social and economic organization,” Adviser to the Prime Minister on Economic Affairs noted further.

The Guest of Honour at the function Mr. A.H.M. Mustafa Kamal MP said, The need for fully exempting CSR activities at the institutional level from tax merits consideration at this stage because such activities help foster sustainable development.

Special Guest Dr. Ataur Rahman, Governor of Bangladesh Bank said, “The central bank has taken initiatives in respect of formalizing CSR in the banking sector of Bangladesh and had also issued a directive to the banks and financial institutions in this regard on June 1, 2008.”

He said, “It defined the strategic objective for CSR engagement and suggested a first time CSR programme indicating some likely action plans. Bangladesh Bank will monitor CSR adoption and CSR performance of banks and financial institutions, as an additional dimension of their management performance.”

Dr. Ataur cited some examples of CSR action programmes undertaken by banks which include disaster relief and rehabilitation, micro-finance for the marginalized groups, scholarship programme for poor meritorious students and financial support for health care services.

“Without a governance framework, businesses may face substantial difficulties in finding and maintaining appropriate boundaries for their CSR interventions, and they may find themselves pressured into activities that are beyond their core competence and represent a financial drain on business rather than a sensible CSR investment,” Dr. Ataur pointed out.

Rokia Albal Rahman, President of Bangladesh Federation of Women Entrepreneurs moderated the session. In her address of welcome at the event, she highlighted the importance of CSR for attaining the goals of sustainable development in a caring society.

Mr. Moazzem Hossain, Editor of The Financial Express offered the vote of thanks at the close of the function.

Dr. Ataur appreciated the role of MRDI in promoting CSR activities while pointing out that as an alternative development fund, CSR can contribute to poverty reduction and supplement government’s efforts towards achieving the millennium development goals.

In his address, Special Guest, the Chairman of the National Board of Revenue (NBR), Dr. Nazrul Siddin Ahmed said, “Tax rebate that has been offered in certain areas of CSR activities can be increased if the measure proves fruitful.”

The President of the FBCCI, Mr. Annisul Haq said, “From FBCCI we will create 1000 jobs for poor underprivileged people and, at the same time, would create 250 business entrepreneurs over the next six months, as part of our social commitment.”

Addressing the function, Executive Director of MUF Ms. Sheen Annet stressed the need for collaboration between the corporate sector and the NGOs to make effective use of the CSR funds for social development.

President of the DCCI Mr. Zafar Omar and President of FICCI Mr. Wadur Rahman Bhuayan also expressed their solidarity with, and commitment to, the initiative.

Three documentaries on potential interventions for CSR, identified by the MRDI research team were presented before the audience. These proposed pilot interventions include establishment of a skills development training centre, livelihood programme for poor women of a certain community and support to poor meritorious students for higher education.

The participating corporate representatives made commitment to extend support to efforts for implementation of the proposed interventions. They also took part in an open discussion to express their solidarity with the initiative.
Speech of Chief Guest

Few eminent citizens -- former Advisers or Ministers of military regime and retired government officials -- suggested in early 1990s that contributions for setting up private universities be exempt from income tax. They argued that public universities can provide better discipline and higher quality education than public universities. Private universities pass the test of discipline, but a large number fail the quality test. They fail equity test uniformly -- a large number of students are left out by high fees. Equity of corporate social responsibility (CSR) expenditure is important.

The government has now provided some tax relief for CSR contributions -- 10% relief for the contribution which is included in the taxable income. The purposes of contribution are also specified, including contributions for certain physical ailments and disabilities, technical and vocational education, scholarship, old home, etc. These are also among the high priority public social expenditures.

The corporate entities have to meet certain conditions to qualify for the tax relief. These include broadly speaking, satisfactory compensation and welfare expenditure for the employees; compliance with law against child labour, waste treatment plant and tax payment. Actual expenditure by the recipient is subject to scrutiny by the taxation authority which is more honoured in dereliction than due discharge. The conditions, however, do not include satisfactory debt servicing which I believe could make many corporate entities ineligible for the tax relief.

We have acquired enormous capacity for creating wealth since the commercial and industrial revolution. Equity in distribution of wealth has not kept pace with the creation of wealth, while the conception of equity has taken greater hold of our consciousness.

Adam Smith, who was all praise for creation of wealth, glossed over the problem. "The rich only select from the heap what is most precious and agreeable, consume little more than the poor, divide with the poor the produce of all their improvements, and are led by an invisible hand to make nearly the same distribution of the necessaries of life which would have been made had the earth been divided into equal portions". A heroic assertion indeed!

His view of socially just distribution depends on limits on consumption and conscience as to what is just distribution. Both are weak foundations, however. He was unaware of conspicuous consumption.

Classical political economy at a later stage had much better insight into the hiatus between creation of wealth and its distribution. J.S. Mill, for instance, recognized that production is determined by the material characteristics of the input and the technology used for their transformation. Distribution, on the other hand, depends on the intuitions of a society and enforcement of law and customs. Legitimacy of distribution also depends on acceptance by the society.

Private property or ownership presents a perennial dilemma. The distribution of property in modern Europe was the result, not of just partition, or acquisition by industry, but of conquest and violence. The presumption that all should start on equal terms is inconsistent with the law of private property, and every defence of property entails guarantee to individuals the fruits of their labour and abstinance. Ownership of property, he maintained, should be consistent with -- and not obstruct -- social ends.

Two other elements in Mill's political economy were the great value attached to voluntary and individual efforts and limiting government's remit to a few essential tasks -- named defence against external aggression, controlling violence within the society and administration of justice. The government should do all that is desirable and in the interest of mankind and future generations, but must consider whether it can be done better by individuals on a voluntary basis.

In sum, we have society and economy which is characterized by capacity for wealth creation but lack of capacity for securing equity, imperfect and

The corporate entities have to meet certain conditions to qualify for the tax relief which include satisfactory compensation and welfare expenditure for the employees; compliance with law against child labour; waste treatment plant and tax payment.
limited government, the urge for equity or social justice, and the value of individual contribution to public good as well as welfare. It seems that CSR fits into this scheme of social and economic organisation.

Our Nobel Laureate Professor Yunus is sceptic that the existing economic organisation can address poverty at all. The corporate enterprises are driven by profit motive and do not care enough about social or human impact. He has proposed a rather radical solution in terms of a separate or parallel system of social enterprises, complete with a capital or credit market dedicated to social enterprise. The social enterprises will generate income which will be applied only for the benefit of the poor; they will be driven by the motive of philanthropy or welfare of the poor. However, it seems that the social enterprises will depend on "gift-transfer" of assets created by government, using tax revenue or public debt, and corporate bodies running on profit motive. Implicitly, it is a scheme for redistribution of assets and income where the government withdraws after effecting the "coercive gift transfer" and the corporate enterprises philanthropically after building the assets. Creation of asset is taken as datum.

What is the primary social responsibility of enterprises? As Aristotle says, one can be a good archer, a good shoe maker, a good athlete; but what makes a good man is open to question. His answer was the ethical community i.e. a political society which generates ideas of virtue and encourages their practice. In the same vein, an enterprise can be good at making medicine, shoes, furniture, textiles and so on. It seems, therefore, that the primary obligation of corporate enterprises is to conduct production and exchange in an efficient manner consistent with the best advantages to the society. That implies that the corporate profits and social benefits be identical; that negative externalities be avoided; or if negative externalities are inevitable in the process of asset creation and income generation, these be accepted on the condition that there are tolerably small and adequate mitigation and compensation by the corporate bodies are paid to the affected persons.

This leads to a few questions. How can we explain corporate profit which depends on monopoly or oligopoly, high level of protection and other forms of market distortions? Much of profit is then conversion of consumer surplus into producer surplus or profit -- i.e. transfer of benefit (or income) from consumer to the producer. The net benefit from CSR is then offset by the magnitude of the transfer or conversion of surplus. Ethical and effective corporate governance in a competitive and largely open economy and excess of CSR, over transfer or conversion mentioned above then are the essential pre-condition for CSR to produce net social benefits.

Management and Resources Development Initiative (MRDI) has identified skill development, livelihood programme for poor women and support for higher education to poor meritorious students as its initial projects. The programme is modest but I believe will expand in the future. Their efforts to organise CSR resources into productive and socially desirable investment are, for sure, commendable.

...we have society and economy which is characterised by capacity for wealth creation but lack of capacity for securing equity, imperfect and limited government, the urge for equity or social justice, and the value of individual contribution to public good as well as welfare. It seems that CSR fits into this scheme of social and economic organisation.

(This is an edited version of the speech, given by Dr. Mian Sharif Rahman, Adviser to the Prime Minister on Economic Affairs)
CSR Catalogue

The first issue of CSR Review contained a catalogue of business houses practicing CSR. The list was prepared through random monitoring of reports published or telecast by the national media over a certain period. A similar catalogue is also being placed on this page of the current issue of the newsletter. This time the monitoring period was between April 2008 and November 2008. We would highly appreciate if the corporate houses send information on their CSR initiatives to csr@mrdbd.org. Since MRDI works with media and journalists, the news about such initiatives will certainly reach a large audience through them.

Health

Education

Social Awareness Building

Facilitating Marginalized/ Vulnerable groups

Infrastructure Development

Environment

Livelihood support

Rehabilitation

TFAM

- Project Advisor
  Rakita Afjal Rahman, President, Bangladesh Federation of Women Entrepreneurs
- Project Anchor
  Moazem Hossain, Editor, The Financial Express
- Team Leader
  Inam Ahmed, Deputy Editor, The Daily Star
- Programme Coordinator
  Hasibur Rahman, Executive Director, MRDI
- Programme Manager
  Md. Shahid Hossain, Advisor Planning and Development, MRDI
- Programme Officer
  Akbarun Naher
- Media Monitoring Officer
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