Business Standard

Shekhar Shah September 14, 2013 Last Updated at 21:50 IST

Shekhar Shah: Moving from charity to responsibility - The rules for India's new companies act

How can chief executive officers, shareholders, governments and citizens ensure that the new corporate social responsibility money will make a difference? Make CSR evidence-based

India's rapidly-growing philanthropic community has received a huge shot in the arm with the CSR provisions of the new Companies Act: companies above a certain size must formulate a CSR policy and annually spend at least two per cent of their average net profits over the prior three years. That will translate in 2014 into about 8,000 companies spending some Rs 12,000-15,000 crores ($1.9-2.4 billion) annually - CSR numbers unheard of in India.

On what should companies spend their hard-earned profits?

Surely, in a country with some 270 million poor living on less than Rs 30 a day, that should be an easy question to answer: spend it all on the poor and the disadvantaged, open a school or a health clinic, put an extra meal in the hands of a child, and do it locally so that the company can see and talk to the beneficiary. Indeed, the Act asks companies to give preference in their CSR funding to the local areas in which they operate. The Act also gives guidance in its Schedule VII on what to do: address extreme hunger and poverty, promote education, support gender equality, reduce child mortality, improve maternal health, combat diseases, ensure environmental sustainability, enhance vocational skills, promote social enterprise, and, at the end, "such other matters as may be prescribed".

This guidance is appealing in many ways. These are good outcomes to aim for. They are also expenditures that tug at the heart-strings and can be emotionally satisfying, connecting the giver and the receiver, and, on the face of it, justifying the giving. And the smiling photographs, inspiring quotes, and true life-stories in annual reports can help convey the immediacy of a company's CSR as nothing else can. Add SPARQ codes and on-demand YouTube videos, and it is a potent mix. Companies should of course do all this.

Yet it would be a big mistake to restrict CSR funding only to on-the-ground projects. And it would fly in the face of the rising global trend in governments, the private sector, and donors to ask for the knowledge of actual impact - to know the evidence of what works and what doesn't and why - before spending large sums of money.

When done without the benefit of knowledge acquired from the careful gathering and analysis of field data and evidence, and from piloting, evaluation and meta-studies, the actual outcomes and sustainability of CSR projects can be highly uncertain. The world is littered with well-intentioned, expensive schemes that look about right and spend much money, but have little or none of their intended impact. Or worse, have unintended and undesirable consequences - such as money or subsidies going mostly to the rich, or education that actually reduces employability. The link between more money and outcomes is often not as simple as might appear.

There is much evidence to show that when all other factors are taken into account, there is little correlation between merely spending more money on education, health, and livelihoods and better outcomes for poor people. If that had not been the case, India could surely have licked its problems of child malnutrition and poor learning outcomes a long time back. The solution to infant mortality and morbidity may appear to be to increase health expenditures, but there is overwhelming evidence that it is poor sanitation and water supply that needs to be tackled first. There is a classic example of de-worming in Africa where de-worming tablets distributed in schools successfully tackled multiple problems of nutrition, school attendance and educational attainment. The evidence for such interventions can only come through careful, systematic research.

For that reason, the new CSR rules should explicitly provide for the funding of such research at institutions with a strong track record of quality and credibility. High-quality applied research related to the activities listed in the Act can show the strengths and weaknesses of public and private development projects, examine how the supply of benefits will interact with the demand and preferences of beneficiaries, and identify weak links that should be corrected as companies construct their CSR policies.

Allowing companies to use a part of their mandatory CSR spending to fund research and credible, independent research institutions would have at least five large benefits for the nation. First, the more evidence-based CSR is, the greater the bang for the buck that companies can expect. As the size of the economy grows, this can be a game-changer.

Second, risk-taking and innovation are at the heart of successful companies. If applied to CSR, this can strengthen the mind-set of piloting and learning through doing, a research-to-policy tradition that in our impatience to scale up remains weak in India compared to other large nations.

Third, evidence-based CSR can allow even modest CSR expenditures to produce superior and more sustainable outcomes than much larger public schemes, and indeed, show the way for such schemes.

Fourth, India spends substantially less on its social and policy research institutions than other large economies. Given its heterogeneity and scale, it should be spending more. Sound CSR funding can help address that problem.

Finally, there is a long-standing Indian tradition of corporate and individual philanthropic support for research institutions that the new CSR Rules should build on rather than ignore. My own institution was established soon after India's independence with funding not just from the government but, at Pandit Nehru's behest, very substantially from J R D Tata and others.

With the increasing demand for evidence, outcome-based solutions and the measurement of effectiveness, the role of policy research institutions in India must grow. Independent think tanks and research institutions form a valuable link between ideas, policies, and implementation by supplying the evidence, the platform for debate and dialogue, and the bridge between governments, the private sector, citizens, and the media in shaping public policy.

Fortunately, the just-released draft CSR Rules make it clear that a company may also use its CSR Fund to support independent Indian trusts, societies, or Section 8 companies with an established track record, not just those set up by the company. Many credible Indian research institutions would fall within this definition, and many new ones could come up. If the ministry of corporate affairs and its young minister are persuaded that robust research and evidence-based CSR will produce superior results for the India of tomorrow, then it should have no problem in accepting Indian companies wanting to invest in the country's long-term capacity to produce such evidence and analysis.

If India does not invest systematically in such research capacity, it will get much less of a bang for the buck from the heightened social responsibility that the new Companies Act asks for. The ministry of corporate affairs owes it to the future of India's disadvantaged, and the millions of its young, to allow companies to do so.

The writer is Director-General of NCAER, the National Council of Applied Economic Research in New Delhi