



# CAN BLOCKCHAIN SOLVE CORPORATE SOCIAL RESPONSIBILITY (CSR) ACCOUNTABILITY CHALLENGES IN INDIA?

Bahujanaya Hitaya, Bahujanaya Sukhaya (translates to “for the happiness of many, for the welfare of many”). This adage documented in the Vedas, is an endorsement of the understanding that a business enterprise is not responsible only for earning profits for its stakeholders, but is also obligated to the society, environment and towards a sustainable planet at large.

Corporate Social Responsibility (CSR) in India, tracing its roots to ancient texts, forms an essential constituent of national consciousness. It was with this background, that India went ahead to legalize CSR, becoming one of the few countries in the world to have a dedicated CSR Act.

Corporate Social Responsibility Guidelines were conceived as an instrument for integrating social, environmental and human development concerns in the entire value chain of corporate business. The Ministry of Corporate Affairs, Government of India (MCA) had issued ‘Voluntary Guidelines on Corporate Social Responsibility, 2009’ as a first step towards mainstreaming the concept of CSR in business responsibilities. The primary objective was to promote responsible and sustainable business philosophy at a broad level and encourage companies to implement innovative ideas and robust management systems to address social and environmental concerns of the local community and environment.



## The CSR Legislation

Section 135 of the Companies Act in India mandates that organizations with a net worth of INR 500 crore or more, or a turnover of INR 1000 crore or more, or a net profit of INR 5 crore or more in the immediately preceding financial year are required to spend 2% of their average net profit of the preceding three years on CSR. However, research data shows that CSR implementation in India lacks accuracy and consistency.

**As per a report published by the MCA (Ministry of Corporate Affairs), a review of CSR spends in the ambit of section 135 for FY 17-18 made interesting revelations:**

Nearly 46% of companies liable for CSR did not publish the mandated reports to MCA.

The compliance percentage of CSR spend versus prescribed amount is only 57% for FY 17-18.

An alarming ~95% of companies liable for CSR spend, have either not constituted a CSR committee or not reported – in non-compliance with the act.

Some sections may have been abusing CSR funds for laundering of black money. Companies may use charitable trusts to fabricate CSR spending

In order to address compliance shortfall, the Govt. rolled out another amendment to the CSR Act recently to strengthen fiduciary reporting for all entities. Non-compliance to the CSR Act is now also liable to invite penal action, with pecuniary penalties for both the company and defaulting officers.

**This amendment will increase overheads manifold :**

The Government will incur overheads for CSR expense audit, tracking of unused expenses, and for reconciliation across other departments.

Beneficiaries have to contend with additional regulatory compliance overheads, apart from the challenge of ensuring sustained financing.

Corporates need to create a CSR process framework, ensure diligent tracking and expense reporting as per Government norms. They will be required to make an annual disclosure of CSR expenditure. Any unspent funds would be transferred to an MCA monitored escrow account to be expended within the next three fiscal years. Effectively, the CSR act has led to multifarious challenges for all stakeholders.

With this amendment, the Government will need to sharpen enforcement of auditing the CSR expenditure, and tracking of unused expenses. This will lead to additional reconciliation and monitoring overheads across multiple departments.

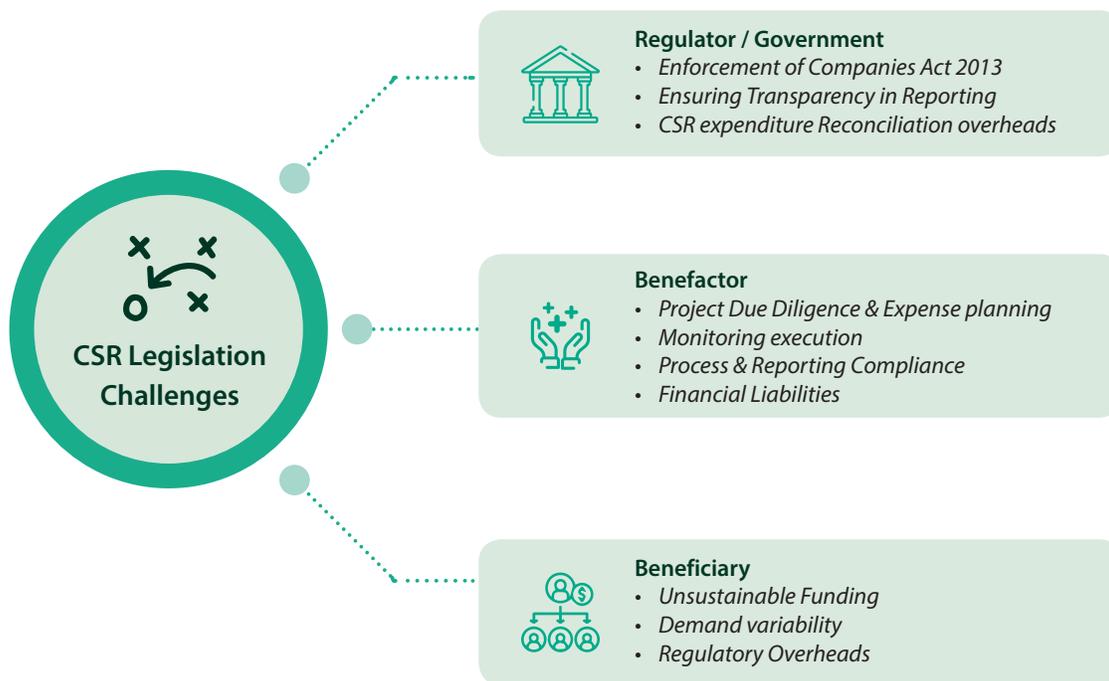


Fig 1: Typical CSR Challenges

## Harnessing the Digital Revolution for CSR – Navigate your Next:

*“The more we think about how to harness the technology revolution, the more we will examine ourselves and the underlying social models that these technologies embody and enable, and the more we will have an opportunity to shape the revolution in a manner that improves the state of the world.”*

- Klaus Schwab, *The Fourth Industrial Revolution-*

In these times of accelerated digitization, emerging technologies have graduated from being a static medium to an active enabler driving an ecosystem. Such technologies have the potential to not just optimize costs, enhance performance and automate existing business models, but to act as disruptors of status quo and generate new business models.

Blockchain is one such technology which represents a distributed digital ledger with decentralized control, immutability and transparency. As a single source of truth across multiple disparate players,

Blockchain establishes implicit trust amongst them. It maintains a tamper proof ledger of transactions and eliminates paper trail.

In alignment with the Infosys vision of “Navigate your Next”, we propose to leverage one of the leading disruptors of our times, Blockchain (Distributed Ledger Technology) to create an ecosystem for CSR and resolve its inherent challenges.

### A CSR Ecosystem on Blockchain

**A blockchain based ecosystem for CSR, will be a convergence of beneficiaries, benefactors and regulators to establish a single immutable proof of transparency and trust, while eliminating overheads.**

Blockchain (Distributed Ledger Technology - DLT) is a digital system of records in which the transactions are validated and simultaneously recorded in multiple sites. DLTs are decentralized, with a consensus model to ensure trust amongst all stakeholders.

A CSR ecosystem on blockchain will bring together stakeholders to a common platform with transparent visibility into

transactions. Benefactors can register and submit monetary contributions to the ecosystem. Registered beneficiaries can publish project plans to seek funding. All such plans can be validated by benefactors before shortlisting for funding. The platform can thus enable crowd funding for charitable initiatives.

On completion of projects, beneficiaries are required to publish all expense details on the ecosystem. All projects and expense details can be readily available for review and audit by the regulators. This will eliminate delays and overheads related to reconciliation of CSR expenditure and related statutory financial audits.

The ecosystem can operate a local digital currency - CSR credits as an alternative, to facilitate seamless value exchange across stakeholders over the ecosystem. Eventually, this currency can be used as a means to incentivize CSR initiatives. The monetary contributions in different slabs can be reciprocated with corresponding CSR Credit reward in the CSR Wallet for the benefactor. The network can offer various options for redemption. The Income Tax Department as a stakeholder in the ecosystem can enable direct and real time redemption of tax benefits in lieu of the CSR expenditure.

Other government agencies and utilities could be later brought into the purview of the ecosystem to create more avenues for seamless redemption of CSR credits.

The ecosystem will be operated directly in the realm of the Ministry of Corporate Affairs, with the CSR cell as the primary administrator. This would facilitate real-time and direct regulatory oversight into all CSR expenditure, with minimal overheads. All reporting required to be done in the ambit of the section 135, can be carried out directly on the CSR platform. Income Tax Department (ITD) can be on boarded onto the system, allowing for direct adjustment

of the net taxable income and taxes for benefactors. The ITD will have direct access to the IT returns of the beneficiaries registered under Trust Act/12A/80G.

A blockchain based CSR ecosystem, can thus facilitate sharper multi-dimensional regulatory oversight across all stakeholders at minimal operational cost.

**Benefits of such a network:**

- Bringing complete transparency in the CSR landscape
- Easing regulatory, audit overheads for the government, and compliance/ reporting overheads for corporates,

hence allowing near real time settlements

- Achieving transparent digital settlement of tax benefits and compliance regulations for benefactors
- Creating opportunity to earn additional credits and seek direct redemption with government departments or utilities on the network

Eventually, citizens can be allowed to register to the platform as beneficiaries. The ecosystem could become an engine to generate crowd funding for CSR initiatives.

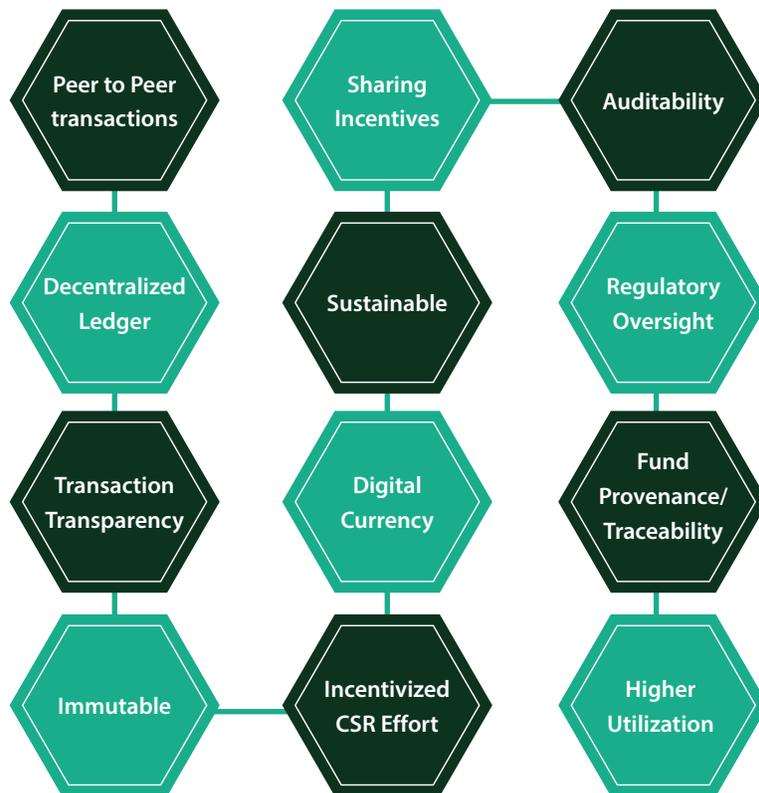


Fig:2 Blockchain Based CSR Ecosystem – Benefits

**Blockchain CSR Ecosystem Roadmap**

The Blockchain CSR ecosystem will be implemented in a phased manner. It is proposed to be piloted in the first phase, confined to Infosys, with Infosys Foundation as the regulatory authority. Infosys Development Center CSR entities will represent beneficiaries; whereas, employees and Infosys Foundation will

act as benefactors. The platform will enable real time monitoring and tracking by Infosys Foundation with utmost transparency and facilitate remittance of equitable rewards.

The second phase titled Indian CSR ecosystem, will pilot the ecosystem in a Tier 2 city outside the purview of Infosys. The ecosystem will be

socialized with government entities and local administration. It will involve additional enlisting of local not-for-profit organizations, regulatory authorities (Ministry of Corporate Affairs, Income Tax Department), and local corporates.

On completion of the location pilot, the ecosystem will be gradually socialized and introduced nationwide.

## The Infosys Pilot

- In the pilot phase, Infosys Foundation, Development Center (DC) CSR entities and employees will register to this network as stakeholders. Each entity will hold a CSR credits digital currency wallet on the network, linked to a bank account.
- Employees as individual contributors can register to the platform and purchase CSR credits for contributions to a local DC CSR. As benefactors, employees can select from the projects listed on the platform and offer funds contribution.
- DC CSR entities being the prime beneficiaries, will be required to publish project plans as well as execution progress reports on the platform for review/audit.
- CSR credits authority team, as a representative of Infosys Foundation, will review artifacts for each project. The authority will review and certify initiatives based on published artifacts. Certified projects will earn CSR Credits reward for the CSR entity, which can be exchanged for fiat currency.
- The beneficiary DC CSR can seek redemption of CSR Credits from the CSR Authority, and in response the Infosys Foundation will credit an equivalent amount of INR/any fiat currency to the linked bank account of the stakeholder.
- External beneficiaries as supported by DC CSR entities may be invited to join the ecosystem, to enhance their reach to potential benefactors

## The Indian CSR Ecosystem

The CSR Cell of the Ministry of Corporate Affairs drives the CSR Ecosystem as the regulatory Credits Authority (CA). Department of Income Tax is enrolled as a regulator to the ecosystem. Benefactors (Corporates) register to the ecosystem, by validating respective PAN numbers with the regulatory authority. Not-for-profit Organizations, that are pre-registered as such per Government norms, can enroll in the ecosystem as beneficiaries. Each stakeholder maintains a CSR Credits wallet on the network. CSR Credits are issued by the Credits Authority. A benefactor may donate funds by transferring a fiat currency amount in the bank account of the CSR Credits

Authority. In lieu of this amount, the CA credits a corresponding amount of CSR Credits digital currency in the wallet of the benefactor. Beneficiaries register future projects in the CSR Registry of the ecosystem. Projects open for funding are visible to all benefactors for signup. When a benefactor selects a project, it approves transfer of corresponding CSR Credits to the wallet of the beneficiary that published the project. Fiat Currency funds in lieu of these credits are transferred to the beneficiary bank account for deployment on the project. A beneficiary will be required to post project milestone updates regularly on the ecosystem. These can be reviewed real time by both the benefactor as well as the

regulatory authorities. The regulatory authority validates expending of benefactor funds in the shortlisted projects. This would facilitate real time compliance checks accomplished by the regulators. Any tax exemptions due to the benefactor in lieu of CSR expenses can be settled real time by the Income Tax Department. Also, the ecosystem can facilitate transparency in audit of balance sheets of the beneficiaries. Any funds that have been unused for 3 years since deposit can be automatically moved to the escrow account also within the ecosystem via smart contracts, automatically enabling transparent monitoring for the regulatory authority without any additional oversight expenses.





## Conclusion

A Blockchain based CSR ecosystem can transform the CSR landscape in India. It has the potential to become the gold standard for transparency in CSR and not-for-profit initiatives, worldwide.

With the inclusion of regulatory authorities, the platform offers a single source of truth, driving real time data dissemination amongst all stakeholders on a need to know basis.

In the Indian purview, public trusts have been a favored route to launder money because they have not been adequately governed or monitored. The Blockchain based CSR ecosystem will entirely curb the abuse of the CSR regulation. CSR spends budgeted by companies need to be declared and funds provisioned on the platform. This system eliminates the need for any offline audits and hence facilitates complete transparency.

The CSR ecosystem can also bring about real time settlements, instant compliance and audit clearance, eliminating several reconciliation overheads both for the benefactor as well as the regulator.

This implementation has the potential to eliminate fraud in CSR expense tracking, apart from strengthening the entire landscape, providing real time monitoring of the expenditure as well as initiatives. The CSR Ecosystem on blockchain can become a harbinger of digital trends in governance.



## About the Authors

### **Gopi KK**, *SVP and Service Offering Head, Blockchain and Oracle Services*

Gopi is a respected business leader with an exceptional track record of incubating and scaling business units. His strength lies in being able to bring together disparate teams and drive a spirit of collaboration towards achieving a common goal. With close to 25 years in the industry Gopi has a well-rounded experience across all faculties – having spent time on the coalface handling dynamic and complex business needs of clients, working with senior leaders in our partner ecosystem to drive joint forays into the market, collaborating with government agencies to establish new development centers in India and globally and most importantly working with different internal departments to drive profitable growth. His current responsibilities include being the Global Head for Enterprise Applications Services for Oracle, incubating and stabilizing Blockchain services at Infosys, as the lead for corporate strategy for localization across Europe setting up new innovation hubs in the geography and driving force behind “Be the Navigator” a grassroots movement which takes innovation out of lab coats and to the masses.

### **Rohini Trehan**, *Practice Manager, Blockchain Services*

A seasoned IT Leader with rich experience in Technical Consulting and Delivery across technology and industry domains. Rohini has extensive experience in managing large accounts, incubating and developing new practices, and sustaining delivery excellence. Her passion for technology coupled with all-round delivery experience are key to the rigor she brings in driving innovation in her portfolio. As Practice Manager with the Blockchain Service line, she is responsible for Thought leadership, Design of disruptive solutions & Consulting towards Blockchain led business transformations for clients across industry verticals.

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For more information, contact [askus@infosys.com](mailto:askus@infosys.com)



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