

Keynote Paper
Policy Support to CSR in the context of
Tax Exemption for the Banking Sector

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Introduction:

Businesses without addressing the needs and expectations of stakeholders in a community cannot remain competitive in the contemporary era. A strategic approach to Corporate Social Responsibility (CSR) can bring benefits in terms of building reputation, brand value, customer relationships, operational risk management, driving up efficiency, access to new markets and better human resource management through employee motivation and retention. Responsible business conduct is especially important when private sector operators provide public services. CSR offers a set of values on which a more cohesive society can be built and on which the transition to a sustainable financial and economic system can be based.

Enhancing CSR as a means for poverty reduction and sustainable development in a developing country like ours with modest resources requires joint initiatives by all stakeholder groups involved: governmental bodies, NGOs, and corporations, as well as primary producers and workers. Only through co-operation of stakeholders at all levels CSR can have a beneficial social and developmental impact. Moreover, multi-stakeholder initiatives are an appropriate tool for experience-sharing and the development of best practices for creating a link between corporate insight and the government agenda.

Roles and Challenges of Government Bodies:

CSR policy in theory is supposed to function as a built-in, self-regulating mechanism, whereas in practice, CSR will thrive in the context of a consistently applied and enforced set of minimum environmental and social standards only through the right mix of policies from government bodies.

Governments are expected to play four key roles: mandating (legislative), facilitating (guidelines on content, fiscal and funding mechanisms, creating

framework conditions), partnering (engagement in multi-stakeholder processes, stimulating dialogue) and endorsing (publicity). Throughout these roles, they can switch gears as they deem appropriate, between soft incentives and hard regulation.

Forms of legal incentives can range from private and voluntary codes, to certification and labeling schemes to transparency or reporting guidelines. Legal incentives as appealing as they may sound often lack the legitimacy and enforcement mechanisms of tougher law. On the other hand, the problem with the regulatory or hard approach is that, the private sector may switch to a box-ticking or compliance mode without genuine commitment or concrete substance, gradually compromising the voluntary character of CSR, one of its defining features. The central challenge for governments' progression is the question of how to more effectively manage the costs and benefits of business activity and to foster business engagement in national policy processes. In other words, governments need to identify various forms of intervention that can more effectively harness the strengths of the private sector and can also foster alignment between CSR strategies and the pursuit of overall public policy goals.

The real challenge is to deploy the right types of soft/hard incentives and cross-sector partnerships that serve the public interest; and to create a stimulating and enabling environment for businesses to create long-term added social value.

Why developing country governments should be interested in CSR:

There are two broad sets of justifications for public sector actors in middle and low-income countries to be engaged with CSR. One is defensive and other one is proactive. But these two are not mutually exclusive. A policy initiative that initially has a defensive justification may quickly become part of a proactive strategy of engagement.

The defensive justification relates to minimizing the potential adverse effects of CSR on local communities, environments and markets when it is imposed through international supply chains and investment. For increasing domestic public benefits of CSR practices in economic, social and environmental terms, the engagement of public sector actors in CSR activities provides the proactive justification.

From a sustainable development perspective, public sector engagement with CSR potentially spans social, economic and environmental spheres, including issues of corruption, poverty reduction and human rights. The goals of public sector engagement in CSR are likely to differ from country to country. They might be structured in relation to the underlying drivers for public engagement in CSR.

In a tax system, a Government may promote CSR, amongst others, by the adoption of environment-friendly tax policies, such as taxes on consumption of fossil fuels or on polluting processes and reliefs for socially desirable expenditure.

Income Tax Regulation in Bangladesh on CSR:

National Board of Revenue (NBR) of Bangladesh issued Statutory Regulatory Order (SRO) by providing tax exemption on the expenditure made by corporates for CSR activities in 2011. The regulations stated in that SRO were further amended in 2012 and the area of CSR applicable for tax exemption was enhanced. The rules of tax exemption for CSR activities of corporates are mentioned below:

- Any company will get exemption of Income Tax at the rate of 10% for actual cost/money expended in Corporate Social Responsibility.
- Conditions for Income Tax Exemptions-
 - ❖ It will not be applicable for the amount expended in excess of 20% of gross income of the company or BDT 8 (eight) crore whichever is lower.
 - ❖ The companies which are interested to attain tax exemption facility as corporate entity, they-
 - ✓ have to pay salary-allowance of their employee-staffs regularly and must have waste treatment plant in their factory/industry especially if industrial goods are manufactured.
 - ✓ must pay income tax, VAT, duty and repay institutional debt/obligations regularly.
 - ✓ can donate to the institutions under CSR only approved by Government.
 - ✓ must comply with all regulations of Bangladesh Labor Act, 2006.
 - ✓ cannot treat the amount expended under CSR as an accredited expenses in Manufacturing Account, Commercial Account or Profit-Loss Account.
 - ✓ have to submit necessary documents/evidences for claiming the tax exemption on CSR to the concerned Deputy Tax Commissioner.
 - ✓ have to submit CSR Work Plan by the company to NBR in written for availing Income Tax Exemption Certificate.
- Fields/Sectors of CSR applicable for tax exemption

1. Aid through any government body for reducing mass crisis in natural disaster (Hurricane, Tremor, Cyclone and Flood) affected area.
2. Aid to organizations establishing and operating old homes.
3. Aid to any social organization pursuing welfare activities for mentally and physically challenged persons.
4. Aid to education institutions operating for teaching rootless children.
5. Aid to organizations pursuing housing projects for slam dwellers.
6. Aid to social organizations pursuing women empowerment and anti-dowry campaign.
7. Aid to organizations pursuing subsistence and rehabilitation of orphan and rootless children.
8. Aid to organizations involved in independence war related research, recovery and expanding of independence war spirit and honorable living of freedom fighters.
9. Aid to organizations involved in healthy sanitation activities Hilly Chittagong, Char region and River Eroded regions.
10. Aid to institutions providing medical treatment to cleft lip, cataract and cancer.
11. Aid to people and organization involved in medical treatment activities of acid victims.
12. Aid to hospitals providing free medical services to poor patients and specialized hospital improving medical treatment like cancer, liver and kidney diseases, thalassemia, ophthalmology, cardiology etc.
13. Aid to public universities.
14. Aid to government affiliated educational institutions in order to provide scholarship or financial aid to children of poor freedom fighter including poor brilliant students for technical or vocational education.
15. Aid to government or MPO listed non-government educational institutions to set up laboratory for computer or IT training or English language training.
16. Aid to institute providing technical or vocational training to unskilled or semi-skilled labors for manpower export.

17. Aid to institute providing sports training or development services at national level.
18. Aid to museum (built or under construction) for preserving memory of independence war.
19. Aid to any institution at national level involved in preserving memory of the father of the nation.
20. Aid to the fund formed under Prime Minister's Education Assistance Trust Act, 2012
21. Aid to non profitable and non government voluntary social welfare organization working for operating rehabilitation center for medical treatment and awareness building on HIV, AIDS and Narcotics.
22. Aid to non profitable and non government voluntary social welfare organization working for operating rehabilitation center for recovered children and women from trafficking.

CSR activities of banks in Bangladesh:

Historically, the banking sector of Bangladesh has been amply participating in various social activities especially, in the areas of education, health, sports, benevolent activities like donations to different charitable organizations, to poor people and religious institutions, city beautification and patronizing art & culture, etc.

In June 2008, Bangladesh Bank issued a comprehensive circular titled 'Mainstreaming Corporate Social Responsibility (CSR) in banks and financial institutions in Bangladesh'. In that circular, CSR was defined as (i) considering the economic, social and environmental consequences of a business, (ii) mitigating the negative impacts and bolstering the benign effects, (iii) initiating action programs and community investments to trim down social exclusion and inequality as well as to address the core sustainable development challenges (fulfilling the requirements of the current generation without cramping the capacity of future generations is a generally agreed meaning of 'sustainable development').

BB has been motivating banks to expand lending to the under-served sectors both as business case and CSR obligation; expecting to lead to more broad-based inclusive growth, and therefore reduce poverty. BB has indicated some priority areas in the field of CSR like Self-employment and SME credits designed to create productive new on-farm/off-farm employment; Financing of biomass processing plants, solar panels, waste recycling plants, Effluent Treatment Plants (ETPs); Credit programs for diversified production of crops, oilseeds, spices, vegetables, fruits etc.; Mobile phone based/MFI supported programs for

prompt delivery of remittances; card based/ mobile phone based delivery of financial services; Financing programs to promote domestic tourism and markets in cultural products/events.

Bangladesh Bank has, of course, started guiding the banking sector to become more environmentally responsive (e.g. via refinancing new loan products on solar energy, bio-gas, effluent treatment plant etc). All the commercial banks are asked to formulate their own CSR policy with the annual outlay for CSR programs and include the CSR programs in their mainstream banking activities instead of short-term social works like providing grants, aids and donations. In December 2010, Bangladesh Bank instructed the banks to establish separate CSR desk to pay special attention on this issue.

Reporting of the CSR initiatives by banks was suggested as appendage to regular annual financial reports, ultimately to build up full length wide-ranging reports in the Green Reporting Initiatives (GRI) format. Alike the statutory financial reports, the CSR reports were also anticipated to be publicly available for stakeholders' perusal.

Bangladesh Bank has been publishing CSR review report annually for tracing advancement in mainstreaming of CSR activities. CSR initiatives of banks during last five years continued focus on i) financial inclusion of less privileged population segments and underserved economic sectors, ii) emergency relief in humanitarian distresses, ii) promotion of health, education and cultural/recreational activities for advancement and well being of underprivileged population segments, iii) financing and promotion of environment friendly projects, iv) adoption of energy efficient, carbon footprint reducing internal processes and practices in own offices and establishments.

Besides CSR initiatives involving direct expenditure, financial inclusion initiatives of banks proceeded apace during last five years. All banks participated actively in promotion of lending to SMEs and agricultural. For broader, deeper financial inclusion, banks proceeded ahead on multiple fronts including increased rural bank branch presence, mobile phone banking, and opening of bank accounts for low income population free of charge with nominal Taka 10 initial deposit.

In 2013, CSR expenditure of banks totaled 4.42 billion taka; eight times larger than in 2009. It will not be an overstatement to say that the banking sector led CSR initiatives in Bangladesh.

Recommendations for Legislative Improvisation of CSR Activities by Banks:

Effective tax regulations for CSR by banks and FIs require proper coordination between the related authorities. Tax legislation on CSR should be formulated in

such a manner so that the flow of government revenue is not hampered, and at the same time, contribution of banks and FIs towards sustainable development is not hindered. In this regard, following suggestions may be considered towards effective tax legislation on CSR for banks and FIs:

1. Applicable areas/sectors for tax exemption under CSR activities should be enhanced. More sectors are needed to be included in the list specified in the respective SRO. Priority sectors like environmental conservation, plantation, safe drinking water, biogas or solar power plant, improving tools and instruments for better climate change adaptation, inclusive growth activities should be considered for tax exemption on CSR activities. Allowable sectors for CSR activities, especially with respect to banks and FIs, should be finalized in consultation with Bangladesh Bank. In this respect, Bangladesh Bank is preparing a comprehensive CSR policy by detailing out different aspects of CSR like identifying more priority and underserved sectors of economy, CSR accounting and CSR governance.
2. In 2013, the highest expenditure incurred on CSR activities by a single bank amounted to 785.40 million taka and the average expenditure of the banking sector was 78.97 million taka. Among them, 12 banks spent more than 80.00 million taka. In 2012, highest single expenditure was 527.67 million taka, and 7 banks spent more than 80.00 million taka. Therefore, tax exemption ceiling of 80.00 million taka may look sufficient for non-bank corporate firms, but, certainly it is not in case of the banking sector. Banks are on the top in terms of paying taxes and doing CSR. They should get a meaningful benefit of tax exemption.
3. The rate of tax exemption on CSR activities needs to be reviewed also. It would be more logical to devise a progressive tax exemption structure that encourages increased involvement in CSR activities by the banks and FIs.
4. Terms and procedure of seeking tax rebate for CSR should be simplified so that banks and FIs can avail the facilities. For example:
 - a) As per the stipulation of condition 2(b), only the donations to the institutions approved by Government qualify for exemption. Whereas, CSR expenditures of banks mostly comprise both passive one-off donations to voluntary/civil society organizations, and continued active involvement in beneficiary selection and disbursement in such schemes as scholarships for courses of studies. Also, increasing number of banks are routing their CSR expenditure through separately established charitable foundations.
 - b) As per the stipulation of condition 5, companies have to take tax rebate certificate from the NBR by submitting a written action plan for CSR activities. This stipulation is somewhat confusing and contradictory to

the objective of CSR as sometimes companies have to use funds in a hurry, especially in case of natural calamities or during a crisis period. It is also possible that this sort of expenditures were not planned earlier, and therefore, not included in the CSR Action Plan submitted to NBR.

5. A close linkage between National Board of Revenue (NBR) and BB can facilitate better functioning of CSR initiatives by the financial sector. It is utmost important that the taxation structure for CSR activities of banks and financial institutions (FIs) are devised in line with the policy objectives set by Bangladesh Bank. Formal interaction is required between the concerned officials of BB and NBR to work in similar tune and for improvised legislation on tax exemption for CSR activities.

Conclusion:

Globally, banks pursue CSR practices from self initiative. Central bank usually doesn't intervene in their CSR activities or provide any directives to motivate banks for participating in CSR activities. But, in case of Bangladesh, the central bank provided regulatory framework to banks for CSR activities and monitors that in a regular fashion.

Bangladesh Bank is one of the members of United Nations Global Compact(UNGC) concentrating in the areas of human rights, labor standards, the environment and anti-corruption.

Bangladesh Bank being the chair of the Steering Committee of UNGC Bangladesh Local Network is actively leading CSR issues and implementation of CSR activities in financial sector as well as facilitates social investments in Bangladesh.

Bangladesh Bank in association with CSR Centre, Bangladesh playing a major role in different programs involving social, economic and environmental aspects.

Bangladesh Bank Disaster Management and Corporate Social Responsibility Fund of Taka 5 Crore has been established in BB where 2.29 crore has already been disbursed for different projects addressing health, education, environment, disaster management and Human Resources Development/Capacity Building.

As Bangladesh is a developing country, both central bank and revenue collector of government have to take proactive steps for fostering growth and economic development. Moreover, in a country like Bangladesh, poverty alleviation through minimizing income disparity is one of the top priorities. In that context, BB devises supervisory policies in such a manner, especially for last several years, so that banks not only move forward for their own growth, but also can support the development initiatives of the government. On the other hand, NBR

too has provided tax incentive on CSR activities aimed towards motivating sustainable development activities.

Since the issuance of CSR directive by BB and SRO on after tax incentive from NBR, the involvement of banks in CSR activities has augmented in many folded aspects. Banks' rapidly increasing participation in CSR activities with incorporation of socially and environmentally accountable organizational objectives, strategies and operations that are swiftly turning into global standards in “socially responsible competition” towards rearing inclusive economic and social growth and facilitate the nation to go forward with desired growth and efficient allocation of resources. Surely the collaborative effort by the concerned government bodies will further increase the CSR activities by banks which will support sustainable development drive of the Government of Peoples' Republic of Bangladesh.
