ADB

Technical Assistance Consultant's Report

Project Number: 46240-001
May 2018

Institutionalizing Strategic Corporate Social Responsibility for Inclusive Business and Social Enterprise Investments in Punjab

Prepared by Dr. Peter L. Fedon

with contributions from

Mujtaba Javed, Erin Lyon, and Dr. Salman S. Shah

For Asian Development Bank

Asian Development Bank

CONTENTS

Tables

ABBREVIATIONS

ADB	=	Asian Development Bank
BCSD	=	Business Council for Sustainable Development, Pakistan
BOP	=	base-of-the-pyramid
BRR	=	Business Responsibility Report
CERB	=	Centre of Excellence in Responsible Business
CSR	=	corporate social responsibility
DFI	=	development financial institution
ESG	=	environmental, social, and governance
EU	=	European Union
GHG	=	greenhouse gas
GRI	=	Global Reporting Initiative
MCA	=	Ministry of Corporate Affairs, India
MNC	=	multinational company
NGO	=	nongovernment organization
PBC	=	Pakistan Business Council
PPP	=	public–private partnership
PCIF	=	Punjab Community Investment Fund
PRC	=	People's Republic of China
RBI	=	Responsible Business Initiative
ROK	=	Republic of Korea
SEBI	=	Securities and Exchange Board of India
SECP	=	Securities and Exchange Commission of Pakistan
SDGs	=	Sustainable Development Goals
SMEs	=	small and medium-sized enterprises
UMC	=	United Microelectronics Corporation

I. Background and lessons learned

1. **Making economic growth more inclusive requires inclusive business (IB).** Inclusive growth means sustained growth that creates jobs; draws most people, including the marginalized sections of the population into the economic and social mainstream; and helps reduce poverty and vulnerability. For the poor and low-income population, the private sector is the main provider of decent jobs and affordable goods and services and IB is its direct contribution to make growth more inclusive. More IB solutions in a country mean less poverty and can trigger a higher living standard for the poor. With a policy framework, the government can monitor the social impact of IB investments and prioritize its development targets as outcome of such investments. Therefore, governments increasingly design special policies and programs to involve the private sector in providing business solutions for poor people. Inclusive growth depends on such IB investments.

2. **Inclusive business** is defined by the Asian Development Bank (ADB) as "a business entity that generates high development impact by (i) improving access to goods and services for the base-of-the-pyramid (BOP) population (i.e., low-income people); and/or (ii) providing income and/or employment opportunities to low-income people as producers, suppliers, distributors, employers, and/or employees. An inclusive business must be commercially viable and can be a stand-alone business entity, or a business unit of a larger company."[1] IB business models typically include the largest but lowest income group in their value chain, referred to as the (BOP), which constitutes about 60% of the population in developing countries. Smaller IB transactions (below $1 million) are typical for so-called social enterprises. Small investments also have a reduced social impact. Social enterprises that are not commercially viable and apply not-for-profit business models are not counted as IB. Strategic corporate social responsibility (CSR) activities can prepare the ground for IB investments.[2] However, CSR activities are often of smaller scale, traditionally not part of a company's core business activities, and not properly targeted to reduce poverty unless they aim at high social impact and are professionally managed. IB approaches targeting unemployment and other social impacts are designed and implemented mostly by medium-sized and larger companies.

3. **Government support for IB.** IB business models can help the government overcome fiscal and institutional capacity constraints in the delivery of public goods. IB models can create —in a market economy—decent jobs and provide essential services at affordable prices to poor and low-income people. While IB belongs to the private sector domain, there are four major areas for government action. These are (i) regulating and encouraging IB models through a policy framework serving as accreditation or reward system (including tax deductions), (ii) providing business development support to potential IB companies, (iii) mobilizing additional investments in the growth phase of some of these companies, and (iv) monitoring and assessing the social impact of IBs.

4. **In Pakistan**, various programs are supporting small and medium-sized enterprises (SMEs) for poverty reduction, and these are financed by the federal and provincial governments, the State Bank of Pakistan, and development partners.[3] However, except for the Government of

---

[1] ADB. 2017. *Standard Explanatory Data Indicator Definitions*. Manila. pp. 24–25. https://www.adb.org/sites/default/files/institutional-document/33903/standard-data-definitions-may2017.pdf.

[2] ADB is currently finalizing a regional technical assistance study on the use of strategic CSR for IB investments.

[3] Of special interest to this project are the (i) SME credit lines and risk guarantees, (ii) Islamic finance regulations by the State Bank of Pakistan, (iii) public–private partnership (PPP) programs in Sindh and Punjab, (iv) vocational training programs in Punjab, (v) the work of the Pakistan Poverty Alleviation Fund, (vi) the SME promotion work of the Small and Medium Enterprises Development Authority, and (vii) specific programs of development partners

Australia's Market Development Facility program, none of these programs has so far addressed the abovementioned intervention areas in a systematic manner. When ADB explored the promotion of IB in Pakistan under the project TA 8550, it initially proposed a loan project in the provinces of Khyber Pakhtunkhwa, Punjab, and Sindh. While several stakeholders in the three provinces showed a strong interest, ADB received no official request to initiate a feasibility study with project preparatory technical assistance. Instead, the Government of Punjab agreed to explore how to "institutionalize strategic CSR for IB and SE investments" within the broader framework of the Punjab Growth Strategy 2018 dated March 2015. The strategy's overall goal was to make "Punjab a secure, economically vibrant, industrialised and knowledge-based province, which is prosperous and competitive wherein every citizen enjoys high quality of life."

5. Subsequently, the Planning & Development Department of Punjab requested ADB support to review existing CSR policies and regulations. The objective was to encourage a more strategic approach to CSR, which would facilitate the setting up of IB and social enterprise investments. An ADB-funded consultant team explored opportunities for the government to promote IB investments. The aims are to identify and prepare organizational solutions for promoting strategic CSR as a contribution to private sector-driven IB and social enterprise investments that reduce poverty, and to include more low-income people in the formal economy of Punjab.

6. The consultant team consisted of an IB expert and team leader, a CSR expert, an economist and finance expert, and a legal expert. The team worked closely with the government and private sector stakeholders. It proposed a government-owned fund with a budget of $3 million to be replenished periodically, and a private sector-owned foundation that would mobilize CSR budgets for investment in social enterprise and IB companies. The team generated, among others, a detailed concept paper for creating the Punjab Community Investment Fund (PCIF), and the legal documents for setting up the PCIF as a nonprofit company in accordance with Pakistan's laws and regulations. The team also helped to prepare the conditions and legal documents for setting up the new private sector foundation as a nonprofit company, which would combin the CSR contributions of its members, help to mobilize matching grants from the government, and implement community investment projects that are aligned with the core business lines of sponsoring members.

7. The consultant team generated awareness about IB and provided policy and legal advice on how to use CSR funds more strategically, including detailed organizational options and their respective requirements. Meanwhile, the government and the private sector requested more assistance during the initial implementation phase until the PCIF and the foundation will have been legally established. With the termination of ADB's Technical Assistance (TA) 8550 in May 2018, the team tried to mobilize additional support from other sources to respond to this request. By April 2018, the Government of Australia's Market Development Facility program has committed to provide in-kind support to the Government of Punjab and to the private sector, and ADB has indicated the limited availability of technical assistance for PPP initiatives to support PICF.

8. The consultant team identified three major lessons in its work in Pakistan. First, introducing innovative concepts and approaches to poverty reduction takes time and patience and can stretch over several years. Any advocacy for innovation needs to listen carefully to what governments and the private sector want and are willing to experiment with. The argument of "international best practice" is not always what governments would buy into easily. Second, tailor-

---

notably those of the British Department for International Development and Australia's Department of Foreign Affairs and Trade.

made solutions are preferred, and support by the respective ADB resident mission and using consultants with intimate country experience are essential. Third and last, it may take a long time to undertake the process—from accepting or adopting innovations to implementing them. TA support from ADB should cover not only advice on how to establish innovative solutions but also to assist innovators in developing member countries (DMCs) during the first phase of implementing these innovations.

9. The consultation process for building consensus on innovative new approaches to poverty reduction and sustainable development offers insights on how a consensus in the province of Punjab, Pakistan was achieved. It also offers lessons for future similar work in Pakistan and elsewhere. Appendix 3 captures some of the important stages of the consultation process that led to a concept paper—to be approved by the chairman of the Planning & Development, then by the chief minister of the province. The concept paper is more than 40 pages and not annexed to this consultant report.

II. Overview of Strategic Corporate Social Responsibility Promotion by Companies in Asia

10. The corporate social responsibility (CSR) landscape in Asia has been changing rapidly in the past decade. While CSR implementation varies across industry and by country, there has been a general shift toward greater disclosure of corporate environmental, social, and governance (ESG) performance. The change has been largely driven by stock exchanges across the region (Hong Kong, China; the People's Republic of China; the Republic of Korea [ROK]; Malaysia; the Philippines; Singapore; Taipei,China; and Thailand), by changes in corporate law (People's Republic of China [PRC], India, and Indonesia), and by increased business-to-business ESG performance pressure (e.g., within the information and communications technology sector. A regional benchmark of large, listed companies in the region finds that those with large global supply chains, selling to branded electronic companies, disclose the most information about how they manage sustainability issues. Most of these companies are listed in India and Taipei,China. Globally, Asia has the largest number of companies disclosing ESG information, driven by country and industry demands.

11. In general, the private sector is now recognizing that CSR can become more strategic and can add financial value to a business. Being strategic and linking CSR to core business (rather than an add-on activity) can increase the value of a business, enable the company to manage a broader range of externalities, and is able to extend social impacts through larger and more sustainable investments.

12. Several CSR regulations and "soft laws" pertaining to the application of CSR principles exist in different parts of Asia. Examples are seen in national legislations, as applied in (i) India through the Companies Act, 2013 (and associated companies [Corporate Social Responsibility Policy Rules, 2014]); and (ii) Indonesia through Law No. 40 on Limited Liability Companies, and in criteria such as the ASEAN Socio-Cultural Community Blueprint (2009) where strategic objective C.3. states: "Ensure that Corporate Social Responsibility (CSR) is incorporated in the corporate agenda and to contribute towards sustainable socioeconomic development in ASEAN Member States."

13. Despite this heightened awareness, CSR remains very much associated with large multinational companies (MNCs) with global brands to protect and regulations to adhere to. This is true of both Western- and Asian-based MNCs. For many Asian-based companies, CSR is also driven by business-to-business activities, where MNCs are pushing sustainability practices

through their supply chains. This is especially true in the electronics and apparel sectors. This trend has increased after legislations like the (i) California Transparency in Supply Chains Act (2010), (ii) United Kingdom Modern Slavery Act (2015), (iii) US Trade Facilitation and Trade Enforcement Act, and (iv) French Bill on mandatory human rights and environmental due diligence for companies (see Appendix 1 for specific country CSR developments and Appendix 2 for CSR terminology).

a. Beyond Philanthropy

14. Traditionally, Asian companies can be hugely generous in their philanthropic activities yet remain resistant to an integrated CSR approach and dismissive of the related business case presented. Also, the distinction between philanthropy and CSR remains unclear to many businesses in Asia. Progress has been made, to date, on the adoption of CSR policies within homegrown Asian companies. Several local and global networks that were established during this time have the potential to influence this trend toward more companies implementing CSR practices going forward.

15. Corporate philanthropy is also evolving to a shift in thinking around concepts such as shared value, IB, community investment, impact investing, and collective impact. Although these are different approaches and corporate philanthropy should not be confused with CSR, corporate philanthropy provides opportunities for the private sector to be involved in development initiatives and in attaining the Sustainable Development Goals (SDGs).

b. Community Investment

16. For many companies, a CSR strategy will include philanthropy and/or community investment. Increasingly, it will also include shared value or IB models. Companies are looking to link community investment with their business and ensure that the projects contribute to the sustainable development of the community, region, and country in which they operate. Some companies are now looking to invest in community investment opportunities that can achieve scale, demonstrate impact, and generate positive returns for the business. Community investment is sometimes referred to as social investment.

c. Shared Value and Inclusive Business

17. Some progressive companies are implementing CSR programs to improve corporate performance, and are looking to the concepts of shared value and IB to generate new business and address societal needs at the same time.

18. An IB approach can build on strategic CSR activities to contribute to development impacts with focus on low-income people. Strategic CSR can be a "stepping stone" for IB initiatives that can increase the scale of social impacts associated with a business. If the private sector is interested in IB models, this can create opportunities for both—commercial success and improved quality of life of low-income populations. Successful IB strategies will improve the living conditions of poor people by using the value chains of large and medium-sized businesses geared to commercial success.

19. IB represents a profit-making opportunity that provides scaled up and systemic solutions to the problems of low-income people. IBs operate within the market; increase access to goods and services; create improved livelihoods; and provide decent, well-paying jobs for poor people and low-income communities. IB differs from shared value approaches—it emphasizes solutions

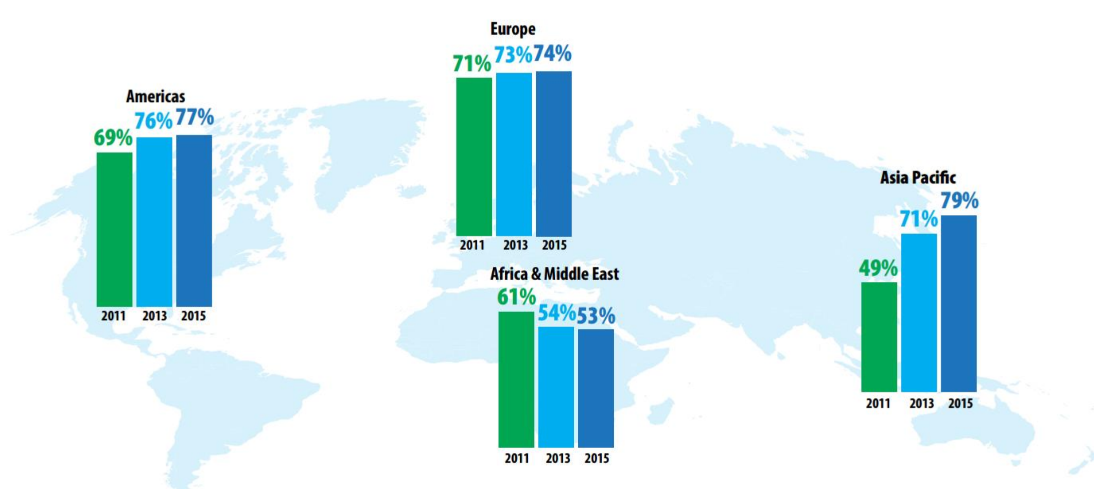
for the poor whereas shared value tends to focus more on expanding existing business lines. IB creates opportunities for low-income people throughout the value chains of companies as producers, suppliers, processors, distributors, retailers, and service providers.

d. Corporate Social Responsibility Reporting

20. Companies in Asia have begun to adopt the Global Reporting Initiative (GRI) as the reporting framework of choice to disclose ESG performance. It is anticipated that integrated reporting (financial and nonfinancial) will become the framework to be used by listed companies in Asia. Asia has rapidly increased the number of sustainability reports produced in recent years.

21. A KPMG survey[4] reported that "Asia Pacific has also shown strong growth with the number of identified sustainability reporting instruments increasing by about 75 percent since 2013. Many of these instruments (31 out of 108) are new reporting rules introduced by financial market regulators. In fact, in Asia Pacific, stock exchanges and financial or industry regulators are now responsible for a greater number of reporting instruments than governments – they account for 50 percent of instruments compared to 45 percent of instruments from governments. In 2013 the reverse was true and the majority of instruments (58 percent) were issued by governments. The growth trend in Asia Pacific echoes the findings of KPMG's 2015 Survey of Corporate Responsibility Reporting, which reported that many Asia Pacific countries have high rates of sustainability reporting driven by regulation. These countries include India, Indonesia, Malaysia and Republic of Korea."

Figure 2: Rate of sustainability reporting among the 100 largest companies per country



Source: KPMG Survey of Corporate Responsibility Reporting 2015

[4] The KPMG Survey of Corporate Social Responsibility Reporting 2015. https://home.kpmg.com/xx/en/home/insights/2015/11/kpmg-international-survey-of-corporate-responsibility-reporting-2015.html.

e. United Nations Global Compact

22. Asia represents the highest percentage of company participants in the United Nations (UN) Global Compact with 1,920 participants as of August 2015, representing 14.6% of those signed up to the compact.[5] The number of Asian companies signing up to the UN Global Compact is growing each year when compared to the 1,280 recorded in 2010[6]. A high number of Asian companies are recorded as "non-communicating," with a current figure of 191 participants, or 9.9% of Asian companies in the list.

f. Assessment of Companies' Performance

23. There are an increasing number of CSR awards and some have clear assessment criteria and independent judges. Others are arbitrary and awarded to related event sponsors. The assessment of award-winning companies should be made based on the transparency of the selection and the judging criteria.

24. CSR Asia publishes an annual "Who is Getting It Done (WIGID)" report. This is based on a survey of CSR professionals and a review of 3 years of research into the CSR profession in Asia, which shows the current conditions and outcomes as a reflection of the market drivers. Over 500 CSR professionals are asked in the survey to identify which companies they most admire. Table 1 lists the most admired Asia-based and non-Asia-based companies.

Table 1: Top 10 Companies: Asia and the Pacific and Non- Asia and the Pacific Based

Companies Based in Asia and the Pacific		Companies Not Based in Asia and the Pacific	
1	Tata Group	1	Unilever
2	MTR Corporation	2	Patagonia
3	City Developments Limited	3	Nestle
4	Swire Group	4	IKEA
5	Siam Cement Group	5	H&M
6	Energy Development Corporation	5	Interface
6	Indian Railways	5	Microsoft
7	Aboitiz	6	Danone
7	CLP Power	6	Google
7	Macquarie Group	6	Intel
7	Sansiri Public Co., Ltd	6	Nike
7	Tech Mahindra Foundation/Mahindra Group		
7	Wipro		

Source: CSR Asia: Who is Getting it Done: 2015 Top 10 Most Admired Companies for CSR, in: CSR Asia Advisory, Corporate Social Responsibility and Inclusive Business in ADB: Recommendations from the Markets, draft report, Manila, 11 August 2016, p. 12.

25. The annual Channel News Asia Sustainability Ranking—which is a collaboration among Channel News Asia, Sustainalytics, and CSR Asia—identifies and celebrates leading firms in corporate sustainability across 10 key Asian economies. In 2015, it listed the Top 100 companies with the highest sustainability performance, and provided highlights for the Top 20 companies, and top three businesses in each economy. The countries covered were the PRC; Hong Kong,

[5] https://www.unglobalcompact.org/what-is-gc/participants/. Accessed in March 2018
[6] CSR Asia. 2010. *CSR in Asia: The Real Picture*.

China; India; Indonesia; Japan; Malaysia; the Philippines; Singapore, the Republic of Korea; Taipei,China; and Thailand. Companies included in this ranking are selected based on research provided by Sustainalytics. This ranking is the only one with a focus on companies listed in Asia. The top 10 companies in Asia in 2016 are as follows:

(a) **Wipro Ltd. India** (Technology)
Wipro acknowledges the implications of climate change and has identified various risks and opportunities with potential to impact on its business—both on regulatory developments and physical impacts of climate change. Its 5-year greenhouse gas (GHG) mitigation strategy includes targets to reduce the energy intensity of its operations, and implement mitigation programs, such as energy-efficiency initiatives, and renewable energy generation and procurement. Wipro commits to double its renewable energy procurement by 2020 with 20% of its operations in India being powered by renewable energy sources, an industry practice during 2015.

(b) **City Developments Limited, Singapore** (Real estate)
As a property developer, City Developments Limited is exposed to potential social and environmental risks related to its supply chain. However, the company implements strong mechanisms to mitigate related risks in this area, which include social and environmental standards for all its suppliers and contractors, and screening and monitoring of their performance according to its in-house Five-Star Assessment System. Its efforts to manage supply chain risks include engaging with top management and supervisory staff of its contractors to promote the sharing of best practices. The company's Green Procurement Guidelines in selecting vendors and suppliers indicate a preference for those with ISO 14001 and OHSAS 18001 certifications, a leading industry practice**.**

(c) **Lite-On Technology Corp., Taipei,China** (Technology)
Lite-On Technology Corp's supply chain management focuses on issues, such as workers' welfare, environmental protection, health, and safety. The company has developed a set of supplier principles based on the Electronic Industry Citizenship Coalition Code of Conduct, which demands its suppliers to fulfill social responsibilities, and also conducts periodic audits to ensure compliance. If a supplier is found to have significant or potential negative impacts on human rights and labor practices, the company, in the past, has disqualified them. These initiatives highlight the company's ability to identify and manage related risks in its supply chain.

(d) **Hankook Tire Co., Ltd., Republic of Korea** (Transport and logistics)
As a member of the Tire Industry Project group under the World Business Council for Sustainable Development, Hankook promotes research initiatives. It has launched two eco-friendly tire lines: the Kinergy Eco at the global level, and the Enfren Eco in the ROK and Japan. Japan received the highest AAA mark in the labeling system for fuel-efficient tires. These products can reduce rolling resistance and wind resistance to minimize energy use and noise emissions. Hankook has also prototyped and tested a non-pneumatic airless tire that can increase the recyclability of materials used in production. With these initiatives, Hankook is well placed to capitalize on the growing global demand for eco-friendly tires.

(e) **Qisda Corporation, Taipei,China** (Technology)
Consumers of technology are increasingly interested in acquiring eco-friendly products and services. Qisda Corporation requires its research and development staff to incorporate "Life Cycle Thinking" at the early stages of product design and development

by taking into consideration the environmental impact of its products thereby giving it an opportunity to improve the efficiency of its next generation of products. The company manufactures green products (projectors, monitors, scanners, lighting devices, and others), which save energy and reduce material use.

(f) **United Microelectronics Corporation, Taipei,China** (Technology)
United Microelectronics Corporation's production relies on minerals, some of which are sourced from developing countries thereby exposing it to public scrutiny for possible involvement in human rights violations related to extraction of these minerals. However, by conducting annual supplier assessments to ascertain that they do not use conflict minerals, this risk is well managed. In line with industry best practices, the company has established, since 2013, an Electronic Industry Citizenship Coalition committee to address issues in its supply chain pertaining to labor, health and safety, environment, and ethics. These initiatives underline the company's commitment to sustainable sourcing of minerals, a material issue for the semiconductor foundry industry.

(g) **Infosys Ltd., India** (Technology)
The data centers of Infosys Ltd. account for the bulk of the company's electricity consumption. Acknowledging the importance of managing its energy use and related GHG emissions, the company has set a target to reduce its carbon footprint by 50% by FY2018. To meet this goal, it is increasing its use of renewable energy, with more than 26% of its FY2016 electricity demand using renewable sources. Infosys Ltd. has also been proactive in retrofitting older facilities to lower energy consumption and reports that such retrofits have a payback period of under 3 years and are expected to result in an energy optimization of nearly 30%.

(h) **Semiconductor Manufacturing Co. Ltd., Taipei,China** (Technology)
Being involved in a water-intensive business line, the company's fabrication facilities in Taipei,China are particularly exposed to water risks, including periodic drought conditions that could result in interruptions to its operations. During the 2015 drought in the country, the company organized a media tour to transparently demonstrate its water conservation measures following scrutiny of the company by media and the public. The company has a strong water management system and has obtained ISO 14046 certification of its water footprint at all its fabrication facilities. The company has also implemented water recycling systems and rainwater storage systems and has reduced its unit wafer water use by 29% in 2015 compared to 2010 levels.

(i) **Calsonic Kansei Corporation, Japan** (Transport and logistics)
Auto components companies are parts of a highly complex supply chain that requires timely and effective interaction with suppliers to ensure product reliability, operational efficiency, and manage environmental and social risks in the supply chain. Calsonic Kansei Corporation expects its suppliers to comply with its global code of conduct and monitors compliance with various corporate social responsibility (CSR) issues, including human rights. Its green procurement guidelines recommended that suppliers should obtain ISO 14001 certification or develop equivalent environmental management systems. To identify and manage related risks, the company has also started to conduct supplier surveys with an aim to increase the number of suppliers that are covered by such surveys.

(j) **NEC Corp., Japan** (Technology)
Offering sustainable products creates not only a growth opportunity but also improves long-term operational efficiency and competitiveness as it may lead to reduced production

costs. Since 2003, the NEC Corp. has aimed to qualify all new products to its internally developed Eco-Symbol (Star) which, among other things, requires a 50% reduction in GHG emissions as compared to conventional products. The company also aims to reduce GHG emissions stemming from all products by an average of 80% by FY2017 (base year: FY2005). It has also implemented initiatives for end-of-life product management by providing detailed product component information and implementing easy-to-disassemble designs. In FY2015, it maintained a 98% recycle rate, which is in line with industry leaders.

III. Corporate Social Responsibility in Pakistan

26. The Pakistan Centre for Philanthropy defines corporate philanthropy as voluntary, active, and nonreciprocal charitable giving by corporations to communities or nonprofit organizations to fulfill an unmet social need, regardless of any specific return. The center's 2015 report[7] on corporate philanthropy noted that the total amount donated by Public Listed Companies on the Pakistan Stock Exchange amounted to PKR6.9 billion, a 19% increase from 2014 and 30 times increase since 2000. The top three contributors are Oil & Gas Dev. Co, Pak Petroleum, and Habib Bank. The top three contributing sectors are oil and gas exploration, fertilizer, and automobile assembler. The top four thematic areas where corporates donate to are disaster response (23%), education (18%), health (18%), and the environment (6%).

27. The Pakistan Stock Exchange includes 559 listed companies. The Securities and Exchange Commission of Pakistan (SECP) regulates the corporate sector's reporting. In 2009, SECP developed voluntary guidelines on CSR reporting. Every company is required to provide descriptive and monetary disclosures of CSR activities undertaken during each financial year in the directors' report to shareholders. In 2013, the guidelines were made applicable to all public companies. The guidelines have been kept voluntary and companies are at liberty to follow them fully or partially. SECP does not collect data or analyze trends in reporting with specific reference to its CSR guidelines.

28. The Association of Certified Chartered Accountants Pakistan and the WWF Pakistan jointly launched their "Environmental Reporting Awards" in May 2002. From 2007 to 2013, the Attock Refinery Limited won the awards four times, while Engro Corporation and ICI Pakistan Limited, twice each. For environmental reporting, the winners included Century Paper & Board Mills Ltd, Pak Elektron Ltd, AES Lal Pir, National Refinery Limited, Hinopak Motors Limited, Atlas Honda Limited, and Qarshi Industries.

29. GRI reports that the companies listed in Table 2 have produced sustainability reports in Pakistan. Not all these reports are publicly available, and the content is hugely variable. Some of these companies (Atlas Honda Limited, Attock Refinery, Crescent Steel and Allied Products, Fauji Fertiliser Company, ICI Pakistan Limited, and National Refinery Limited) report the amount of spending on community investment activities. Most of these activities focus on health, education, and disaster response.

---

[7] Pakistan Centre for Philanthropy. 2015. *Corporate Philanthropy in Pakistan: A Survey of Public Listed, Unlisted and Private Limited Companies*. December 2016

Table 2: Sustainability Reporting in Pakistan

Sustainability Reporting in Pakistan	
Al-Ghazi Tractors Limited	Lucky Cement
Ali Trading	Mobilink
Atlas Honda Limited	National Refinery Limited
Attock Refinery	Pakistan Refinery Limited
Crescent Steel and Allied Products	PPAF
English Biscuits	Sadaqat Limited
Engro Corporation	Siemens Pakistan
Engro Polymer & Chemical Limited	Unilever Pakistan
Fatima Fertilizer Company Limited	
Fauji Fertilizer Company (FFC)	
First Habib Modaraba	
ICI Pakistan Limited	
Karachi Electric Supply Company Limited	

Source: Corporate Social Responsibility Centre Pakistan, Sustainability Reports. https://csrcp.com/search-sustainability-reports/, accessed on March 2018.

30. UN member states, including Pakistan, adopted the 2030 Agenda for Sustainable Development in 2015, which includes a set of 17 Sustainable Development Goals (SDGs). Pakistan's Federal Minister for Planning, Development and Reforms at the time said: "We believe that SDG's agenda for development isn't an international agenda; it is our own agenda. It reflects our ambition and desire to give our people a better quality of life. Therefore, we must take ownership of SDGs with complete devotion and passion." In their sustainability reports, the Crescent Steel and Allied Products and the Fauji Fertiliser Company reported their contribution to the SDGs.

31. There are several CSR networks in Pakistan. They range from units within business associations such as the Centre of Excellence in Responsible Business (CERB), and the National CSR Forum—which are based around information sharing, training, events, and awards—to those networks that also provide consultancy services. It is interesting to note that some CSR networks in Pakistan have more presence on Facebook than on individual websites (e.g., the CSR Club and RBI Pakistan). Many of the networks do not make the list of members publicly available. Some networks have websites but are no longer active (e.g., CSR Association of Pakistan).

32. The Global Compact Network Pakistan was established in 2011 as an independent legal entity hosted within the Employers Federation of Pakistan. With help of the Government of Switzerland, the Business Council for Sustainable Development (BCSD) Pakistan was formally launched in November 2006. Pakistan has 76 Global Compact members. Information about membership activities is limited.

Table 3: Members of the Global Compact Network Pakistan

Members of the Global Compact Network Pakistan		
AEDesign Pvt Ltd	HASCOL Petroleum Ltd	Pak Oasis Industries (Pvt.) Ltd.
Agriauto Industries Limited	Hashwani Hotels Limited	Pak-Arab Refinery Limited (PARCO)
Akhund Forbes - Corporate and Commercial Law Firm	Herbion Pakistan (Pvt) Limited	Pakistan Cables Limited
Al-Ghazi Tractors Ltd.	Hinopak Motors Limited	Pakistan Petroleum Limited
AL-HAMD Trust Pakistan	Hi-Tech Lubricants Limited	Pakistan Poverty Alleviation Fund
Al-Latif Welfare Trust International	Hope Worldwide-Pakistan	Pakistan State Oil
AR Rumman (Private) Limited	Huqooq-ul-Ebad Development Foundation	PNWO | Parveen Nadeem Welfare Organization
Attock Refinery Limited	IN Consult (Pvt.) Ltd.	Qarshi Foundation
Batool Welfare Trust, Rawalpindi Pakistan	Indus Motor Company	Rastgar Engineering Company Private Limited
"Better Education For All" BEFA Foundation Rawalpindi Pakistan	Indus University	Responsible Business Initiative
Bridging Health Foundation	Integrated Solutions	S.A. Apparel
Buksh Energy	International Human Rights Observer (IHRO)	S.K. Corporation
Buksh Foundation	International Industries Limited	Sadaqat Limited
Bulleh Shah Packaging	K.N. International	Sahkar Social Welfare Association
Business for Social Progress	Kawish Resource Center	Saita (Pakistan) Pte. Ltd.
Child and Social Development Organization (CSDO)	Khalid Brothers	SAN Enterprises
Corporate Social Responsibility Forum Pakistan	Lahore University of Management Sciences	Seri Sugar Mills Ltd.
Daudsons Armoury (Pvt) Limited	Learning Minds Group	Sewa Development Trust Sindh
Economic Research Services - ERS	M/s Access	Shakarganj Mills Limited
Education & Protection Foundation (EPF)	Mathini Women Development Organization	Starfish Pakistan
Fauji Fertilizer Company Limited	Mobilink GSM, Pakistan	SUI Northern Gas Pipelines Limited
Firefly Konsulting	Nazeer Hussain University	Tameer Microfinance Bank Limited
Geo-Tech Consultancy Services	New World Hope Organization	Tourism Promotion Services (Pakistan) Limited
H. Nizam Din & Sons (Pvt) Ltd.	NGOs Computer Literacy, Shelter Welfare RawalPindi Pakistan (NCLSW)	Youth Assembly for Human Rights (YAHR)

Haris Enterprises (Pvt.) Ltd.	Nizam Energy Private Limited	

Source: United Nations Global Compact, Pakistan. https://www.unglobalcompact.org/what-is-gc/participants/search?search%5Bcountries%5D%5B%5D=159. Accessed on March 2018.

33. The Pakistan Institute of Corporate Governance, a not-for-profit company, is leading CSR awareness at a corporate governance level. In 2016, the institute submitted a "roadmap" for the formation of a national CSR Forum. No further details are provided about the activities of this forum.

34. The CSR Club Pakistan functions as a National Forum dedicated to Environment and Health. It promotes awareness, knowledge, success stories, and health-related CSR activities all over Pakistan. Established in early 2016, CSR Club Pakistan recruited CSR professionals, practitioners, nongovernment organizations (NGOs), and corporations to become founding members. The National Forum dedicated to Environment and Health organizes the annual CSR Awards. The objectives of CSR Club Pakistan are the following:

- Establish one platform for CSR professionals and/or practitioners, NGOs, and others.
- Promote successful CSR pilot projects.
- Provide guidelines and encourage members, corporations, and industries to participate in effective social programs and trainings.
- Develop CSR strategies for poverty alleviation and development.
- Share CSR success stories and information among members, corporations, and industries.
- Encourage group corporate members to participate in joint-venture deals of large or mega projects.
- Encourage group members to raise their voice against poverty, illiteracy, inequality, crime, unemployment, and pollution.
- Undertake publicity and awareness building of CSR projects through a CSR magazine distributed in print, electronically, and in the social media.

35. The Pakistan Business Council (PBC) is a business policy advocacy forum, comprising private sector businesses that have substantial investments in Pakistan's economy. It was formed in 2005 by 14 (now 60) of Pakistan's largest enterprises, including multinationals, to allow businesses to meaningfully interact with the government and other stakeholders. PBC members and their group companies contributed more than 10% of Pakistan's gross domestic product in 2015, a little more than 18% of national tax revenues, and 18% of Pakistan's exports. The PBC companies also provide direct employment to 315,000 people in Pakistan. Set up by the PBC, the CERB has a regular calendar of events under the following headings: gender equality, decoupling growth from impact on environment, creating livelihoods, ethical practices, transforming business culture, and sustainable systems. No information was provided on when the CERB was established.

36. Established in 1998, the Responsible Business Initiative (RBI) Pakistan was the nation's first think tank. RBI is a member for the UN Global Compact Steering Board in Pakistan, the Stakeholder Council of the Global Reporting Initiative, the Asia-Pacific Roundtable for Sustainable Development and Production, and the Climate Sustainability Platform.RBI provides services on appraisal, benchmarking, strategy development, reporting, stakeholder engagement, training, and capacity building. It began with the first child labor social impact study for Save the Children UK, and the first supply chain best practice study in the Sialkot athletic ball industry for Cambridge University. In 2005, RBI conducted Pakistan's first CSR benchmarking research for SECP to

ascertain responsible competitiveness in 12 industrial sectors and this laid the basis of a national CSR strategy.

37. Sharing wealth and giving to the poor has a long tradition in Pakistan. "Zakat," for instance, is a form of obligatory or voluntary alms-giving and religious tax in Islam. More than 10,000 active civil society organizations and many businesses play the role as development partners.[8] Reported "giving" by a segment of the corporate sector amounted to PKR4.1 billion in 2012, an 18-fold increase over the past 8 years.[9] Pakistan regulates the conduct of the country's for-profit businesses through the Companies Ordinance of 1984, overseen by the SECP. The Companies (CSR) General Order of 2009 requires all publicly listed companies to provide descriptive and monetary disclosure of their CSR activities each financial year.[10] The SECP also approved the CSR Voluntary Guidelines 2013 for public companies.[11]Various other laws and regulations affect CSR. To motivate corporate donors, the Government of Pakistan allows tax exemptions for CSR activities.[12]

38. In his publication *Corporate Social Responsibility and Development in Pakistan*,[13] Nadeem Malik refers to CSR as a way in which companies contribute to development, as he argues that the "underdevelopment of industry and management culture has significantly influenced the way CSR is managed in Pakistan where religion, elitism and kinship-based social values inform CSR practices" and that "perceptions of CSR do not go beyond employee and community welfare." A research on 151 companies in Pakistan found that "CSR activities are managed in a haphazard way and are highly disorganized. In most cases the CSR responses to people's needs are demand rather than supply based. Welfare rather than development activities are preferred." Malik's research finds that the "vast majority of companies prefer to channel their support directly to end beneficiaries; a small segment prefers channelling support through intermediate professional bodies such as NGOs, and through companies' own welfare organizations."

39. In an interview with the founder of Responsible Business Pakistan,[14] Ambreen Waheed maintains that the perception of CSR in Pakistan has not changed in the past 20 years. When companies talk about CSR, they are referring to corporate giving. One trend identified during the interview was that in the past 5 years, corporations set up their own foundations to manage corporate giving.

40. A 2015 assessment of company CSR policy and activity[15] found that of the 151 companies surveyed, only 41 (27.2%) had a CSR policy. Most large national companies had written policies. In most cases, the decision-making on social investment was centralized with chief executive

[8] Johns Hopkins University. 2002. *Dimensions of the Nonprofit Sector in Pakistan*. Institute of Policy Studies, Centre for Civil Society Studies. http://spdc.org.pk/Data/Publication/PDF/WP1.pdf.

[9] Pakistan Centre for Philanthropy. 2012. *Corporate Philanthropy in Pakistan—Annual Survey of Public Listed Companies, 2004 to 2012*. Islamabad.

[10] Securities and Exchange Commission of Pakistan. 2009. *Statutory Notifications*. Islamabad. 16 November. http://www.secp.gov.pk/corporatelaws/pdf/CSR.pdf.

[11] Securities and Exchange Commission of Pakistan. 2013. *Corporate Social Responsibility Voluntary Guidelines, 2013.* Islamabad. http://www.secp.gov.pk/notification/pdf/2013/VoluntaryGuidelinesforCSR_2013.pdf

[12] Two sections and one clause of the Income Tax Ordinance, 2001 chiefly deal with tax credits for social contributions: Section 61, Section 2(36), and clause 58(3). Section 2(36) and clause 58(3) in part I of the Second Schedule of the Ordinance deal with the approved charities (recipient organizations), in addition to enumerated statutorily exempt charities, whereas Section 61 deals with the donors of these charities, such as corporate donors.

[13] Nadeem Malik. 2015. *Corporate Social Responsibility and Development in Pakistan*. Oxford, UK: Routledge.

[14] Interview with Ambreen Waheed, founder of Responsible Business Initiative, conducted on 23 June 2017.

[15] Nadeem Malik. 2015. *Corporate Social Responsibility and Development in Pakistan*. Oxford, UK: Routledge

officers generally taking the decisions on CSR. Of those companies surveyed for social investment spending, health and education were considered most important, with human rights ranking as next priority area. In most cases, however, it was reportedly a religious notion of rights that informed CEOs views, which reflected a conservative view of women's rights. Companies with a formal CSR strategy are mostly MNCs.

41. The government has acknowledged the role of private sector contributions to poverty reduction in its Poverty Reduction Strategy Paper. While the country made some steps to encourage companies to make more responsible investments, a systematic and holistic attempt to make CSR more strategic—such as by testing IB investments as a core business line—is missing. The situation is different in India where CSR is used to systematically to finance IB models and social enterprise initiatives to address social challenges in the society. Countries like the PRC, India; Indonesia; Japan; the ROK; Singapore; and Taipei,China are more advanced in this regard and have established policies that channel CSR funding strategically to business lines with social impact.

42. In Asia, only India has made it mandatory for companies with a net profit of ₹50 million or a net worth of ₹5 billion to provide at least 2% of the average net profit of the previous 3 years for CSR activities (Clause 135 of the Companies Bill, 2013, effective 1 April 2014). The Ministry of Corporate Affairs estimates that more than 16,000 companies (less than 2% of the total number of companies in the country) will spend ₹280 billion for CSR activities in the first year. If India can demonstrate that this approach generates the expected impact, governments may implement this across the region.[16]

IV. Community Investment in Pakistan

43. For many companies, a CSR strategy includes philanthropy and/or community investment, and increasingly, also includes shared value or IB models. Companies are looking to link community investment with their business and ensure that the projects contribute to the sustainable development of the community, region, province, and country in which they operate. Many companies are looking to invest in community investment opportunities that can achieve scale, demonstrate impact, and generate positive returns for the business. Community investment is also sometimes referred to as social investment.

44. A 2016 report by the British Council on the state of social enterprise in Pakistan found that social enterprises are making an impact on the economy with a median turnover of £34,000.[17] More than 50% are seeking to develop new products and services and invest in their team and capacity to grow. Access to appropriate funding and finance is seen as the main barrier to social enterprise growth in Pakistan. The 143 social enterprises surveyed employ a total of 7,191 staff and 80% anticipates staff numbers will increase in 2017. There seems to be a significant trend in the increasing role of women in Pakistan where a fifth of social enterprises are led by women, four times more than women in mainstream SMEs. Education (49%) and health and social care (28%) are the most common sectors of operation for social enterprises and nearly half of this report that promoting education and literacy is a key objective. Nearly half of social enterprises operate in the education sector.

45. The Global Impact Investing Network defines impact investments as those made by companies, organizations, and funds with the intention to generate social and environmental

---

[16] See Appendix 1 for more information on India and other countries.

[17] British Council. 2016. *The State of Social Enterprise in Pakistan.* https://www.britishcouncil.org/sites/default/files/bc-report-ch5-pakistan-digital_0.pdf.

impact alongside a financial return. Based on a report by GIIN,[18] a range of investors from fund managers, development financial institutions (DFIs), high-net-worth individuals or family offices, and banks exist in Pakistan. Of these, 11 DFIs and seven funds are active impact investors, deploying close to $2 billion of capital to date. A significant portion of this capital ($1.2 billion) has already been invested in mature companies in the larger range of $1 million to $50 million per investment because mature companies tend to have lower risk due to their established operating history and ability to keep accurate financial records. Larger funds tend to invest in consumer-facing industries, such as the fast-moving consumer goods, and in health care and agriculture due to the large domestic consumer base and high growth potential.

46. On impact measurement, DFIs like ADB largely use frameworks developed in-house, which are based on global standardized metrics, such as Impact Reporting and Investment Standards; or Environmental, Social, and Governance (ESG) factors, which are used across portfolios in all countries where it is active. Fund managers in Pakistan are largely taking a cue from the DFIs that they work with.

47. There are multiple barriers when implementing a community investment strategy, including the lack of opportunity for scale, infrastructure, and limited education resource that results in lack of knowledge and skills, and complex or hostile regulatory environments. While governments, development agencies, and NGOs have been striving to improve the livelihood of the poorest in society, sometimes with donations and volunteers from the private sector, addressing social development needs is usually not on the agenda of the private sector's core business plan. To present the private sector with an alternative method for investing in sustainable development that seeks to address both the needs of business and social development is an opportunity to drive sustainable development.

48. Companies use different terminologies in community investment (Appendix 2, CSR Terminology). Some use the term CSR to encompass all community investment activities, others use social investment, community projects, citizenship initiatives, social contributions, community engagement, and many more. A CSR Asia publication[19] reported that community investment professionals (those working in companies on community investment projects) are using mostly the following key performance indicators for community investment projects: (i) total number of events completed, (ii) number and/or percentage of staff who volunteer, (iii) number of volunteer hours achieved, (iv) employee satisfaction in community investment activities organized by the company, (v) generation of positive press coverage and publicity through related conference and forum presentation opportunities, (vi) positive feedback from communities and governments on the initiatives implemented, and (vii) spending of an allocated budget.

49. Most companies manage their own projects, which they brand and present as their specific contribution. There is a gradual shift toward a collaborative approach to achieve collective impact globally, but this is nascent in developing countries and has not yet been observed in Pakistan.

---

[18] Global Impact Investing Network. 2015. *The Landscape for Impact Investing in South Asia: Understanding the Current Status, Trends, Opportunities, and Challenges in Pakistan*. https://thegiin.org/assets/documents/pub/South%20Asia%20Landscape%20Study%202015/1_Full%20South%20Asia%20Report.pdf.

[19] CSR Asia, How Do They Do It? Community Investment professionals and their operating environment – A look behind the scenes, March 2015. http://www.csr-asia.com/report/How%20Do%20They%20Do%20It_Mar2015.pdf.

50. The Securities and Exchange Commission of Pakistan (SECP) Guidelines listed community investment as one of the areas of interest under the umbrella of CSR. Focus areas listed include skills development, livelihood, health, education, infrastructure, social enterprise development, safe drinking water, poverty alleviation, youth development, and environmental conservation. When establishing a management system, companies are expected to (i) define the objectives for carrying out community investment activities, (ii) set targets, (iii) devise an action plan, (iv) monitor and evaluate activities, (v) report the achieves, (vi) recognize and document shortfalls and/or failures, (vii) incorporate improvement plans, and (viii) incorporate changes according to the changing social needs. Most companies producing CSR reports are not yet meeting these requirements.

V. Recommendations

a. Country Context

51. When designing community investment activities in Pakistan, it is imperative to look at the country context first. Under the Eighteenth Amendment to the Constitution of Pakistan, public authority and responsibilities in the social sector have been primarily devolved to the provinces while corporate sector governance regulation is with the federal government. CSR activities related to community investment generally fall under the purview of the provincial governments, including local governments. Activities related to governance, product responsibility, labor laws, and climate change generally fall under the federal government. Activities on safety and climate change are under the purview of both federal and provincial governments.

52. Pakistan's Vision 2025 reaffirms the need to make economic growth inclusive and sustainable to eradicate poverty. It also recognizes that poverty is multidimensional, encompassing not only monetary deprivation but also the inaccessibility of all communities to health care, education, employment, and services across the country. Eliminating poverty through rapid economic growth is also critical as 20% of the population survives on less than $2 per day and 86% of the population belongs to the low-income group earning $6.1 or less a day.[20]

53. Governance problems resulted in the inefficient production and provision of social services, which had serious implications for human development in the country. Poor competitiveness of the Pakistan economy in an increasingly skill-based global economy is an important factor behind pervasive poverty. While its being noncompetitive occurred due to economic mismanagement, lack of skills can be attributed to Pakistan's low level of human development. A huge debt burden leading to increasing debt service requirements resulted in a growing fiscal squeeze, which has diverted resources from expenditures for development and social sectors.

54. Cultivated land is highly unequally distributed in Pakistan. Of the farms, 47% are smaller than 2 hectares, accounting for only 12% of the total cultivated area. Improving small farmers' productivity is extremely important for economic growth in the country. Several initiatives aimed to help the poor by (i) improving governance and the functioning of public sector institutions; (ii) creating assets, employment, and income-generation opportunities; (iii) revamping social safety net systems; and (iv) improving access to basic services to reduce poverty and create an expanded and sustainable market for businesses to expand.

55. The magnitude of the social sector service demand is beyond the fiscal and institutional capacity of various tiers of the government. In many countries, governments have successfully

[20] Figures are based on the 2017 poverty census done by the Benazir Income Support Program.

established a close cooperation with the private sector to jointly work on the attainment of development goals for the sake of social stability and economic growth. The government of Punjab acknowledges that it cannot meet all identified needs in social sectors like health and education even though the social sector has been given the highest priority in the resource allocation of the Annual Development Program, 2016–2017. Punjab published its own growth strategy to ensure a secure, economically vibrant, knowledge-based, and caring province. The Punjab Growth Strategy aims to deliver specific, targeted SDGs in Punjab by 2018.As the economy gradually shifts from labor-intensive, subsistence farming and low-value addition to services that have higher potential for growth and employment, the government must invest in infrastructure and increase the quality and access to social services to meet the needs of its population. Social services represent 23% of the new annual development program budget, with 16% increase (PRe144 billion or about $1.4 billion) in FY2018. However, the available budget is still insufficient to meet growing demands.

56. Hence, all possible sources of finance will need to be harnessed and maximized to achieve economic growth and reduce poverty. It will be critical to strengthen domestic resource mobilization and management, and to work with private sector actors and investors. The government has committed to strengthen its collaboration with the private sector. Several public–private partnership (PPP) projects are operational and more have been approved by the Public-Private Partnership Cell of the Planning and Development Department.

57. Bringing together the government and the private sector to directly combat poverty and inequality in line with SECP's CSR guidelines would be a win–win for the society, government, and business community. Civil society partners that address vital and challenging development issues and are providing new analysis and insights on social progress are important. Such partners are implementing innovative programs to address poverty and sustainable development in often hard-to-reach places. For example, NGOs across Asia are helping remote communities gain access to renewable energy technologies to meet their electricity needs, helping improve sanitation services, and helping deliver vital health care services.

b. Organizational Solutions

58. Beyond large-scale PPP investments, the government wants to encourage the private sector to play a more active role in the socioeconomic development of disadvantaged areas and/or the low-income population of Punjab. Thus, the government has been contemplating on aligning private sector CSR programs with the development priorities, policies, and projects of the government, especially in the context of achieving the SDGs. The government earmarked PRe300 million for financial year 2017–2018 to match the voluntary contributions to community investment projects of the private sector.

59. The government has been seeking for the most sound, practical, and effective way to structure such initiative as a public–private collaboration and cooperation for identifying, designing, developing, managing, and executing innovative program and projects that would empower local communities and people so they could participate in the development process and contribute toward their own well-being. To determine a suitable organizational structure, the following two factors have been discussed extensively by the government and the ADB consultant team:

- The initiative would need a dedicated and specialized platform within the government to design, develop, manage, and execute its goal and objectives. The platform should (i) have the autonomy to think outside the box and make decisions; (ii) serve as reference for government officers, representatives of communities, private sector, and development partners, and for development professional and experts; (iii) provide a one-window and friendly entry point for the private sector; (iv) be permanent and stable to avoid ad hoc and short-term approaches; (v) be able to create and maintain relationships with the private sector and with not-for-profit organizations and communities; and (vi) adhere to the principles of fairness, transparency, and good governance.

- The initiative would also need a robust participation from the private sector to partner with the government; and to identify, design, develop, run, manage, support and/or execute projects in the province of Punjab. The private sector comprises a large group of businesses of different sizes; operating in different sectors and localities; and following different approaches of philanthropy, CSR, and community investment. In this initiative, the private sector could establish a foundation to better coordinate its contributions and to augment its voluntary philanthropic and CSR contributions with government's "matching grants" for community investments.

60. The proposed foundation has been discussed with selected representatives of the private sector in Punjab, mostly from large national and international companies. As a result, a well-known business leader volunteered as a champion for this initiative and at least four other business leaders are ready to become the legally mandated founding members of a foundation registered as a not-for-profit company.

61. Identifying the social investment targets in Pakistan is less challenging than in other countries due to its strongly entrepreneurial culture. In general, the key constraint to investing in Pakistan appears to be screening and due diligence to convert opportunities into investable projects that can produce social results—like decent jobs and human development—on a sustainable basis. Few potential IBs or social enterprises have the financial and operational systems and structures in place that make them investment-ready. Many enterprises lack transparency and proper corporate governance structures, maintain double or triple sets of accounts, and lack appropriate registrations. Therefore, business development services are needed to support potential IBs and social enterprises. There is also concern about the political connections and business practices of business owners in a climate where corruption is rampant.

c. The Punjab Community Investment Fund

62. The main reason for choosing a government-owned fund as the preferred platform is to ensure the availability of dedicated government funding beyond an initial allocation of $3 million seed money. Since the proposed not-for-profit company would be a public company, the financial allocation earmarked for the proposed Punjab Community Investment Fund (PCIF) could be immediately transferred to it. This addresses the risk of a lapse of the allocated funds at the end of the current financial year. Furthermore, the government could contribute additional funds to the proposed company in the succeeding years, as required.

63. Another unique advantage of a government fund is the flexibility of choosing multiple cofinancing partners for community investment projects. Instead of limiting the scope of collaboration and cooperation to one specific private sector organization (e.g., the foundation), the proposed special purpose vehicle will allow the government to develop a scheme whereby any nonprofit organization may be able to participate and/or receive matching grants, subject to compliance with the framework, rules, regulations, and guidelines prescribed by the proposed special purpose vehicle.

64. There is an agreement that the PCIF will

- be established by the government as a special purpose vehicle;

- be a not-for-profit company under section 42 of the Companies Ordinance 1984 for operations only in the Punjab Province;
- be endowed with an initial PRe300 million from the government, which will be replenished annually;
- provide matching grants to support community investment projects that are funded by at least 50% voluntary contributions from the corporate sector or other nongovernment sources;
- ensure that in close cooperation with the private sector, the selected projects will cover all districts of Punjab in the long term, starting with the economically and socially backward districts;
- endorse the use of matching grants for projects only if they provide sustainable employment and business opportunities emerging from the supply chains of large corporations, and for projects that apply new and innovative service delivery modalities for the benefit of the poor and low-income population; and
- publish the allocation of matching grants and the objectives of every approved project in at least three major newspapers (among them at least one Urdu newspaper) to ensure maximum transparency in the use of public funds.

65. The PCIF will be managed by a small team of professional business advisors to be recruited exclusively for PCIF by the government. PCIF will have a Board of Directors representing the Government of Punjab. The PPP Member of the Planning & Development Department will serve *ex officio* as one of the directors. Other directors will be nominated by the Finance Department and by the Industries, Commerce and Investment Department. The chief executive officer of the fund would be appointed by the Board of Directors on a competitive basis through merit-based selection. The government is seeking additional technical assistance to kick-start its implementation.

d. The Private Sector's Foundation

66. The private sector may create a foundation to (i) bundle the CSR expenditures of its members for increased effectiveness, (ii) augment its voluntary philanthropic and CSR contributions with the government's "matching grants" for community investments in the social sector to benefit the low-income groups earning $6.1 or less a day, and (iii) implement community investment projects that are aligned with the core business lines of sponsoring members. The foundation will facilitate better targeting of these voluntary contributions and achieve economies of scale in its community investment activities in line with the SECP Guidelines. Membership will comprise firms and businesses that constitute the corporate sector of Pakistan. The foundation will be established at a national level reflecting the reach and interests of many larger companies. It has been envisaged that the foundation would be initiated by a few large companies with others to join over time.

67. Interaction with provincial governments is going to be critical for the success of community investment activities that are based on a PPP approach. Under the Eighteenth Amendment to the Constitution of Pakistan, powers and responsibilities of the social sector have been primarily devolved to the provinces. Community investments by the private sector generally fall under the provincial governments, including the respective local governments.

68. It will be important that the foundation can ring-fence potential matching budgetary grants from provincial governments. This is to guarantee that funds allocated for investment projects in a specific province will be spent only in that province. Thus, it is proposed that provincial

governments establish their own community investment funds to implement their targeted community investment programs. The foundation will also help member companies to (i) comply with SECP regulations, (ii) enhance the value and visibility of voluntary contributions to society with a strategic approach to community investment, and (iii) facilitate “matching grants” from the government for such investments. The foundation will bear transaction costs for coordinating with governments.

69. It has been proposed that the foundation will

- be established as a PPP by the corporate sector;
- be a not-for-profit company under section 42 of the Companies Ordinance 1984 for nationwide operations;
- be a membership organization with the goal to enhance philanthropic, CSR, and community investment contributions of private corporations;
- raise funds from members, donors, governments, and through other fund-raising activities;
- liaise closely with provincial not-for-profit funds established by the respective governments as vehicles for investing in community development projects for the benefit of poor and low-income people;
- apply for matching grants from provincial governments to cofinance sustainable community investment projects of its members;
- carry out corporate community investment activities on behalf of its members and in partnership with various tiers of government and with NGOs in Pakistan;
- provide services to its members, such as impact assessment of community investment projects and programs for increased visibility, and advice to members on compliance with SECP regulations;
- provide a platform for knowledge exchange on corporate philanthropy, CSR, and community investment; and
- associate with civil society partners, which can contribute new insights on challenging development issues and can propose new approaches to community development.

70. The foundation will be set up as a not-for-profit company to introduce innovative models of PPP for poverty reduction through sustainable community investment projects and programs. It will also be incorporated as a not-for-profit company under section 42 of the Companies Ordinance 1984. As an independent legal entity under the Companies Act, the foundation will be subject to the regulations of the SECP, the Federal Board of Revenue, the Employees Old Age Benefits Institution, and other relevant authorities mandated under the law.

71. The foundation’s articles of association will prescribe a three-tier governance structure comprising of a general body, a board of directors, and a management team headed by a managing director. The general body of the foundation will consist of contributing members. It will elect nine members for its Board of Directors and the chairman of the foundation.

72. The foundation will be managed by a small, professional team of business advisors to be recruited by the Board of Directors. The pioneering members are seeking additional external support to run the foundation during the first year after its legal registration.

APPENDICES

Appendix 1: Corporate Social Responsibility Developments

1. Countries in the region have taken a different approach to the introduction of corporate social responsibility (CSR) and sustainable business practices. In addition to CSR best practice and international references, there are also a number of CSR regulations and "soft laws" on the application of CSR principles. Examples are seen both within national legislation, as applied in India through The Companies Act, 2013 (and associated Companies [Corporate Social Responsibility Policy] Rules, 2014), and in Indonesia through Law No. 40 on Limited Liability Companies, and also in criteria such as the ASEAN Socio-Cultural Community Blueprint (2009), where strategic objective C.3. states: "Ensure that Corporate Social Responsibility (CSR) is incorporated in the corporate agenda and to contribute towards sustainable socio-economic development in ASEAN Member States." In addition to these governing routes, CSR is also directed via other drivers, such as ESG Indices and stock exchange requirements.

a. European Union

2. European Union (EU) law requires large companies to disclose certain information on the way they operate and manage social and environmental challenges. Directive 2014/95/EU lays down the rules on disclosure of nonfinancial and diversity information by large companies. This directive amends the accounting Directive 2013/34/EU. Companies are required to include nonfinancial statements in their annual reports from 2018 onward.EU rules on nonfinancial reporting only apply to large public-interest companies with more than 500 employees. This covers approximately 6,000 large companies and groups across the EU, including

- listed companies,
- banks,
- insurance companies, and
- other companies designated by national authorities as public-interest entities.

Under Directive 2014/95/EU, large companies have to publish policy reports on

- environmental protection,
- social responsibility and treatment of employees,
- respect for human rights,
- anti-corruption and bribery, and
- diversity on company boards (in terms of age, gender, and educational and professional background).

b. Stock Exchanges

3. Stock exchanges in Asia have been applying CSR principles to their activities over the last decade, with ever more stringent requirements reflecting the global movement toward these values. Three primary mechanisms are utilized by the stock exchanges to influence the companies listed—through CSR guidelines; application of environmental, social, and governance (ESG) indexes; and requirements for sustainability reporting. Within Asia, examples include the Shanghai Stock Exchange and the Bursa Malaysia (Malaysia Exchange), which have both implemented their own ESG indices, namely the SSE Social Responsibility Index (from August

2009) [21] and the FTSE4Good Bursa Malaysia (F4GBM)Index (December 2014).[22] A number of stock exchanges have also released guidelines for listed companies to report on their sustainability practices, most notably the (i) Singapore Exchange (SGX) with the "Guide to Sustainability Reporting for Listed Companies," (ii) Stock Exchange of Hong Kong, China (HKEx) with the "ESG Reporting Guide," and (iii) Stock Exchange of Thailand (SET) with "Guidelines for Sustainability Reporting." Though there are reporting guidelines available, sustainability reporting for listed companies is often on a voluntary basis, with mandatory requirements seen in People's Republic of China (PRC); Taipei,China; and Malaysia, with Taipei,China being the first Asian market to implement mandatory Global Reporting Initiative (GRI) G4 CSR reporting since 2015.[23]

c. India

3. In 2003, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the Government of India's Ministry of Corporate Affairs (MCA) entered into discussions to promote CSR. During this time, the Government of India was looking increasingly at the private sector to play a proactive role in delivering on the national development priorities. The project included supporting an India focal point for the GRI—providing office space and a salary—to help disseminate knowledge on international frameworks that are available to mainstream the concept of sustainability. A formal project agreement was reached in 2007 between GIZ and the Indian Institute of Corporate Affairs. The institute was established by the MCA as a think tank and capacity building institution with a focus on ethical corporate governance, corporate social responsibility, inclusive growth, and sustainable development with an emphasis on innovation and entrepreneurship in small and medium-sized enterprises (SMEs).

4. The MCA released the National Voluntary Guidelines on CSR (December 2009). The guidelines laid out nine principles for ethical business practices and a sustainability reporting framework. This was very quickly superseded by the Companies Act of 2013, which came into force on 1 April 2013. The act legislated that Indian companies with a net worth of INR 5 billion or more, or a turnover of INR 10 billion or more or having a net profit of INR 50 million during any financial year shall constitute a CSR Committee of the Board to (i) to prepare a CSR policy, and (ii) recommend activities for CSR work. The company's expenditure on CSR is at least 2% of the average net profits of the company in a financial year of immediate 3 financial years. The CSR committee must contain three or more directors with at least one independent director. The board is required to approve the CSR policy for the company and disclose its contents in its report and to publish the details in the company's official website. If the company fails to spend the prescribed amount, the board is required to specify the reasons in its report.

5. The government proposed that the following areas be the focus for CSR spending:

- Eradicating extreme hunger and poverty
- Promotion of education
- Promoting gender equality and empowering women
- Reducing child mortality and improving maternal health
- Combating diseases such as HIV
- Ensuring environmental sustainability
- Employment-enhancing vocational skills
- Slum development
- Contributing to national relief funds

[21] http://www.world-exchanges.org/news-views/shanghai-stock-exchange-social-responsibility-index-released.
[22] http://www.bursamalaysia.com/corporate/media-centre/media-releases/3081.
[23] http://www.twse.com.tw/en/about/press_room/tsec_news_detail.php?id=15960.

- Social business projects

6. The money allocated for CSR activities can only be spent in India and companies may collaborate or pool resources with other companies to deliver the CSR activities. Companies can only work with social organizations or enterprises with at least 3 years of experience in the field. CSR activities are encouraged where the company has operations.

7. The rules apply to multinationals operating in India but not to Indian MNCs operating outside of India. Some 16,358 companies will be affected by the CSR law and it is expected to generate $2.5–$3.0 billion per year. Some states, like Maharashtra, have come up with CSR guidelines and a State Steering Committee to oversee CSR activities, especially in critical sectors, such as education, which are currently attracting a lot of interest. Concerns have been expressed about accountability, enforcement, and corruption. The law has been referred to as a CSR tax.

8. In addition to the law, the Securities and Exchange Board of India (SEBI) issued a circular on 13 August 2012 mandating the top 100 listed companies to report their ESG initiatives. These are to be reported in the form of a Business Responsibility Report (BRR) as a part of their annual reports. SEBI has provided a template for filing the BRR. The requirements are in line with the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business of India. The BRR requires companies to report their performance on the nine national voluntary guideline principles. Other listed companies have also been encouraged by SEBI to voluntarily disclose information on their ESG performance in the BRR format.

9. In 2003, The Global Compact Network India was formed in New Delhi by the UN Global Compact's participating companies and other organizations as a nonprofit network. This local network promotes the CSR activities of businesses in India. However, it has not succeeded in involving important nongovernment organizations (NGOs), or most importantly, the unions. To date, the UN Global Compact is not unanimously recognized within the business sector or by the NGO community.

10. The TERI-BCSD India[24] was set up by The Energy and Resources Institute in 2001 with a vision to mainstream sustainability in corporate strategy. Over the years, the business council has evolved into an industry body, with members from diverse sectors, including public sector undertakings, multinationals, and private companies from across India. TERI-BCSD India works with India Inc. to undertake co-created sustainability projects with a business case to scale their sustainability impacts.

d. Singapore

11. On 20 June 2016, the Singapore Exchange (SGX) announced the new sustainability reporting requirements—Listing Rule 711A and 711B. These required that a listed company must issue a sustainability report for its financial year, not later than 5 months after the end of the financial year. (SGX is allowing up to 12 months from the end of the financial year to publish the first report. This takes effect on any financial year ending on, or after, 31 December 2017.)

12. The sustainability report also must describe the sustainability practices on the following primary components:

- **Material** environmental, social, and governance **(ESG) factors** and describe both the reasons for and the process of selection, taking into consideration their relevance to the

[24] See details in http://bcsd.teri.res.in/index.php.

business, strategy, business model, and key stakeholders (lengthy guidance is provided in the practice note);

- **Policies, practices, and performance** in relation to the material ESG factors identified, providing descriptive and quantitative information on each of the identified material ESG factors for the reporting period. Performance should be described in the context of previously disclosed targets;
- **Targets** for the forthcoming year are set out in relation to each material ESG factor identified;
- A **sustainability reporting framework** (or frameworks) is selected to guide reporting and disclosure. The framework(s) selected should be appropriate and suited to its industry and business model. The name of the framework(s) must be stated, the reasons for choosing the framework(s) explained, and a general description of the extent of the issuer's application of the framework(s) must be provided; and
- Contain a **statement of the Board** that the board has considered sustainability issues as part of its strategic formulation, determined the material ESG factors, and overseen the management and monitoring of the material ESG factors.

e. Indonesia[25]

14. Indonesia's CSR Law (Article 74) requires all companies that have a large impact on communities and the environment—including mining, oil and gas, and plantations—to implement CSR programs. Article 74 was enacted in 2007 as part of Company Law. In essence, it requires companies to support philanthropic or community investment activities (no specific amounts are specified). CSR expenditures are treated as costs, so these are tax deductible. While it is mandatory to implement CSR activities, there are currently no laws or regulations that impose sanctions.

15. There are several reasons why successful implementation of this law is in doubt. The two main reasons are (i) the substance of the legislation is too general and ambiguous, and (ii) it fails to provide an effective implementation mechanism.

16. There are also several NGO advocates for CSR, including the Public Interest Research and Advocacy Centre, Business Watch Indonesia, the Foundation for Sustainable Development, the Indonesia Philanthropy Association, and the National Centre for Sustainability Reporting. There are also a few professional organizations in Indonesia, including Indonesia Business Links, which promotes CSR best practices and helps develop collaborative programs among businesses. Within major business associations, special committees have also been formed to promote CSR.

17. The Indonesia Stock Exchange was the first stock exchange in South East Asia to introduce a sustainability index. The index was developed in 2009 by the Indonesia Stock Exchange in cooperation with an environmental NGO, Yayasan KEHATI. No sustainability reporting guidelines have been published.

18. Using multi-stakeholder platforms to address CSR issues at the industry level is a popular approach to CSR in Indonesia. In the cocoa industry where women constitute the bulk of workers in the growing of cocoa, there is great enthusiasm from the corporate sector, seeking supply security, to work toward a sustainable cocoa sector. The Cocoa Sustainability Partnership is Indonesia's most active multi-stakeholder sustainability platform.

[25] The cases of Indonesia and of the following countries are taken from Annex 1 of a CSR Asia draft report for ADB, dated 11 August 2016.

19. In Indonesia, corporate foundations are a popular mechanism to handle and disburse philanthropic funds.

f. Japan

20. Environmental responsibility is entrenched in Japanese businesses today due to decades-old environmental protection regulation. The extensive use of ISO14001 (Environmental Management System) issued in 1996 has accelerated environmental efforts. Japanese companies focus on life-cycle assessment, and most of the emphasis in this assessment is on the product's carbon footprint.

21. Several groups in Japan are promoting CSR, such as the Global Compact Japan Network, CSR consultancy companies, and Keidanren (the Japan Business Federation). In 1991, the Japan Business Federation issued the Charter of Corporate Behaviour. In 2002, it revised the charter partly to regain public trust in the wake of numerous scandals involving some of its member companies.

22. Japanese companies have a limited involvement in international multi-stakeholder initiatives. Local networks that promote Japanese standards are preferred. Japanese companies will very rarely actively promote their sustainability efforts, believing that a good product will speak for itself.

23. In February 2014, a Japanese version of Japan's Stewardship Code was released, also known as the "Principles for Responsible Institutional Investors."

24. In 2015, the Tokyo Stock Exchange and Financial Service Agency released a Corporate Governance Code, which does not prescribe CSR disclosure but requires companies to disclose nonfinancial information, such as business strategies and business issues, risk, and governance. The code also sets out the principles on appropriate measures to address sustainability issues, including social and environmental matters, which companies should take. Japan has the greatest number of companies producing CSR reports in Asia.

25. Japanese consumers expect CSR efforts to be rooted in product innovation, such as energy saving and water saving. NGOs and nonprofit groups very rarely engage in advocacy on corporate behavior. Since the devastating 2011 earthquake, disaster recovery has been at the top of their CSR agenda. This has led Japanese companies to support national rather than international community programs.

g. Malaysia

26. Bursa Malaysia is an important institutional driver of sustainability reporting in the country. The stock exchange requires listed companies to report on CSR performance,[26] but does not stipulate the form in which disclosure should be presented. However, Bursa Malaysia has issued sustainability reporting guidance documents to help companies with their sustainability disclosure (Corporate Governance Guide and Corporate Social Responsibility Framework for Malaysian Public Listed Companies), but companies are not required to follow its recommendations. In its list of requirements (Chapter 9, Appendix 9C), Bursa Malaysia requires that companies include a "description of the corporate social responsibility activities or practices undertaken by the listed issuer and its subsidiaries or if there is none, a statement to that effect."[27]

---

[26] http://www.bursamalaysia.com/market/regulation/rules/listing-requirements/main-market/listing-requirements,

[27] http://www.bursamalaysia.com/misc/system/assets/2961/regulation_rules_bm_main_LR.pdf.

27. The Malaysian Stock Exchange launched an Environmental Social Governance Index in December 2014—the FTSE4Good Bursa Malaysia. In June 2015, this index had 25 constituents from a review of the Top 200 Malaysian stocks in the FTSE Bursa Malaysia EMAS Index. The FTSE4Good Bursa Malaysia is reviewed in June and December.

28. CSR in Malaysia is mostly understood from the perspective of philanthropy and environmental initiatives as opposed to integration into core business strategy. Environmental action is actively supported by the ministries, such as the Ministry of Energy, Green Technology and Water, through public–private partnerships (PPPs).

h. Myanmar

29. Myanmar has initiated a comprehensive reform and democratization process after decades of military oppression that left the country unstable. Myanmar's potential is widely recognized, but business operations in transitional countries are challenging. Growth and investments are needed to contribute to the country's economic development.

30. CSR has mainly been understood as a philanthropic concept due to the prevalent Buddhist beliefs and merit-making culture in Myanmar. A key association involved in CSR is the Myanmar Centre for Responsible Business.[28] The centre produces sector-specific reports focusing on CSR issues, and an annual project to rank and analyze the transparency of large Myanmar businesses.

31. Businesses operating in Myanmar have ample opportunities to conduct business in a way that protects the organization from reputational, financial, or legal risks; and contribute to the sustainable development of the country. Challenges exist around bribery and corruption, weak institutions, ethnic conflicts, and underdeveloped public services. Underdeveloped legislative and judicial systems and the unclear interpretation of laws fail to provide legal certainty. While the country currently has a technological disadvantage and lower productivity, the potential to "leapfrog" expensive research and development efforts and implement clean, state-of-the-art technology is significant.

32. Many businesses are looking for an entry into Myanmar, and some have already set up community investment programs ahead of their business operations in the country. Many companies also report that there are challenges in identifying key partners. A key business need is providing skills for a potential workforce. Skill provision goes beyond community investment and is a key contribution to operations.

i. People's Republic of China

33. The momentum behind the sustainability agenda in the People's Republic of China (PRC) in the last few years has been driven by the central government, with NGOs playing an important "watchdog" role. Citizen participation through social media is helping to drive the sustainability agenda in the PRC. Social media is a powerful vehicle for public comment on a company's performance on sustainability.

34. The government is a key driver in the promotion of CSR. Compliance with national policy, legislation, and regulations is ranked as the top incentive for Chinese companies when implementing CSR.[29]International clients are another important driver of CSR development. Insufficient monitoring of compliance is ranked as the top obstacle impeding companies from

[28] Myanmar Centre for Responsible Business. http://www.myanmar-responsiblebusiness.org/.
[29] CSR Asia. http://www.csr-asia.com/report/CSR-development-and-trends-in-China-FINAL-hires.pdf.

better implementing CSR strategies. Another key obstacle mentioned is the lack of long-term CSR strategy, knowledge, and qualified professionals.

35. Numerous regulatory frameworks and legislation on CSR have emerged over the last 5–8 years. These include the following:

- *Stock Exchanges*
  - Sustainability guidelines were issued by Shenzhen Stock Exchange and the Shanghai Stock Exchange.
  - Sustainability Index on the Shanghai Stock Exchange and mandatory reporting for all listed companies were issued.
- *CSR and Central/State-Owned Enterprises*
  - A guide was released for state-owned enterprises to take "effective steps to implement CSR" in 2007.[30]
  - Mandatory reporting was required for all centrally administered state-owned enterprises since 2012.[31]
- *Companies Act*
  - Revisions made in 2011 saw the integration of the concept of CSR as part of corporate legislation.
  - Businesses were asked to "accept and take responsibility for the societies and environments in which they operate."

36. While a plethora of legislation has been passed at the central government level, implementation of these regulations across the country is uneven and weak. Corruption is an impediment to improving social and environmental performance.

37. CSR is generally a prominent and popular topic of discussion and interest among companies. However, understanding CSR is not very holistic, with most companies focusing their efforts on specific areas of interest, such as environmental protection or philanthropy. Few state-owned enterprises have an understanding or a strategy to address the full spectrum of issues that constitutes CSR. Multinational companies (MNCs) operating in the country tend to have more holistic understanding and systematic approaches to CSR.

[30] Business for Social Responsibility. http://www.bsr.org/reports/bsrchina/BSR_China-CSR-Guidelines.pdf.
[31] Business for Social Responsibility. https://www.bsr.org/our-insights/bsr-insight-article/transparency-in-china-a-new-generation-of-sustainability-reports.

Appendix 2: Corporate Social Responsibility Terminology

1. CSR terminology can vary depending on many factors, such as location, business sector, or standard(s) applied, but the basic principles remain globally applicable. The term "CSR" in itself is still the most widely used expression, with "sustainability" as the second most commonly used phrase.[32] The key terminologies applied in CSR include the following:

2. **Philanthropy.** Derived from the Greek word meaning "love of humanity," philanthropy describes altruistic actions that benefit welfare and the advancement of human society. Philanthropy is usually demonstrated through donations of money, supplies, or other forms of resources to those in need. Philanthropy can be practiced at all levels, from individual to corporate.

3. **Sustainability.** The most often quoted definition of "sustainability" is the one stated by the Brundtland Commission of the United Nations on 20 March 1987 on sustainable development: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs." In the case of CSR, sustainability for the management of corporate operations means the responsibility for safeguarding the future.

4. **Environmental, social, and corporate governance (ESG).** ESG factors are key criteria applied for measuring the sustainability or other ethical impacts of an organization when evaluating a responsible investment. ESG factors relate to the governance of the three key areas of environmental, social, and corporate management within a company and provide a reference for investors on the sustainable and ethical performance of the business in the future.

5. **Shared value.** As described by the *Harvard Business Review* (January 2011), shared value means creating economic value in a way that also creates value for society by addressing its needs and challenges. Simply put, it is a management strategy focused on creating measurable commercial value and identifying and addressing the social problems related to the business.

6. **Triple bottom line (TBL).** The TBL term was coined by John Elkington in 1994. It refers to a financial principle where a company's net profit is not just calculated based on economic performance, but also considers social and environmental costs. Other terminology includes "the 3 P's: People, Profit, and Planet," and the "Three pillars of sustainability."

7. **Inclusive business (IB).** The term IB was coined by the World Business Council for Sustainable Development in 2005. It refers to a sustainable, commercially viable business model that benefits low-income communities through either direct or indirect inclusion within the value chain. ADB defines IB as "a business entity that generates high development impact by (i) improving access to goods and services for the base-of-the-pyramid (BOP) population (i.e., low-income people); and/or (ii) providing income and/or employment opportunities to low-income people as producers, suppliers, distributors, employers, and/or employees. An IB must be commercially viable and can be a stand-alone business entity, or a business unit of a larger company."[33]

---

[32] CSR Asia Annual Report 2015. *Who Is Getting It Done?.* London 2016

[33] ADB. 2017. *Standard Explanatory Data Indicator Definitions.* Manila. pp. 24 and 25. https://www.adb.org/sites/default/files/institutional-document/33903/ standard-data-definitions-may2017.pdf.

8. **Corporate citizenship.** Citizenship refers to the acknowledgement of an organization's role in wider society, and its responsibility to both shareholders and stakeholders in meeting both legal and ethical expectations.

9. **Corporate responsibility.** This term is similar to CSR. It refers to the integration of environmental, social, and financial considerations with the business model and the management of the organization.

Appendix 3: Consultation Process of the ADB Team

The team understood that the Government of Punjab is interested in encouraging the private sector to play a more active role in the socioeconomic development of disadvantaged areas and/or low-income population of Punjab. The government had been contemplating on ways to align efforts by the private sector through corporate social responsibility (CSR) programs with the development priorities, policies, and projects of the government, especially in achieving the Sustainable Development Goals (SDGs). The government has earmarked PRs300 million during financial year (FY)2017–2018 for the new initiative.

A dialogue among the stakeholders on this initiative had been ongoing, which suggests that the focus should be "community investment" rather than "community development." In community development, a community receives and/or benefits from grants made by the government and/or the private sector and remains dependent on the same. In community investment, the community is provided opportunities to engage in productive activities and generate sustainable value for itself and for others to become an active and empowered segment of the society.

The government is contemplating on what is the most sound, practical, and effective way to structure this initiative, aiming at a PPP collaboration and cooperation to identify, design, develop, managing, and execute innovative programs and projects that empower local communities and people to participate in the development process and contribute to their own well-being in a tangible manner.

To determine a suitable organizational and legal structure for this initiative, the following factors are considered relevant:

i. The initiative would need a dedicated and specialized platform within the government to design, develop, manage, and execute its aims and objectives. The platform should (i) have the autonomy to think outside the box and make decisions; (ii) serve as a basis for government officers, representatives of communities, private sector, development sector, and professionals and experts; (iii) provide a one-window and friendly service to the private sector; (iv) be permanent and stable so as to avoid ad hoc and short-term approaches; (v) be able to create and maintain relationships with the private sector, not-for-profit organizations, and communities; and (vi) adhere to the principles of fairness, transparency, and good governance.

ii. This initiative would also need a robust participation from the private sector to partner with the government; and identify, design, develop, run, manage, support, and/or execute projects in the province of Punjab. The private sector comprises a large portfolio of businesses of different sizes, operating in different sectors and geographies.

In view of these, the government may establish a special purpose vehicle in the form of a not-for-profit company under section 42 of the Companies Ordinance 1984 as the best solution. The Memorandum of Association may expressly state the objectives of the company. A fair representation of the private sector, economists, development experts, and professionals in the Board of Directors of the proposed company could ensure that it provides a platform setup by which the government can formulate innovative and effective plans, programs, and projects in collaboration and/or cooperation with the private sector and with relevant experts and professionals.

Since it is proposed to be a government-owned company, the financial allocation already earmarked for the proposed fund could be immediately transferred to it. This way, the risks of a lapse of the allocated funds once the current financial year is completed could be avoided.

Furthermore, the government could contribute additional funds to the proposed company in the succeeding years.

Instead of limiting the scope of collaboration and cooperation to one specific NGO (the envisaged foundation of the private sector), the government—through the proposed special purpose vehicle—may develop a scheme whereby any nonprofit organization may be able to participate subject to compliance with the framework, rules, regulations, and guidelines prescribed by the proposed vehicle.

From a private sector perspective, the existence of a fund offering matching grants from the government is not a necessary condition to establish a foundation that would bundle CSR contributions from several corporate members, and to implement community investment projects aligned with core business lines of sponsoring members and with social priorities of the government.

The consultant team's focus on establishing a government fund was very much driven by the time pressure to secure the earmarked $3 million seed money of the government in view of the upcoming provincial (and national) elections in 2018. Such amount of matching grants would make it more attractive for companies to join in a new foundation that channels these grants to CSR-funded IB or social enterprise projects. Toward the end of the consultancy assignment, the remaining consultants were exclusively focusing on the legal registration of a foundation, often called the "CSR Foundation."

The following summaries of the internal and consultation meetings with the Government of Punjab may illustrate the thought process behind the results that have been achieved so far. As noted earlier, the focus is more on establishing the fund and to a lesser degree on establishing a foundation.

1. Introducing a Public–Private Collaboration fund (Meeting with the chairman, Planning & Development Board, 24 August 2017)

A meeting with the chairman of the Planning & Development (P&D) Board of Punjab regarding the setting up a CSR fund by the private sector with support from the government was held on Thursday, 24 August 2017 at his office at P&D Building, Civil Secretariat, Lahore. It was attended by the (i) members of the ADB consultant team; (ii) board member of the P&D, PPP; (iv) board member of the P&D, Social Infrastructure; (vi) the Secretary of the Department of Industries, and other officials of the P&D Department.

The initial briefing was about the background and progress made so far by the board member of P&D, PPP and by the consultant.

- The government has already earmarked PRs300 million in the annual budget for 2017–2018, for the proposed CSR fund. However, commitments from the private sector as matching donations would be needed to utilize the allocated amount for the proposed fund.
- A fund set up as a not-for-profit company under section 42 of the Companies Ordinance 1984 is, therefore, suggested to operate in Punjab as the best way forward. The government should make a one-time donation to that fund.
- The government should not assume any role in managing the fund. In the interest of efficiency and speed in decision-making, the board of this Punjab fund should be managed by the private sector though some government officials could be on the board.
- A detailed presentation on the idea and structure of the proposed fund suggested that the Guidelines on the Corporate Social Responsibility issued by the Securities and Exchange

Commission of Pakistan (SECP) may be used to define the fund's objectives, especially the area of community investment, which includes skill development, livelihood, health, education, infrastructure, social enterprise development, safe drinking water, poverty alleviation, youth development, and environment conservation.

- The SDGs are also relevant to define the scope of activities and nature of projects to be undertaken by the fund.
- A CSR foundation may be established by the private sector at the national level as a not-for-profit company under section 42 of the Companies Ordinance 1984 registered with the SECP. The proposed CSR foundation may establish separate funds for different provinces and regions of Pakistan. The first fund should be established for Punjab.
- The chairman of one big multinational company in Punjab has agreed to head the proposed CSR foundation as chairman. Furthermore, this chairman has also assured that he would persuade members of the Pakistan Business Council, a nonprofit organization set up by the leading businesses of Pakistan, to join the CSR foundation and the Punjab fund initiative.

In response to the initial briefing, the following points were raised:

(1) What would be the government's mode of contribution to the proposed fund?
- Is there any applicable legal framework?

(2) Subject to (1) above, what should be the role of the government in managing the proposed fund?
- What are the comparable structures already used by the federal government or the Government of Punjab (e.g., the Poverty Alleviation Fund, the National Rural Support Programme)?

(3) The SDGs and the least-developed districts of Punjab would be areas of interest for the Government of Punjab on the proposed activities of the proposed fund.

(4) How can the narrative of the proposed CSR fund be developed? Should it be an initiative of the Government of Punjab and what is the role of ADB and of the private sector?

(5) The Government of Punjab has been giving grants-in-aid to nonprofit organizations (Gulab Devi Hospital, Shalimar Hospital) and the same could be done in the case of the proposed fund, subject to item (1) above.
- In the case when grant-in-aid is provided, the Government of Punjab does not usually assume any management role in the project. However, the grant-in-aid is a one-time donation only and requires independent approval each year if it is required on a multi-annual basis.

The consultant team clarified the role of ADB, which is limited to the preparation and legal registration of organizational solutions, like a fund and a foundation. To proactively cover legal risks and ensure long-term sustainability of the proposed CSR fund, a legal framework needs to be developed. The team suggested that the ADB legal consultant should be given time to study the legal structures of these proposed organizations created by the federal and Punjab governments, and to make recommendations in this regard for further consideration.

There was a tendency to view grant-in-aid, with no involvement by the Government of Punjab in managing the proposed fund, as the best way forward.

It was decided that a presentation on the existing governance structures of similar organizations and the legal options for the proposed CSR fund will be discussed in a follow-up meeting with the government.

2. Characteristics of a public–private collaboration fund

A series of meetings among members of the ADB consultant team and with the board member of the P&D, PPP cell were held in Lahore in September and October 2017 to discuss the setting up of a public–private collaboration fund for community investment. The major iterms that emerged were as follows:

The national foundation of the private sector. It was proposed that a group of leading businessmen may be persuaded to set up a national foundation to provide a framework for organizing, consolidating, and improving CSR activities carried out by the private sector, and act as a resource center, thought leader, and coordinating body. The said foundation may set up provincial and/or regional funds, which would be separate entities. These provincial and regional funds may be established as joint ventures with the provincial or local governments or may be established by the national foundation and enter into long-term agreements with the provincial or local governments. The projects would be selected by the national foundation and implemented by the provincial and/or regional funds.

Developing linkages between private sector enterprises and disadvantaged communities and/or areas, which aims to include the latter within the value chain of the former in a mutually beneficial way, is essential. The existing Dairy and Rural Development Fund, which was established along similar lines, can serve as a best practice example.

Some financial support by international development partners to operationalize the national foundation may be needed, and efforts in this regard should be undertaken by the ADB team.

The **Punjab Community Investment Fund**. The legal consultant shared his review findings of the governance structures of the (i) Punjab Skills Development Fund, (ii) Punjab Rural Support Programme, (iii) Pakistan Poverty Alleviation Fund, and (iv) National Rural Support Programme. All these companies were established based on licenses granted to them as not-for-profit companies under section 42 of the Companies Ordinance 1984 by the SECP. The essential features of their governance structures are as follows:

Table A1: Governance Structures of Funds in Pakistan

No.	Category	PSDF	PRSP	PPAF	NRSP
1	Sponsors	4 government nominees, 5 CSMs	3 government officers and 10 CSMs	8 government officers	7 government officers and 4 CSMs
2	Members	Not less than 9, provided CSMs would always be in the majority.	*No special provision*	• 30 members, 8 of which to be nominated by the government; and 22 representing civil society, 10 of which are from NGOs and 10 from the academia, business, professionals, or relevant private individuals	*No special provision*

3	Board of Directors	• After the first Annual General Meeting, 16 are to be nominated by the government and elected by the members as follows: - 4 from government nominees - 11 from CSMs - 1 from ex-officio members • Quorum: 6 directors or 1/3, whichever is higher, including 1 from CSM, 1 from government nominees, and 1 from ex-officio members	• Minimum of 7 and maximum of 15 • 1 nominee each from Finance, Planning, and Local Government departments	• 12 members, 3 of which are to be nominated by the government from among the government nominees, and 8 are elected by the CSMs (of which 4 are from NGOs and 4 are from academic/ professional/ business categories) • Quorum: 4 elected directors	• 9 members, 2 of which are to be appointed by the chairman of the board, and 7 to be elected by the members, and federal secretaries of Planning, Economic Affairs and Finance to be ex-officio directors Quorum: 4 or 1/3, whichever is higher.
4	Chairman	To be appointed by the board	To be appointed by the board	To be appointed by the board	To be appointed by the board
5	Chief Executive Officer	To be appointed by the board	To be appointed by the board	To be appointed by the board	To be appointed by the board

CSMs = civil society members, NGOs = nongovernment organizations, NRSP = National Rural Support Programme, PPAF = Pakistan Poverty Alleviation Fund, PRSP = Punjab Rural Support Programme, PSDF = Punjab Skills Development Fund,
Source: Own review by ADB consultant team

A detailed discussion on the proposed governance structure of the foundation and the fund resulted in a general agreement that the private sector may establish a national foundation at its own initiative any time soon. The same would not need the consent from the Government of Punjab. The government represents the province of Punjab and its views may be solicited about a provincial fund to be set up by the national foundation. It was noted that in the absence of the national foundation, it would be difficult to represent the private sector in negotiations with the Government of Punjab. Therefore, either the process of setting up the national foundation may be expedited, or wider consultation sessions with various segments of the private sectors may be held first.

On the relationship between the national foundation and the provincial fund, there was a view that the provincial fund should become a subsidiary of the national foundation. The representation of the government in the provincial fund should then be minimal, if at all. The government should give money to the provincial fund as a donation and seed money. The provincial fund should act as the implementing arm of the national foundation.

Another view emphasized that the structure designed for this initiative needs to be sustainable and must withstand any reasonable process of scrutiny and accountability. A one-time donation by the government is, therefore, a risk as replenishments in the following years would be subjected to the politics of the day. A better organizational solution needs to be identified to guarantee that the fund can receive annual contributions from the government as needed and without new approvals required. Furthermore, professional autonomy in the selection, management, and execution of projects should be embedded in the provincial fund. A small professional team may be made available to the provincial fund to perform its functions effectively and efficiently.

The presentation of a detailed legal note in setting up a not-for-profit company under section 42 of the Companies Ordinance 1984 highlighted the compliance requirements for setting up such a company. In the absence of factual, business, and financial information required from sponsors for the application form, the formal process of setting up the national foundation cannot be started. A practical arrangement is to prepare such information to be able to move forward at a rapid pace.

The conceptional focus of the initiative is on community investment rather than community development. The hallmark of this initiative will be measurable and tangible outcomes because of the active and empowered engagement of the communities in productive activities.

Private sector representatives have asked the ADB team to contact international development partners and seek funding for implementing the national foundation during its first year of operations as this would buy time to attract more new members while demonstrating the benefits of this innovative initiative.

1. Fundamental questions and options

The government had asked for a concept note that would provide a comprehensive introduction and overview of the subject, and specific recommendations in this draft. The concept paper should serve as the foundation of a shorter memorandum that will be drafted by the government itself for its internal approval process. A final discussion between the ADB team and the government raised the following fundamental questions and defined the subsequent fundamental options.

(1) The Fundamental Questions

The following fundamental questions were raised:

i. What would be the aims and objectives of the proposed fund?
ii. Who would be its sponsors?
iii. Who would manage the fund?
iv. How would the decision-making of the proposed fund take place?
v. Who would select the projects to be implemented?
vi. How will the selected projects be implemented by the proposed fund?

(2) The Fundamental Options

The ensuing discussion generated the following organizational options:

Option A

The proposed fund is established, managed, and executed by the private sector. The government provides a grant as seed money to match the funds donated by the private sector, which the fund may utilize at its discretion under the supervision of its Board of Directors that may entirely comprise private sector representatives.

The following issues were identified in relation to this option:

(a) What would be the criteria for selecting a specific private sector organization to which the government made a grant? Any other private sector organization may challenge the decision of the government to make the said grant.

(b) In the absence of government representation in the Board of Directors, how would the development priorities, plans, and programs of the government be aligned with the CSR activities of the private sector in general and the activities of the proposed fund in particular?

(c) Should the government provide an unconditional grant or tie the same to a specific set of activities and/or projects to be carried out by the proposed fund? In the latter case, what are those specific activities and/or projects?

(d) A fund receiving a grant or donation as seed money from a government must have some government oversight, which would be absent in this case.

(e) Once the initial grant is consumed by the proposed fund, how, if at all, would it seek additional funding from the government?

Option B

The proposed fund is established, managed, and executed jointly by the government and the private sector. The government provides a grant as seed money on a matching grant basis to the proposed fund. The fund may utilize the seed money at its discretion under the supervision of its Board of Directors that comprises representatives of the government and the private sector. Most of the members of the Board of Directors represent the private sector.

The following issues were identified in relation to this option:

(a) Senior government officers who may become ex-officio members of the Board of Directors of the proposed fund may not be able to devote sufficient time and efforts to effectively participate in the board meetings due to their extensive engagements associated with their full-time roles.

(b) Since the government makes financial allocations on an annual basis, if it decides not to contribute any more money to the proposed fund in the future, any government representation to the board would become ceremonial. Given the pressing engagements of senior government officers who would be ex-officio members, they may not be able to prioritize the meetings and the work of the Board of Directors of the proposed fund.

(c) How would the proposed fund operate if the private sector selected projects that are not aligned with government priorities? Could the funds provided by the government be used for such projects?

Option C

The proposed fund is established and managed by the government. The government provides a grant as seed money, which the fund may utilize at its discretion under the supervision of its Board of Directors that consists of government representatives.

The Board of Directors of the proposed fund approves a framework and implementation guidelines as outlined in the concept paper. Based on a competitive process, the proposed fund selects projects proposed by private sector entities, and the proposed fund becomes a partner based on mutually agreed project plan, key performing indicators, and outcomes. The private sector entity would be responsible for the execution of the projects.

The Preferred Option

From the discussion, it was clear that this initiative needs to be thought through at nuts-and- bolts level to select the appropriate structure, both by the government and the private sector.

The participants of the meeting generally found Option C more practical. However, it was decided that all three options may be presented to the chairman of the Planning & Development Board of the Government of Punjab to seek his guidance and directions. For this purpose, the team will extend the current draft concept note to include the three organizational options and recommend Option C to the government.