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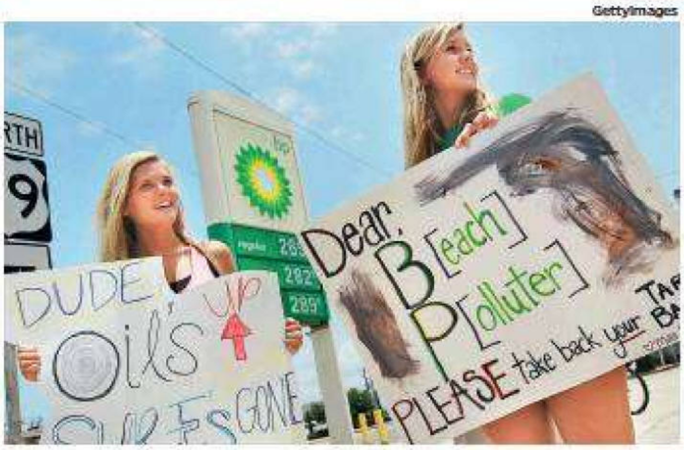
TIMES OF INDIA, Delhi, 18.8.2019

Page No. 13, Size:(19.92)cms X (26.96)cms.

CSR spends are no guarantee of corporate ethics

SWAMINOMICS

SWAMINATHAN S ANKLESARIA AIYAR



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GREEN IMAGE, BLACK DEEDS: The classic case of a massively irresponsible company winning CSR awards was British Petroleum

In his Independence Day speech, Prime Minister Modi said, "Wealth creation is a national service." He declared, rightly, that wealth creators should be honoured, not pilloried.

How does he reconcile this with his absurd new law making it a criminal offence, punishable with three years in jail, for big companies which fail to spend 2% of their profits on what the government defines as corporate social responsibility? Such spending was earlier voluntary. Making shortfalls a criminal offence will shift the emphasis from good outcomes to mere spending, with perverse results.

Vijay Kelkar says if shortfalls in spending are made criminal offences for everybody, over half our ministers and officials will be jailed for not meeting budgeted spending targets approved by Parliament.

Creating wealth through high quality accountability to customers, shareholders, staff and suppliers is the highest form of social responsibility. Many companies fail in all these respects. The answer is not forced donations to NGOs in prescribed areas like education, gender, environment, and poverty. Many shady businessmen run trusts galore to launder black money. Others create trusts to fund grants and scholarships to children of politicians and bureaucrats, bribes by another name.

Famously, former Maharashtra chief minister A R Antulay had to resign over allegations that he got builders to donate heftily to his many trusts, as a condition for getting contracts. A recent *Economic Times* investigation exposed corporate promoters who gave CSR donations to their own NGOs and then recycled the cash back to themselves.

Businessmen guilty of gross irresponsibility to consumers, shareholders, staff and the environment can nevertheless fulfil their CSR quota and win awards. Ramalinga Raju of Satyam Computers forged documents and inflated profits to fool shareholders, banks, the government and other stakeholders, and ended up in jail. Yet, his Byrraju Foundation won several awards. It set up a rural call centre, enabling villagers without college degrees to join the globalisation bandwagon. It took telemedicine to rural areas, enabling villagers to interact with specialist urban doctors. It provided rural services like healthcare, education, water and sanitation. It ran an ambulance service, attracting so much praise that many states replicated it. Did this make Raju a paragon of social responsibility?

"The focus is now on how much money you give to what cause and the whole question of how you make that money is totally ignored," says Ruchira Gujral, Unicef's corporate engagement specialist.

Globally, the classic case of a massively irresponsible company winning CSR awards was British Petroleum (BP). It created a "green" logo and claimed to be among the world's biggest producers of solar panels and wind power (though these didn't account for more than 3% of its business). It topped Fortune magazine's corporate responsibility list in 2004, 2005 and 2007. It won several CSR awards in China.

Yet behind this green imagemanship lay a horrendous record of neglecting safety. BP's poorly maintained Texas refinery exploded in 2005, killing 15 and injuring 180. The Center for Public Integrity, Washington, says that in Ohio and Texas, where five major oil companies operate refineries, BP accounted for 97% of all "egregious, wilful" safety violations. Worst was its negligence that caused the greatest marine disaster in history — the explosion of the Macondo offshore well, leaking 210 million gallons of oil, and devastating beaches and marine life, including thousands of turtles. The same BP claimed to be a turtle saviour by financing a turtle sanctuary in Malaysia, and won a CSR award!

Lesson: allocating some profits to green, rural or other social causes is no indicator of responsibility or ethics. Rather, CSR allocations can camouflage unethical behaviour.

Many terrorist organisations provide good health and rural services to gain adherents. Should they get awards?

Many top NGOs refuse to accept corporate donations saying this could be unethical or cause conflicts of interest. The CSR law ignores this.

The Injeti Srinivas Committee has just submitted a report to the finance minister suggesting that CSR spending should be made tax deductible, and failure to meet the 2% CSR quota should at worst be a civil offence, not a criminal one. This will change the CSR approach to one that relies on incentives rather than punishments, on carrots rather than sticks. The Committee adds that CSR should not become a means of using corporations to fund what the government should be funding.

The whole concept of CSR needs rethinking. The donations approach, with spending targets for corporations, is simply the wrong way to go about it. Jailing crooks is a far better way of improving corporate responsibility than mandating a 2% CSR target.

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Page No. 11, Size:(5.50)cms X (8.04)cms.

How LPG improves rural women's health

FARZANA AFRIDI

Social norms around the division of household work disproportionately burden women in India. Women spend significant amounts of time (approximately 50 hours per week) on domestic chores, of which cooking and cleaning house, clothes and utensils form the bulk, while 15-20 per cent of the time spent on household work consists solely of child care, according to the last Time Use Survey conducted by the National Sample Survey Organisation in 1998. This allocation of time to household chores is accompanied by low female labour force participation (about 25 per cent), which has declined in rural areas (and remained stagnant in urban areas), by most accounts.

It is fairly well-established that technological changes, such as the introduction of washing machines and refrigeration, improved women's labour supply in the developed countries by saving time spent on domestic chores. Mass electrification of rural households in South Africa enabled large, immediate shifts in home production technology, raised female employment and plausibly stimulated net labour supply increase. Can inducing households to shift from traditional cooking stoves that use solid fuels to more efficient and cleaner LPG (liquefied petroleum gas) stoves in rural India lead to similar impacts on women's time-use?

In order to expand access to LPG, the Government of India launched the Pradhan Mantri Ujjwala Yojana (PMUY) in April 2016. The PMUY is the largest programme on access to clean fuel in India's history and the world, reaching about 72 million women and their families between April 2016 and June 2019. The programme specifically, and LPG access in general, can significantly impact women's time spent on domestic chores. How has the programme fared on this count?

In an ongoing study in the rural areas of Indore district in Madhya Pradesh, this writer, along with Sisir Debnath of IIT Delhi and E Somanathan of ISI Delhi surveyed 3,000 households and the primary cooks in these households across 150 villages in November-December 2018. The survey collected detailed information on the households' use of cooking fuel, and time-use of the primary cook through a 24-hour recall.

More than two-thirds of surveyed households have an LPG connection. However, mixed use of fuels is very common — households often use wood and dung cakes even when they have LPG access. Sixty-eight per cent of households with LPG connections reported collecting firewood in the previous month. Women spend disproportionately more time on fuel collection: Out of four visits made by the household to collect firewood in the previous week, three were made by the primary cook, almost always a woman. Each visit takes about four hours. The primary cook spent 10 hours in the previous week making dung cakes, on average. Only 39 per cent of households with LPG connections used LPG exclusively for cooking the previous meal.

These data imply that, on average, women in rural areas may be spending an entire day per week in fuel collection. In addition, cooking time on the traditional *chulha* takes 30 minutes more per meal compared to using an LPG stove. Thus, a shift to regular usage of LPG for cooking can potentially save women's time spent in both fuel collection and cooking.

Our data analysis shows that women's time spent on income-generating work (either paid or on own business/farm) is lower by almost 30 minutes per day and women spend this additional time saved on leisure activities, if the household has an LPG connection, compared to a non-LPG household. But in PMUY households, relative to non-PMUY households (in the sample of all households with an LPG connection) time spent on work is about 40 minutes higher due to reduction in time spent on household chores.

Since PMUY households are socio-economically more disadvantaged than non-PMUY households — more likely to be Scheduled Castes/Tribes, less educated, casual labourers, and not owning much land — this finding suggests that in households that are poorer, LPG usage releases more time for income-generating work by women. On the other hand, regular LPG usage may increase the leisure time of women in economically better-off households.

Efforts to raise awareness about the benefits of using LPG and the adverse long-term health effects of indoor air pollution are imperative, as the government plans the next phase of the Ujjwala programme

These findings suggest that more efficient technologies of home production can improve women's welfare by allowing them to allocate their time more optimally, in addition to the potentially positive impact they may have on their health through reduction in indoor smoke. The PMUY programme, therefore, is a step in the right direction — households must shift from using solid fuels to exclusive use of a clean and more efficient fuel.

But our survey data also indicate that ignorance of the adverse health impacts of sustained inhalation of smoke from solid fuels is pervasive, while familiarity and taste-based preferences lead to regular usage of traditional fuels even in areas that do not have freely available firewood and LPG costs less than firewood bought from the market. Concerted efforts towards raising awareness about the benefits of using LPG and the adverse long-term health effects of indoor air pollution are, therefore, imperative as the government plans the next phase of the Ujjwala programme.

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BUSINESS STANDARD, Delhi, 18.8.2019
Page No. 10, Size:(6.38)cms X (24.99)cms.

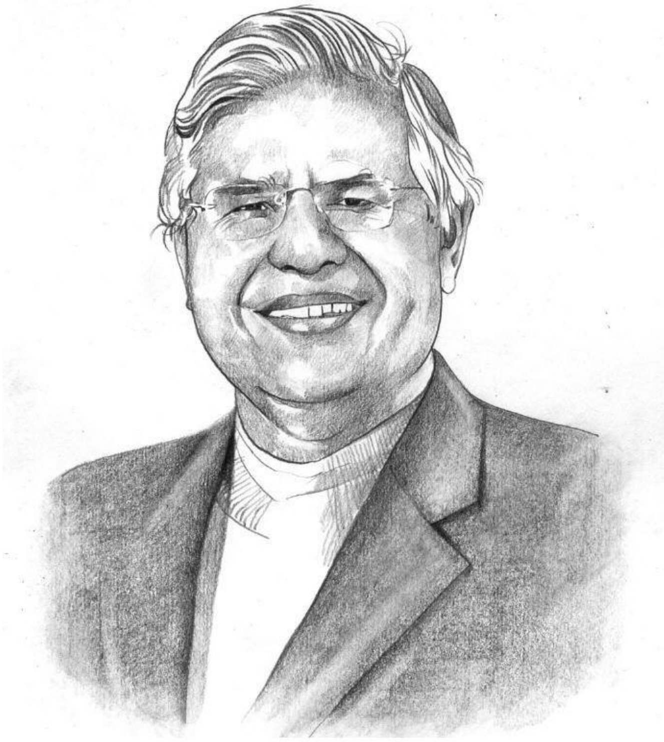

ILLUSTRATION BY BINAY SINHA

In order to ensure accountability and better enforcement to strengthen the corporate social responsibility (CSR) and compliance management, the government had introduced a Bill last month to amend the Companies Act to restructure provisions about unspent funds for CSR and impose penalty on firms and officials not adhering to these provisions. **Aneel Karnani** tells **Aditi Phadnis** how the law is fundamentally flawed, and why India needs not just economic but inclusive development. Edited excerpts:

'In CSR, outcomes matter more'

Q&A

ANEEL KARNANI
Professor of Strategy, Michigan Ross

The number of firms complying with CSR has increased year after year and latest data suggests 90 per cent firms registered in India are now CSR compliant. But your argument is that the CSR law may have actually brought down, rather than sent up, company spends on this activity, especially those companies that were spending more than 2 per cent of their profits earlier...

Based on a study of the 100 largest Indian firms, Professors Dhammika Dharmapala and Vikramaditya Khanna found that while firms that were initially spending less than 2 per cent increased their CSR activity, but those that were initially spending more than 2 per cent reduced their CSR expenditures. It is possible that the 2 per cent level intended as a threshold becomes an unintended focal point (or an anchor), both a floor and a ceiling.

However, there is a bigger issue here. According to PRIME Database, Indian firms collectively spent more on CSR projects than required by law. The Indian press in general sees this as positive and, on this basis, argues that the CSR law has been a success. This is a fallacy. What matters is not the amount of money spent, but rather the outcomes achieved. There is no attempt by the government nor the press to even attempt to measure the outcomes. The real issue is whether some other mechanism could have been achieved more societal good with the same money.

It is impossible to have true responsibility (the 'R' in CSR) without accountability. In a private company, if the managers behave irresponsibly, the shareholders hold the managers accountable and can fire the managers. In a democracy the citizens hold the government officials accountable and can "fire" them at the next election. But, under the CSR law, if the managers do not spend the CSR funds in a responsible manner, nobody holds them accountable. It is significant that the focus of the CSR law is on money spent, not results achieved. It is somewhat like shareholders rewarding managers for how high their costs are rather than profits achieved.

Now, the government, for 10 per cent of the non-compliant firms has effected an amendment in the law that mandates a prison term for officials in those companies that do not comply. Isn't this like using a hammer to crush a fly? Despite the finance minister's assurance that the law would not be implemented, the fact is, it continues to exist on the statue books.

The original law did not even discuss, let alone define, an enforcement mechanism or penalties for non-compliance. The law was an enforcement nightmare, exacerbating an already bad situation where many laws are poorly enforced in India, and further undermined respect for law. Now the enforcement is being strengthened, or at least potentially strengthened — and simultaneously weakened by the finance minister giving a bizarre assurance that the law would not be implemented. This is symptomatic of a larger problem in India: Too many laws that are not enforced nor obeyed.

The definition of what constitutes CSR has been broadened. So you have state-owned companies now spending money to build statues of historical leaders and justifying this as CSR activity. The next step would be to deploy CSR funds to build statues of gods and goddesses... Should CSR be defined more liberally? Or would its purpose be served better if it was defined more rigorously?

CSR is a controversial idea with many executives, academics and officials on both sides of the issue. According to two researchers at the United Nations, Peter Utting and Jose Carlos Marques, "CSR thinking is largely ahistorical, empirically weak, theoretically thin and politically naive." Nobel Prize economist Milton Friedman argued that discussions of CSR are notable for their "analytical looseness and lack of rigor" — apparently not much has changed since that observation in 1970, especially in India.

Thus it is not surprising that the Indian law does not clearly define CSR for the purposes of expenditures. The law lists only a few genres of CSR activities: "Eradicating extreme hunger and poverty," "promotion of education," and "social business projects." This is much too vague to work as a legal definition — it is another way the CSR law is designed for weak enforcement. The vague definition of CSR also opens up much room for wasteful expenditures and even corruption.

Despite a strong tradition of voluntary philanthropy, India has a law to enforce philanthropy by companies. What, in your view, are the faults in the design?

The CSR law is fundamentally flawed. The concept is controversial, and experts do not even agree on how to define it, but both critics and enthusiasts agree that CSR is voluntary by its nature. Because CSR is voluntary, it precludes a legislative agenda by definition.

Mandatory CSR is inherently contradictory. CSR is an aspirational exercise, and it is not feasible to legislate aspirations. Laws only set minimum standards. For example, law can mandate expenditure on education, but it cannot mandate companies build "excellent schools." If CSR expenditure is no longer voluntary and becomes mandatory, it is no longer CSR — it is just a tax. This is a hidden way to increase corporate taxes. Given the need for economic growth and economic liberalisation, it is unlikely the Indian polity desires an increase in corporate taxes. The corporate tax rate in India is already very high by international standards. Increasing taxes certainly will not help to make Indian firms more globally competitive nor attract more foreign investment into India and is not conducive to economic development.

What India needs is not just economic development, but inclusive development. Even to the extent that the CSR law has resulted in a real increase in socially beneficial expenditures, the spending has not gone to democratically determined priorities, but rather to whatever the companies prefer to emphasise. The CSR law works like a centralised tax with decentralised expenditures undertaken by private (unelected) parties according to their own priorities. This is clearly contrary to the fundamental logic of democratic governance. It is in effect taxation without representation.

It is the government's responsibility to determine high-priority needs of society and target public expenditures in these areas to achieve the nation's goal of inclusive economic development. With the CSR law, the government has abdicated one of its primary functions and responsibilities.

Inequality in India, which was already high, has increased even more. The CSR law does not go far enough in reducing inequality and helping the disadvantaged. Inequality in India has several dimensions; an important one is geographic inequality. Some parts of India enjoy significantly higher levels of industrial development and per capita income than other parts. It is the responsibility of the central government to help achieve a geographically more egalitarian society. Perversely the CSR law helps entrench the current geographic inequality in development. A few states that are more industrialised account for a disproportionate share of all CSR spending. This, of course, reflects the inclinations, interests, and priorities of the business sector.

Without appropriate enforcement, and without an emphasis on accountability of results achieved (not funds spent), it is very unlikely that the CSR law will result in real effectiveness. But it does give the illusion of progress. This is "greenwashing" on a national scale.

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How India's EV dream may be scuttling its gas game plan

Bidders of CNG, CGD, PNG projects are wondering if EV policy will snuff out viability of natural gas-based projects

SUBHOMOY BHATTACHARJEE
New Delhi, 17 August

The average wait time for compressed natural gas (CNG) refill at a station near the Integrated Freight Complex on Delhi-Ghaziabad border used to be 15 minutes until recently. With more cars switching to CNG in and around Delhi every month, this wait time is gradually inching towards 20 minutes.

Delhi has a dense network of 391 CNG refill stations (Mumbai has only 135), but the number drops sharply as you cross the border and enter Uttar Pradesh. The next one is a good five kilometres away and the distance is unlikely to be clipped. Noida, Greater Noida and Ghaziabad have only 91 CNG stations among them, even as the region is geographically way larger than Delhi. The density of refill stations is unlikely to increase anytime soon, as the government's push for electric vehicles (EVs) has got bidders for CNG projects reworking their maths.

Earlier this year, the Petroleum and Natural Gas Regulatory Board (PNGRB) bid out 228 geographical areas to companies for setting up CNG stations along with a network of piped natural gas (PNG) for supply to homes. The bids for city gas distribution (CGD) networks covered 406 of the country's 725 districts across 27 states and Union territories. Several companies — including state-run Indian Oil Corporation, Bharat Petroleum and Hindustan Petroleum, and private players like Adani Gas, besides the Philippines' AG&P — have bid aggressively for these rights.

But they are now wondering if the EV policy would snuff out the viability of their natural gas-based projects. No company wants to speak on record but each is worried enough to discuss this in detail off the record. They are not worried by the phasing out of two-wheelers with petrol engines and the move to EVs, as those are not CNG customers. They are concerned about the scale of copycat reaction of commercial four-wheelers to the EV policy. As there are no analyst estimates for this switchover, the future predictions have got clouded.

The government, however, is sanguine that the two can coexist. The CNG business is expected to run for a decade or more, until electric cars become affordable for the masses.

The problem is the timeline for setting up the CNG network — about eight years from now. This means by the time the stations are up, the EV ecosystem will possibly begin to build up scale. Compared with a petrol-diesel pump, which costs about ₹22 lakh to set up, the cost for opening a CNG station is more than double at ₹50 lakh.

Given that the government plans to add 8,181 stations (Lok Sabha data) to the current network of 1,742 CNG stations, the additional investment needed will be ₹40,000 crore. Adding the cost of the PNG network, the total investment at stake will be upward of ₹1 trillion.

In an interview to The Economic Times, Vice-Chairman of NITI Aayog Rajiv Kumar said, "There is no intention to hurt the auto industry in any way. The NITI Aayog wants to nurture all the segments of the existing industry, but at the same time seize the emerging opportunity in the electric mobility sector."

There were two components to the auction for city gas networks, in March 2019. The companies bid more aggressively for the rights to supply fuel to homes via PNG, hoping to make up for those costs through profits they shall earn from CNG pumps.

According to analysts, in the PNG business, the quoted number of households made by the winning bidders as a proportion of total estimated households translates to 12-14 per cent. So far, operational entities in this sector, such as Indraprastha Gas and Mahanagar Gas, have achieved a penetration level of only 15 to 20 per cent in the household segment. This is despite the support offered by the government through low-cost financing. All the companies in the city gas business saw their profit margins contracting through 2018-19.

Prasad Koparkar, senior director, CRISIL Research, wrote in a note that he expected natural gas to "remain competitive with non-subsidised LPG" with its current price structure, even as household PNG could become more expensive than subsidised LPG. He added that this matrix would only improve if natural gas prices remained soft while consumption of both PNG and CNG took off. Another analyst said: "Achievement of penetration in this consumer category will be contingent on density of households in different geographical areas, price trajectory and potential change in subsidy policy of LPG."

Essentially, the business needs CNG pumps to be the cash cow for making profits. There are some promising signs. For instance, a CARE Ratings figure shows that there was an increase of 260,000 in the number of CNG vehicles across India in just one year to March 2019. At the time, there were 3.35 million CNG-fuelled vehicles plying on Indian roads. Competition will come not only from EVs but also the petrol pump network.

Petroleum Minister Dharmendra Pradhan had announced tenders to more than double the network of petrol/diesel pumps — from 64,624 outlets currently — by adding another 86,493 outlets. It will bring the number of petrol pumps in India on a par with a mature market like the US, which has about 150,000. Incidentally that number is also a climb-down from a peak of 202,800 pumps in the US in 1994.

CGD companies have another constraint to factor in. The pipelines for pumping natural gas across long geographies is not present in most regions.

The ministry lists 14 such national pipelines (Lok Sabha data), but they are concentrated in just five states — Gujarat, Madhya Pradesh, Rajasthan, Uttar Pradesh (western) and Maharashtra.

The densely populated states of Bihar, West Bengal, Uttar Pradesh (eastern parts) and even South India are poorly served. Another 14 projects for these regions are in various stages of construction. A source said:

PUMP ECONOMICS

- **1,742** No. of operational CNG stations
- **8,181** No. of planned CNG stations
- **14,239 kms** (12 pipelines) Total approved gas pipelines countrywide
- **12-17%** Expected RoI from sole fuel retailing
- **2.5-4** years payback period
- **15-18%** Expected RoI from fuel retailing+ CNG+ lubes
- **1.8-2.3** years payback period
- PNGRB has authorised CNG and PNG network across 406 districts spread over 27 states

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"Infrastructure is likely to be a challenge in the near term. However, operationalising CGD network by using satellite LNG solutions is being evaluated."

Another CRISIL Research paper says the pump economics can be viable with a return between 12 and 17 per cent achievable in four years, only if they are clubbed with CNG operations. This means the bids will be successful only when the winning company has its hand in both natural gas and oil marketing. Standalone CNG pumps are not likely to survive in this scenario.

Incidentally, in the current session of Parliament, Pradhan has been asked by several members as to when piped gas would become available in their constituencies. The ministry has carefully skipped those details. It has told the members that the national network will be up within eight years. That makes it perilously close to the timelines for electric four-wheelers in the country.

HINDUSTAN TIMES, Delhi, 18.8.2019
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Iran oil tanker to leave Gibraltar soon despite US move to seize it

GULF TENSIONS New crew that includes Indians, as did the old one, expected to steer the ship away in coming days

Agencies
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GIBRALTAR: The shipping agent for an Iranian supertanker with mostly Indian crew that was caught in a diplomatic standoff said it is ready to depart Gibraltar on Sunday or Monday, despite a last-minute move by the US to seize it again.

The head of the company sorting paperwork and procuring for the Grace 1 oil tanker in the British overseas territory said the vessel could be sailing away in the next "24 to 48 hours," once a new crew, which also include Indians, is dispatched to the territory take over command of the ship. "The vessel is ongoing some logistical changes and requirements that have delayed the departure," Astralship managing director Richard De la Rosa told The Associated Press. He said the new crews were Indian and Ukrainian nationals hired by the Indian managers of the ship and that his company had not been informed about the supertanker's next destination.

The Grace 1 supertanker anchored in the British territory of Gibraltar. It was seized last month in a British Royal Navy operation off Gibraltar for breaching European Union sanctions on oil shipments to Syria. AP

The US had obtained a warrant to seize the vessel over violations of US sanctions, money laundering and terrorism statutes. Washington is seeking to take control of the oil tanker, all of the petroleum aboard and $995,000, unsealed court documents showed. It was unclear if that could happen within a 24-hour time frame as Gibraltar officials have said any request to seize the vessel would have to make its way through the territory's courts. The tanker, which carries 2.1 million barrels of Iranian light crude oil, had been detained for over a month in Gibraltar for allegedly attempting to breach European Union sanctions on Syria. The arrest fuelled tension between London and Tehran, which seized a British-flagged tanker in the Strait of Hormuz in apparent retaliation. Analysts had said the release of the Grace 1 by Gibraltar could see Britain's Stena Impero go free.

FIRE AT SAUDI OIL FIELD AFTER DRONE ATTACK

DUBAI: Drones claimed by Yemen's Houthi rebels attacked a massive oil and gas field deep inside of Saudi Arabia's sprawling desert on Saturday, causing what the kingdom described as a "limited fire". The claimed Houthi attack on the Shaybah oil field, which produces some 1 million barrels of crude oil a day, again shows the reach of the Houthis' drone programme as Shaybah sits only a few kilometres from the kingdom's border with the United Arab Emirates.

It also comes amid turmoil in Yemen and heightened tensions in the wider Mideast between the US and Iran, which the West sees as a major backer of the Houthis.

State media in Saudi Arabia quoted energy minister Khalid al-Falih as saying production was not affected at the oil field and no one was wounded in the attack.

Meanwhile, southern Yemeni separatists withdrew on Saturday from some government buildings in Aden that they seized last week but held on to military camps that give them control over the southern port, interim seat of Yemen's Saudi-backed government. The separatists' takeover of Aden has strained a Saudi-led military coalition formed to confront the Iran-aligned Houthis.