



## Corporate Social Responsibility Rethinking Strategy for Equitable Growth

### **Abstract**

*The rules in Section 135 of India's Companies Act 2013 make Corporate Social Responsibility (CSR) mandatory for companies with a certain turnover and profitability. As per the rules, companies have to spend 2% of their average net profit for the past three years on CSR. Analysis of CSR expenditure from FY 2014-15 to FY 2020-21 reflects that the larger and the developed states get the major share of CSR as an investment in social sector development in comparison with poor and smaller states. States with more multidimensionally poor and those states which are lagging behind in SDG ranking must be supported through greater investment in social sectors like health, education, rural development etc. The existing CSR framework in the country needs to be strengthened for contributing to inclusive and equitable growth. There is a need for more equitable distribution of CSR funds among different states which are at different levels of socio-economic development.*

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*\* Views are personal. Usual disclaimers apply.*

Corporate social responsibility is a concept which focuses on importance of integrating community development, social welfare and equitable growth in corporate affairs. The World Business Council for Sustainable Development defines CSR as “the continuing commitment by businesses to contribute to economic development while improving the quality of life of the workforce and their families, as well as, of the community and society at large.”

Corporate Social Responsibility in India is governed by Section 135 of the Companies Act, 2013 and Companies (CSR Policy) Rules, 2014. The rules in Section 135 of India’s Companies Act make it mandatory for companies of a certain turnover and profitability to spend 2% of their average net profit of the past three years on CSR. With this, the Government of India initiated one of the world’s largest experiments of introducing CSR as a mandatory provision by imposing a statutory obligation on Companies to take up CSR projects for social welfare and development activities. This has made India the only country which has regulated and mandated CSR for some select categories of companies registered under the Act. The CSR Initiatives across the country are giving a push to the nation toward the achievement of Sustainable Development Goals (SDGs). CSR Projects are also good examples of public-private partnerships in the development sector.

Under the CSR provisions, each company constitutes a CSR Committee. The CSR Committee formulates a CSR policy and recommends it to the Board of the company. The CSR committee also recommends the amount of CSR expenditure to be incurred and monitors the CSR policy of the company from time to time. It also undertakes several other works like the development of the Annual Action Plan, areas where CSR projects are to be implemented, manner of execution of CSR projects, modalities of utilisation, and monitoring and supervision. As per the CSR rules, the organisations registered under Section 8 of the Indian Company Act or Indian Society Act or Trust Act only can receive CSR funds.<sup>1</sup>

As per section 135 of India’s Company Act, all eligible companies may take on a wide range of activities under their Corporate Social Responsibility (CSR) policies. The activities related to eradicating hunger, poverty, malnutrition, promoting inclusive education, promoting gender equality, ensuring

environmental sustainability, protecting national heritage, art and culture, rural development, urban issues and disaster management are the key areas of CSR Activities. In March 2019, the Ministry of Corporate Affairs (MCA), Government of India, released ‘National Guidelines on Responsible Business Conduct (NGRBC)’ to facilitate alignments with the United Nations Guiding Principles on Business & Human Rights (UNGPs), UN Sustainable Development Goals (SDGs) and Paris Agreement on Climate change etc.<sup>2</sup> The NGRBC provided a framework for the companies to grow in an inclusive and sustainable manner while addressing the concerns of stakeholders.

### CSR expenditure in India: an overview

Since its implementation, it has been observed that CSR expenditure has increased significantly and becoming a major agent of bringing development at the grassroots level.

In FY 2014-15, total number of companies under CSR was 16,548 whereas in FY 2019-20 it rose to 22,718.<sup>3</sup> There has been a growth of 37% in terms of the number of companies following CSR provisions since the enactment of the Companies Act 2013. Out of 22,718 companies, 98% companies are from the private sector (non-PSU) and the rest are PSUs. The private sector dominates the CSR in India; however, PSUs are also making an important contribution in terms of CSR funds expenditure.

The total amount under CSR in FY 2014-15 was ₹10,065.93 Cr. which rose up to ₹24,865.46 Cr. in FY 2020-21. There has been a 147% growth in the total amount spent under CSR during the period of seven years. Out of ₹24,865.46 Cr. (in FY 2020-21), Non-PSU companies spent ₹20,416.62 Cr. and PSU companies spent ₹4,448.84 Cr.<sup>4</sup> This implies that around 82% of the CSR amount was spent by Non-PSUs whereas PSUs contributed 18% in the FY 2022-21. Total CSR spent in the country during FY 2014-15 to FY 2020-21 is ₹1,25,955.35 Cr.<sup>5</sup>

In FY 2020-21, out of the total 29 development sectors/ thematic areas of CSR fund uses, the maximum went to two categories—Health care (₹6,946.75 Cr.) followed by Education (₹6,391.86 Cr.). These two sectors accounted for 53.66% of all the CSR spending in FY 2020-21. Analysis of FY 2014-15 to FY 2020-21 CSR expenditure reflects that education, special education and health care received 50% of the total CSR funds. However, other development areas

like conservation of natural resources, agro-forestry, senior citizen welfare, setting up orphanages, women empowerment and technology incubators got very minimal (below 0.5% each) CSR funds so far.<sup>6</sup>

In FY 2020-21 of the 17,007 companies that spent ₹24,865.46 Cr. on 36,865 welfare projects, 9,374 companies spent more than what they are mandated to spend. Total 3,291 companies spent less than prescribed and 1,416 companies spent exactly as prescribed. However, 2,926 companies spent zero.<sup>7</sup>

## Disparities among States in CSR expenditure

The Companies Act of 2013, to some extent, has defined social responsibilities for the companies and specified activities that companies could undertake under CSR activities. The Act also specifies the limit of a minimum of 2% of profit to be spent as CSR. However, there are no guidelines for the geographical priorities of CSR projects. The Act talks of ‘stakeholders’ as beneficiaries of the CSR activities of the company barring employees of the company.<sup>8</sup> The classic view of a business, as articulated by Milton Friedman, is that of an entity generating profits for its shareholders as the only stakeholders of businesses. With the ever-increasing scope and impact of businesses on society at large, there has been a growing recognition that businesses have a responsibility not only to their shareholders but also to other groups such as non-shareholders,

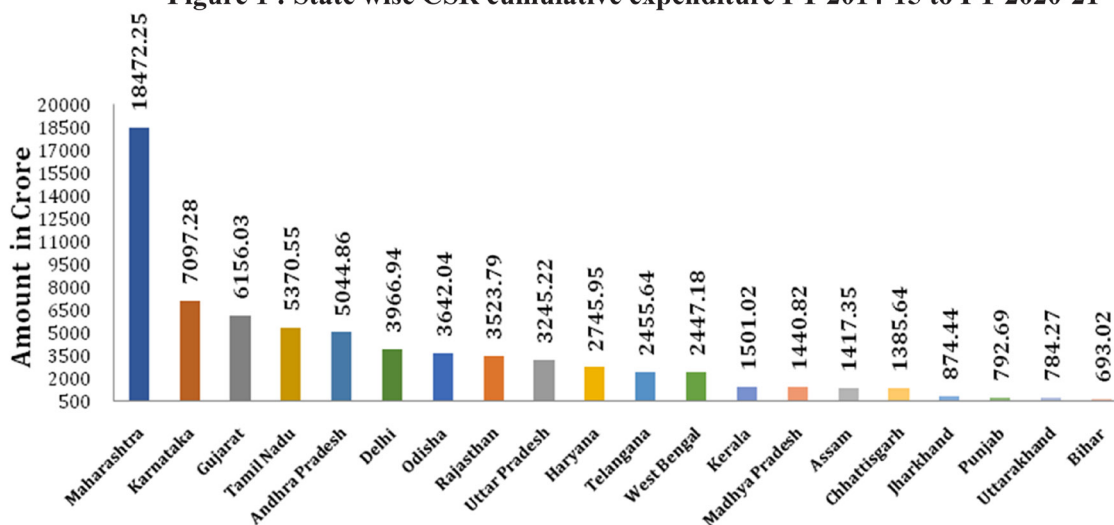
customers, suppliers, consumers and communities. This definition of stakeholders has been expanded in modern economies and it includes many other groups. The concept of CSR appeared to have emerged within this modern concept of stakeholder’s theory.

CSR in India seems to have been influenced by the classic view of stakeholders and is still focused on the state where they are situated and other stakeholders (consumers, suppliers etc) are less focused. This has led to regional disparities in terms of CSR investment in social development. At the national level, the top ten beneficiary states under CSR include some of the largest state economies by their gross state domestic product (GSDP) – Maharashtra, Gujarat, Andhra Pradesh, Karnataka, Uttar Pradesh, Tamil Nadu and Rajasthan.<sup>9</sup>

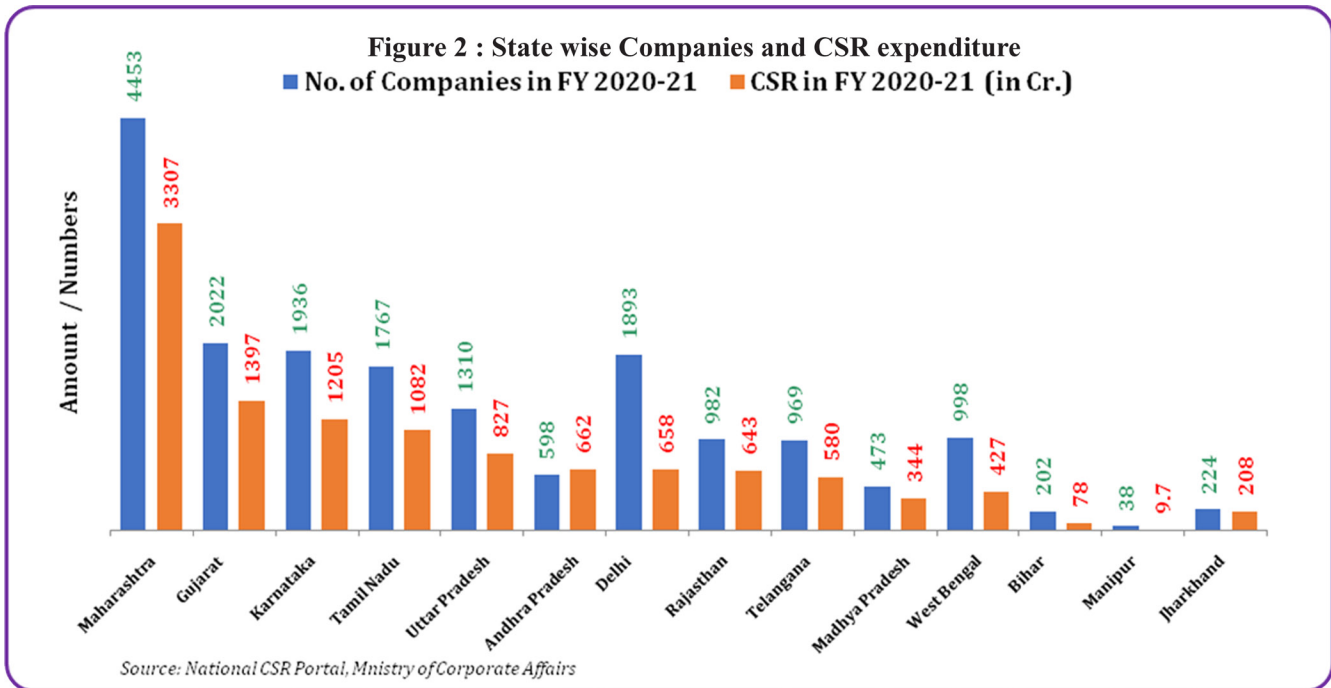
The same pattern is observed at the state level where CSR investment is made in a few relatively developed districts of the states.

The analysis of CSR expenditure since 2014, shows that the ten largest beneficiary states together received 50% of ₹1,25,955 crores. The lion’s share of this, around 36%, went to Maharashtra, Karnataka, Gujarat, Tamil Nadu, Andhra Pradesh and Delhi under CSR spending by companies. On the other hand states like Rajasthan, Uttar Pradesh, Odisha, Telangana, Haryana and West Bengal received only 14.34% of the total CSR amount in the above said period. Small and far-flung states get a meagre amount of corporate social responsibility (CSR) funds, while

**Figure 1 : State wise CSR cumulative expenditure FY 2014-15 to FY 2020-21**



Source: National CSR Portal, Ministry of Corporate Affairs



large state economies benefit most from it. According to official data on CSR spending for FY 2014-15 to FY 2020-21, CSR investment is merely 0.28% in north-eastern states. Territorial states of Tripura, Mizoram, Lakshadweep, Andaman & Nicobar, Dadra and Nagar Haveli and Daman and Diu received either less than ₹1 Crore or no CSR funds.

CSR expenditure in states reflects a pattern where large and developed states are fetching more funds due to the availability of companies in their states. For example, during FY 2014-15 to FY 2020-21, Maharashtra got the highest amount of CSR i.e. 14.67%, whereas Bihar got 0.55% of CSR funds in the same period. Similarly, other states like Karnataka received 5.63%, Gujarat 4.89%, Tamil Nadu 4.26% and Andhra Pradesh received 4.01% of the ₹1,25,955.35 crores CSR fund since FY 2014-15. On the contrary, Madhya Pradesh received only 1.14%, Assam 1.13%, Chhattisgarh 1.10% and Jharkhand 0.69% of the ₹1,25,955.35 crores CSR fund since FY 2014-15.<sup>10</sup>

**SDG, Multi-Dimensional Poverty Index (MPI) and CSR expenditure in states**

Corporations tend to focus on CSR activities in the areas where they have operations as it earns them the goodwill of the local community, while their employees, many of whom may also be hailing from that region, benefit from the welfare measures

done to the local community. The support of the local community is crucial for many companies in running their facilities without any barriers. However, the uneven distribution of CSR investment is neglecting poor and smaller states and is not able to align with state-specific requirements.

The data for the last seven years, since the enactment of CSR provisions, reflects that CSR funds are inequitably distributed among the states. States like Maharashtra, Gujarat, Karnataka, Andhra Pradesh, Tamil Nadu, Telangana, Haryana and Delhi are in the *Front Runner category* in Sustainable Development Goals (SDG) India Index 2020-21 and they are also the biggest recipients of CSR funds in India. However, states like Madhya Pradesh, Bihar, Rajasthan, Odisha and Uttar Pradesh are in the Performer category in the SDG India index 2020-21 and they are receiving very fewer funds in comparison with the Front Runner states.

Maharashtra has the highest GSDP among 33 Indian States and Union Territories. As of the FY 2018-19, Maharashtra contributes 13.88% of India's GDP at current prices, followed by Tamil Nadu (8.59%) and the most populous state Uttar Pradesh (8.35%). Other states in the top 5 are Gujarat (7.92%) and Karnataka (7.87%). India's largest state Rajasthan is at number 7, behind West Bengal, the poorest state Bihar is at number 14, and the capital Delhi is at number 12. The



top 5 states share 46.6% of India's total economy. Five states of South India together account for close to 30% and eight states of North-East India share 2.8% of India's total economy.<sup>11</sup>

The CSR reports for the FY 2020-21 shows that a state having a higher number of CSR companies receives higher CSR investment for socio-economic development in comparison with states having a lesser number of CSR companies. For example, Maharashtra has 4,453 companies and Bihar has only 202 CSR companies. As a result of this Maharashtra received ₹3,306.72 Crores whereas Bihar received ₹78.02 Crores in the FY 2020-21. Madhya Pradesh with 473 CSR companies received only ₹344.13 Crores in FY 2020-21. Smaller states like Haryana received higher CSR funds in comparison with Madhya Pradesh as it has 1,036 CSR companies.

Recently, NITI Aayog published the National Multi-Dimensional Poverty Index (MPI) which measures poverty across its multiple dimensions and in effect complements existing poverty statistics based on per capita consumption expenditure. It has three equally weighted dimensions – health, education, and standard of living. These three dimensions are represented by 12 indicators such as nutrition, school attendance, and years of schooling, drinking water, sanitation, housing, and bank accounts among others.

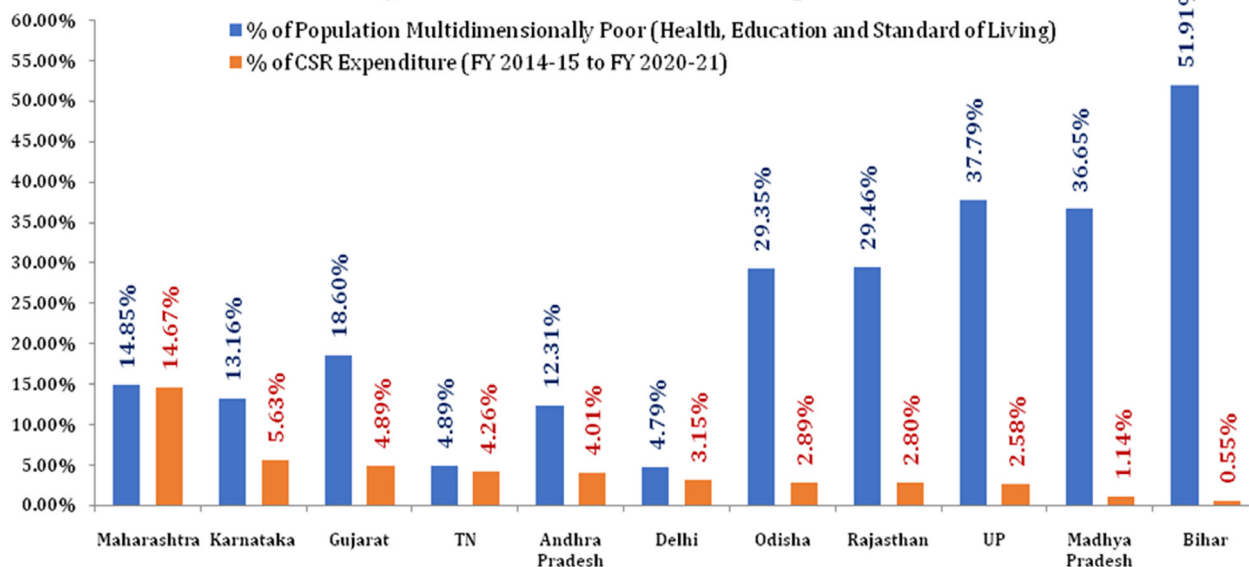
It is also observed that states having a higher percentage of the population designated as

Multidimensionally Poor receive minimal funds under CSR. For example, Maharashtra has only 14.85% population multidimensionally poor and it received the highest CSR funds in the last seven years. Contrary to this Bihar has a 52% population multidimensionally poor and it received barely 0.55% of CSR funds from FY 2014-15 to FY 2020-21. Madhya Pradesh has a 36.65% population multidimensionally poor and only 1.14% of CSR funds have been invested since FY2014-15 to FY 2020-21. Similarly, Tamil Nadu has only 4.89% population is multidimensionally poor and it is the 4th highest recipient of CSR funds in India.

States with more multidimensionally poor individuals and states which are lagging behind in SDG ranking must be supported through greater investment in social sectors like health, education, rural development etc. The existing CSR framework in the country is unable to address the issue of inclusive and equitable growth and it has its own limitations. The Company Act 2013 deals only with the ‘amount to be spent under CSR’ and ‘areas for investment by companies.’

The concept of CSR embodies the recognition that businesses are responsible for larger stakeholders, not only primary stakeholders and contribute to nation-building. It should expand its geography and reach out to the consumers and communities residing in states which are lagging behind in the SDG index, MPI and have low per capita income.

**Figure 3 : State wise MPI & CSR expenditure**



Source: National CSR Portal and National MPI Index by NITI Aayog, published in 2021

| Table 1 : State's Rank in SDG India Index & CSR Expenditure |                         |  |
|---|-------------------------|--|
| State   | SDG India Index 2020-21 | % of CSR Expenditure during FY 2014-15 to FY 2020-21 |
| Maharashtra   | Front Runner            | 14.67%   |
| Karnataka   | Front Runner            | 5.63%  |
| Gujarat   | Front Runner            | 4.89%  |
| Tamil Nadu  | Front Runner            | 4.26%  |
| Andhra Pradesh  | Front Runner            | 4.01%  |
| Odisha  | Performer               | 2.89%  |
| Rajasthan   | Performer               | 2.80%  |
| Uttar Pradesh   | Performer               | 2.58%  |
| Madhya Pradesh  | Performer               | 1.14%  |
| Bihar   | Performer               | 0.55%  |

*Source: SDG India Index 2020-21 and National CSR Portal*

### CSR Expenditure in Madhya Pradesh

Madhya Pradesh has received merely 1.14% of total CSR since 2014-15. In the last three years, the state has received Rs. 744 Cr. under CSR. The analysis of the CSR expenditure patterns reflects that there has been an inequitable distribution of CSR in different districts of Madhya Pradesh. Relatively developed districts like Bhopal, Indore, Khandwa, and Ujjain are receiving much higher CSR allocation in comparison with backward and poor districts like Jhabua, Chhatarpur, Betul and Balaghat.

During FY 2018-21, 40.41% of CSR funds invested in Madhya Pradesh, has gone to only 8 districts. After Singrauli, the state capital Bhopal received the highest CSR fund, followed by Indore. However, backward districts like Betul, Burhanpur, Morena and Alirajpur received only 0.02% to 0.18% of CSR funds. The bottom 8 districts received merely 0.55% of total CSR funds in the same period. The analysis reflects that most of the CSR funds are going to developed and well-connected cities like Bhopal and Indore. The uneven distribution pattern of CSR funds in the state needs some rationalisation. We have seen the pattern at the national level that big and developed states get a major part of CSR, similarly, at the state level, the state capital and relatively developed districts are receiving more CSR funds than the backward and remote districts.

The following table shows the status of district-wise CSR Expenditure in Madhya Pradesh for selected districts in the period from FY 2018-19 to FY 2020-21.

| Table 2: CSR Fund received by Madhya Pradesh during FY 2017-18 - FY 2020-21 |                                       |          |
|---|---------------------------------------|----------|
| Districts   | FY 2017-18 to FY 2020-21 CSR (in Cr.) | % of CSR |
| Singrauli   | 132.34                                | 17.62    |
| Bhopal  | 44.57                                 | 5.93     |
| Indore  | 37.99                                 | 5.06     |
| Satna   | 31.55                                 | 4.2      |
| Khandwa   | 20.24                                 | 2.7      |
| Sagar   | 9.69                                  | 1.3      |
| Mandla  | 15.32                                 | 2.0      |
| Ujjain  | 12.32                                 | 1.6      |
| Umaria  | 0.54                                  | 0.07     |
| Balaghat  | 0.39                                  | 0.05     |
| Alirajpur   | 1.32                                  | 0.18     |
| Dindori   | 1.15                                  | 0.15     |
| Betul   | 0.55                                  | 0.07     |
| Burhanpur   | 0.01                                  | 0.002    |
| Morena  | 0.02                                  | 0.003    |
| Chhatarpur  | 0.15                                  | 0.02     |

*Source: National CSR Portal*

### The institutional framework at State Level

In order to facilitate CSR activities in the state, the Government of Madhya Pradesh established the CSR Cell in Madhya Pradesh Trade and Investment Facilitation Corporation Ltd. The nodal department for CSR in Madhya Pradesh is the Department of Industrial Policy and Investment Promotion (formerly, Department of Commerce, Industry and Employment) since 2017.<sup>12</sup> The objective of the CSR Cell is to ensure the participation of all stakeholders and maximise social benefits. It also tried to

facilitate the linkages between various departments and CSR in the state. There is a provision for creating a shelf of projects by departments and linking it to CSR through the CSR Cell. Companies could select projects of interest from the 'Shelf of Projects' and support them. However, it is mandatory for State Government Companies to support only those CSR Projects which are mentioned on the website of the CSR Cell. Unlike State Government Companies, private companies are not bound by the CSR Cell recommendations for various development projects in the state.

State-level and district-level "CSR Committee" has also been formed to facilitate CSR in the state. The Principal Secretary, Department of Industrial Policy and Investment Promotion (DIPIP) is the Chairman of the State level CSR committee and the Principal Secretaries of the Finance, MSME and Urban Development Departments are members of this committee. The key responsibilities of the state-level CSR Committee are to monitor the implementation of approved CSR projects and promote CSR in the state. The district-level CSR Committee is led by District Collector and facilitates CSR projects and activities at the district level.<sup>13</sup>

However, this institutional mechanism has not been able to tap sufficient CSR funds from private companies. In addition to this, most of the state companies are not running in profit. So as per the Company Act 2013 they don't fall in the purview of CSR rule.

## Policy Recommendations

The development sector is undergoing a paradigm shift in the country, especially in terms of resource mobilisation and development finance. India is aspiring for the goal of a \$5 trillion economy in which the corporate sector will be playing a very important role. More companies are joining the CSR domain in India. In FY 2014-15, the total number of companies under CSR was 16,548 which rose to 22,718 in FY 2019-20. As we have already discussed CSR expenditure in FY 2014-15 was ₹10,065.93 Cr. which rose to ₹24,865.46 Cr. in FY 2020-21. There has been a 147% growth in the total amount spent under CSR during the period of seven years. However, under the present CSR regime, there is a regional imbalance in CSR investment at the national and state level. Thus it can be said that CSR is contributing to the growth of our society,

however unequally. In the age of globalisation and information technology, geographical borders have no meaning for corporate as well as the development sector. Based on the analysis, the following policy options may be explored to make CSR more effective and equitable.

- CSR Advisory Board under the chairmanship of Hon'ble Chief Minister of the State, should be established in order to guide and support CSR companies in promoting balanced and sustainable growth in the country. The CSR Advisory board will also help CSR companies with data and various socio-economic indicators of the state.
- Appropriate CSR management systems, consisting corporate leaders, should be put in place at national and state level.
- The Central and State government should work together for developing monitoring mechanisms for better utilization of funds in terms of balanced regional growth in the country.
- Joint Action Strategy or guidelines shall be developed in a consultative manner with CSR companies at the state level as well central level by the concerned nodal agency(ies).
- The CSR Cell should envisage the roadmap for promoting the integration of Government priorities with CSR funds in the state. A systematic framework should be developed for making CSR more effective at the state level for better coordination and investment in social development sectors like health, education, nutrition, gender equity and the environment.
- Civil Society Organizations (CSOs) should be engaged in planning processes for CSR investment at national & state level. A balanced approach in prioritising areas for CSR investment will ultimately contribute to a vibrant social development sector and equitable growth in the country.
- CSR investment should be planned and informed by the development paradigms such as sustainable development goals (SDGs), climate change and gender equitable growth of society and country.

## Conclusion

With the dynamically changing relationship between stakeholders and CSR, there is a need to analyse the development financing in the country for equitable growth and nation-building.

The development eco-system is becoming more complicated in modern times. Society is starting to demand that companies move their focus from quantitative expansion to qualitative improvement. Traditionally the State has been playing a minimum role in

CSR and acts as a regulator, largely leaving social policy to the market for self-regulation. However, in the modern developmental paradigm, the State must play a collaborative direct affiliation through social policy and CSR. CSR funds need to be facilitated by the state and channelled through public-private partnerships. This partnership will be aiming at helping states in making CSR more equitable by prioritizing outcome-based intervention in the field of social and economic development.

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### End Notes:

<sup>1</sup>CSR Policy Rules 2014, Ministry of Corporate Affairs, Govt. of India

<sup>2</sup>National Guidelines on Responsible Business Conduct (NGRBC), 2019

<sup>3</sup>Ministry of Corporate Affairs (MCA Portal) as of September 2022

<sup>4</sup>*ibid*

<sup>5</sup>*ibid*

<sup>6</sup>*ibid*

<sup>7</sup>*ibid*

<sup>8</sup>The Companies Act of 2013, Govt. of India

<sup>9</sup>MoSPI Report on GSDP, 2021, Govt of India

<sup>10</sup>Ministry of Corporate Affairs (MCA Portal) as of September 2022

<sup>11</sup>Indian States by GSDP, Ministry of Statistics and Programme Implementation, March 2021

<sup>12</sup>Madhya Pradesh GO, F20-8/2013//B-11 dated 13/10/2017

<sup>13</sup>*ibid*

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