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The Institutionalization of Corporate Contributions to the SDGs in India

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In India, private companies have played a vital role in social development. In particular, the 2013 amendment to the Companies Act, which made corporate social responsibility (CSR) activities mandatory for companies that meet certain size, revenue, or profit thresholds, has led to formal consideration of social development issues by large businesses. This world-first mandate requiring affected companies to invest 2 percent of net profits in CSR activities has institutionalized corporate contributions that were previously voluntary and, in so doing, has given a real boost to the efforts to achieve CSR.

Mandatory CSR and Increased Scale of Expenditure

The amount allocated to CSR activities has been on the rise, with actual spending reaching approximately Rs. 263 billion (U.S. \$3.2 billion) in FY2021, up from approximately Rs. 100 billion (\$1.2 billion) in

FY2014.¹ Its volume is equivalent to the net disbursement amount for development projects financed by the World Bank, which has been a major international development financier for India.

From a religious and cultural perspective, philanthropy, including donations by merchants to temples and schools, has been practiced in India since before the country's independence. The theory of trusteeship that Mahatma Gandhi championed during the independence movement—namely, that wealth is legitimate if used for the benefit of the poor—fit these efforts to mandate corporate philanthropy. After independence, employee welfare and the reduction of external diseconomies also came within the ambit of corporate social contributions, in line with the development of human rights and environmental legislation covering corporate activities.

Background to CSR Institutionalization

From the 1990s onward, when economic liberalization was in full swing, the progress of corporate multinationalization and the entry of foreign companies also led to the international standardization of CSR, which included ISO (International Organization for Standardization) audit principles. One example is that the Securities and Exchange Board of India, established in 1992, imposed guidelines for CSR on listed companies. This trend has led to a gradual shift in corporate CSR from a philanthropic to a multistakeholder approach.²

Even before the 2013 revision of the Companies Act, the Indian government had been pursuing policies to strengthen CSR. This emphasis was mainly attributable to the huge domestic demand for development activities, a demand that could not be met by public investment alone, and to a commitment to achieving international development outcomes such as the Millennium Development Goals (MDGs). Following the inclusion of the “inclusive development” concept in the Eleventh Five-Year Plan in 2007, the Ministry of Corporate Affairs in 2009 issued Corporate Governance Voluntary Guidelines to strengthen corporate governance. This was a first step toward mainstreaming the concept of business responsibilities. In 2011 the government endorsed the United Nations Guiding Principles on Business and

1. India's National CSR Portal, housed in the Ministry of Corporate Affairs, is located at <https://www.csr.gov.in/>.

2. Gatti et al. (2019).

Human Rights and issued National Voluntary Guidelines on the Social, Environmental and Economic Responsibilities of Businesses. These guidelines are based on a set of nine principles that offer Indian businesses an understanding of and an approach to inculcating responsible business conduct.

Indian industrial society has also envisaged a national movement for mainstreaming CSR for sustained inclusiveness as part of a social development agenda. Even before the CSR mandate, the Confederation of Indian Industry (CII) had been stepping up its efforts and constituted the CII National Committee on Corporate Social Responsibility & Community Development in 2001. This committee developed CSR guidelines and promotes the sharing of CSR experiences and best practices.

In line with recent government policy, the CII established the CII Foundation in 2011, a trust to lead industry involvement in CSR to strengthen its work in social development. The CII Foundation has been engaging with member companies in implementing and managing CSR projects. For example, some member companies had opposed the amendment of the Companies Act because of the added financial and human resource burdens and because penalties were recommended for non-achievement. However, these opinions did not become mainstream owing to an ongoing series of CII initiatives.

Target Companies and Use of Expenditure

Under the revised Companies Act, companies that meet one of the following criteria are required to implement CSR activities: having net assets of at least Rs. 5 billion (\$60 million), having annual sales of at least Rs. 10 billion (\$120 million), or having a net income of at least Rs. 50 million (\$0.6 million). Companies that meet any of these criteria must allocate 2 percent of their average pre-tax profits for the preceding three years to CSR activities. The same applies to local subsidiaries of foreign companies. Around 20,000 companies have a CSR program covered by the Companies Act, approximately four times the number of companies listed on the Bombay Stock Exchange, implying that CSR goes well beyond listed companies to include a substantial number of privately held corporations.³

3. Khan (2022).

The amendment to the law also clarifies the activities covered by CSR. According to the revised law, twelve activities are eligible for spending, including eradicating hunger, poverty, and malnutrition, promoting health care, making available safe drinking water, promoting education, ensuring environmental sustainability, developing slum areas, and managing disasters. These mandated CSR activities should take place outside the company's business. In other words, some activities under the multistakeholder CSR guidelines that occur as part of regular business operations, such as ensuring employee welfare and reducing carbon dioxide emissions, are not eligible in terms of the expenditure targets mandated by law.

Since the CSR mandate became widespread, the law has been amended with the aim of strengthening CSR efforts: in 2019, the requirement to contribute unspent CSR budgets to a government-designated fund and penalties for violating companies were introduced, and in 2021, companies with average spending obligations of Rs. 100 million (\$1.2 million) or more in the past three years were required to submit an impact assessment report of CSR projects above a certain amount.⁴ Thus, through policy implementation and corporate responses, the institutionalization, standardization, and transparency of CSR activities that directly contribute to social development have been strengthened in India.

Case Studies of CSR Activities

On-site, company CSR activities are varied. Even before the CSR mandate went into effect, conglomerates such as Tata and Birla had established their own foundations and traditionally practiced social development as CSR activities. Tata has been very thorough in its efforts, holding approximately 70 percent of the Tata Group's total shares in its Tata Trusts.⁵ It allocates billions of rupees each year to various social development projects, including health care, education, vocational training, and basic infrastructure. In the health care field, the foundation works with more than 150 local nonprofit organizations (NPOs) to provide services tailored to local needs. In terms of size and impact, its activities are comparable to those of the major bilateral foreign aid agencies in India.

4. KPMG (2021).

5. See the "Investors / Group Companies" web page at Tata.com.

Dalmia Cement, the fourth largest cement company in terms of sales, has made its commitment to climate change issues clear. In 2016 the company announced its participation in RE100, an international initiative for the use of renewable energy.⁶ The company is the third Indian company to join the initiative, following Infosys and Tata Motors. Dalmia Cement has thirteen cement plants in nine states in India and owns an approximately 80 MW power plant that uses biogas and wind power for in-house power generation. The company is particularly enthusiastic about clean energy projects, and, through its subsidiary, the Dalmia Bharat Foundation, it has installed solar lanterns, mainly in nonelectrified villages near the plant. The company's CSR activities now cover a total of 1,200 villages in eleven states.

State Bank of India, the largest commercial bank in India, is working through its CSR activities to improve the living standards of the country's poor communities in a variety of areas, including health care, education, vocational training, implementation of livelihood improvement programs, preservation of traditional buildings, and livelihood support for women and the elderly. Its major achievements include health awareness programs for 11,000 households by 2020; repair of thirty-eight public schools and installation of computer classes; educational improvement curricula for about 500 elementary school students; vocational training for about 100,000 young people; electrification projects in 121 villages; the planting of more than 10,000 trees; and the introduction of waste disposal systems in fourteen villages. The company has made efforts to measure the effectiveness of the project. For example, the academic performance of children before and after the educational improvement curriculum program was instituted was measured. It was reported that there was an improvement of 20 percent in Hindi and 30 percent in math.

With production plants in Haryana and Gujarat and a nationwide sales network, Maruti Suzuki, which boasts a roughly 50 percent share of the Indian automobile market, has traditionally placed emphasis on CSR activities in three areas: the development of villages near its plants, road safety, and skills training of students. In each of these areas, the company clearly states its contribution to the relevant targets of the SDGs. About fifty staff members are directly in charge of CSR, and their activities are based on self-sufficiency. In other words, the staff members themselves

6. See the website of the RE100 group.

procure equipment and supervise on-site activities, and only when specialized knowledge is needed do they enlist the cooperation of outside personnel and local NPOs.

In the area of village development, the company focuses on supporting the expansion of public schools and health facilities for a total of twenty-six villages around its plant. In the area of road safety, the company operates seven driving technique training centers and nineteen road safety centers in five states in the country, providing driving technique instruction, teaching traffic etiquette, and analyzing accidents. As of 2021, the centers had provided training to approximately 3.4 million people over the preceding twenty years, including those who needed to renew their driver's license. In the area of skills training, the program is expanding facilities and providing lectures to thirty public industrial skills centers in a total of eleven states. A total of 10,000 students received skills training at these centers in 2019 alone.

Common Aspects

While CSR activities vary from company to company, these social projects have some common characteristics. In interviews conducted by the Japan International Cooperation Agency (JICA) in 2021 with seventeen Indian companies and forty-five Japanese companies, almost all respondents indicated that an important factor in selecting a CSR project site was proximity to the company or plant.⁷ As for the types of projects in the area, they mainly included construction of hospitals and schools, in accordance with the requests of the local people. According to CSR statistics published annually by India's Ministry of Corporate Affairs, medical care and education are the two main fields and account for approximately 50 percent of total CSR expenditures.

The second factor in the choice of CSR activity is a link to the company's business. An automobile manufacturer may engage in traffic safety campaigns and driving instruction, while a hygiene product company may conduct educational activities for the health of village residents. These programs are designed to indirectly promote the company's activities, for example by improving the company's brand and introducing its products.

7. JICA (2021).

In the case of such programs, company employees are involved in the implementation because they are able to explain the company's products and services. For example, Maruti Suzuki assigns its own employees to teach safe driving based on their knowledge of vehicle performance.

A third factor is implementation capacity and cost-effectiveness. There are still not many companies that implement CSR projects on their own. According to the CSR statistics of the Ministry of Corporate Affairs for FY2014–FY2020 mentioned above, approximately 40 percent of all spending is outsourced to NPOs and other external organizations. If a company lacks the capacity to manage social development projects, or if it feels that a local philanthropy is effective, it outsources the projects to local NPOs or other organizations to maximize the benefit-cost ratio.

From the NPOs' point of view, outsourcing has increased fundraising opportunities and led to the expansion of their activities. In addition, the increased collaboration with companies has contributed to the sharing of technology and operational know-how, which in turn has contributed to the strengthening of the NPOs' capabilities.

Main Issues

The above three characteristics common to corporations' social programs also expose the main issues in CSR implementation. A first observation is that CSR projects are concentrated in states with a high business density, such as Maharashtra, Karnataka, Gujarat, Andhra Pradesh, Tamil Nadu, and Delhi.⁸ As a result, social development projects under the CSR umbrella are scarce in areas such as the northeastern region, where companies are less likely to locate. In fact, CSR spending is not directly proportional to states with high poverty rates and other social needs.

For companies implementing their own CSR projects, the shortfall in internal human resources has become a critical constraint. The JICA survey identified a lack of human resources capable of understanding both corporate strategy and social issues in the field. It is a challenge to build a dedicated, capable CSR team. Some companies have found it difficult to assign staff to supervise and assess CSR activities because of their low HR capacity. This challenge applies even to large companies that are actively

8. CSRBOX (2022); KPMG (2020).

engaged in CSR activities. In a survey of 301 large companies, more than 50 percent said they preferred to execute their CSR projects through implementing agencies, including NPOs.⁹

However, it is not easy for companies to find suitable organizations to which they can outsource projects.¹⁰ According to the JICA survey, about 50 percent of Japanese companies pointed to a lack of information on reliable NPOs, and about 40 percent cited a lack of capacity on the part of the NPOs to which they outsourced. Companies have accordingly looked for alternative ways to implement CSR activities. Some companies deliver a portion of their CSR budget to a government-designated fund and collaborate with government agencies. According to government statistics, 13 percent of companies transferred their CSR budgets directly to a government-designated fund (e.g., the Prime Ministers National Relief Fund) in FY2021.¹¹ In the survey mentioned above, almost 50 percent of 301 companies said they preferred government partnerships as a criterion for the initiation of CSR projects.¹²

Other challenges faced by Indian companies include difficulties in obtaining information on the development status of project sites and the risk of duplicating activities conducted by other agencies and companies.

Responses to Challenges

To address these challenges, the government and the private sector are working on measures and activities. For example, the government has periodically updated SDG indicators for each state and provided companies with information on the status of development in various regions, and it is implementing the Aspirational District Programme to encourage social development projects at the district level by using CSR budgets as well as public funds. This program, launched in 2018, aims to use specific indicators to select underdeveloped districts for focused budget allocation. It clarifies local development needs and facilitates CSR-eligible projects. In addition, the program aims to diversify the spending destinations of

9. CSRBOX (2023).

10. Ernst & Young LLP (2020).

11. See the National CSR Portal at <https://www.crs.gov.in>.

12. CSRBOX (2023).

CSR activities by providing information on states and districts where CSR projects are scarce.

In 2019 the Ministry of Corporate Affairs updated the Corporate Governance Voluntary Guidelines and released them as National Guidelines on Responsible Business Conduct to reveal alignments with international development goals, including the SDGs. The new guidelines aim to provide a framework for companies to fulfill CSR obligations in an inclusive and sustainable manner. The ministry publishes CSR statistics and surveys and conducts various activities to promote CSR, including offering a National CSR Award.

The private sector is also making efforts to strengthen the CSR “ecosystem,” including through capacity building of CSR partner organizations such as NPOs. For example, Toyota Kirloskar Motor launched a training program called Social Academy of Learning in 2019 to build the capacity of NPO leaders. The program has multiple activities. In addition to the training program, there are pre- and post-assessments of the participating organizations through a third-party agency. Pre-assessment is designed to evaluate the current knowledge and practices of an organization to provide a specific training program. Post-assessment establishes the NPO’s capability for future implementation of CSR projects or fund-raising activities.

In the context of building the CSR ecosystem, a growing number of organizations provide CSR advisory services to companies. For example, Samhita, which opened an office in 2009 in Mumbai, has provided advisory services to hundreds of companies on its CSR activities, in addition to conducting research related to issues in CSR. Because of its access to a wide network of NPOs, Samhita also conducts matching activities between companies and NPOs. Especially after the CSR mandate went into effect, Samhita has increased its business volume significantly.

Role of Foreign Aid Agencies

What can international organizations and foreign aid agencies do to expand the CSR activities of private companies? The first action should be to provide information and data on development needs and local conditions. These organizations often conduct detailed surveys on project needs and are familiar with local conditions. They can therefore provide information and

data that contribute to companies' design and selection of CSR projects. For the provision of information, activities such as holding regular seminars, publishing newsletters, and using the web are also appropriate.

Another role of foreign aid organizations is to facilitate the matching of companies and NPOs or to develop partnerships between companies and aid agencies. For example, the G20 Independent Experts Group's report on strengthening multilateral development banks recommended a special partnership window be established to mobilize CSR contributions for World Bank development projects.¹³ This report was presented to the G20 finance ministers under India's presidency of the G20 and specifically responded to the challenge that companies experience in identifying cost-effective and impactful channels through which to spend their mandated CSR budgets.

Bilateral aid agencies can also support CSR activities implemented by multinational companies from their home countries. They can serve as a bridge to facilitate CSR by introducing competent NPOs and local authorities that they interact with in regular aid programs to companies. They can also provide information to home companies entering the Indian market. In particular, newcomers to the market may be unfamiliar with local conditions and appreciative of such advice. Thus support from bilateral foreign aid agencies can aid the smooth implementation and expansion of CSR activities.

In addition, international organizations and foreign aid agencies can help strengthen the capacity of companies' CSR teams. Insofar as the capacity of a company's CSR team may influence the effectiveness of the company's development projects, human resource development is useful. In this respect, the private sector should be regarded as an important development partner.

Policy Implications

What are the policy implications of making CSR mandatory, in addition to its contribution to development? The first is the realization of "stakeholder capitalism," which has been discussed mainly in relation to developed countries. A CSR mandate can correct the profit-first mentality and institutionalize corporate contributions to society. In this regard, India's efforts are more direct and practical than those of many developed countries.

13. G20 Independent Experts Group (2023).

The second implication is that mandatory CSR can generate significant financial resources for development projects. Mobilizing private sector funds for social projects is a useful complement in implementing government development policies, especially for developing countries that lack development budgets and rely on foreign aid agencies. Furthermore, foreign exchange risks can also be avoided by use of the CSR budget.

In India, there is still significant scope for increasing CSR expenditure since the share of companies actually meeting the legally required CSR budget is only 60 percent of the total. The remaining 40 percent of companies do not have proper mechanisms to spend the mandated CSR budget. Promoting mandatory spending is necessary, though it requires understanding and appropriate methods for companies. If CSR spending is strongly enforced, especially if the default is to fund government development projects, it will take on the character of an additional tax, and a backlash from companies can be expected.

The third policy implication is the effect of CSR activities in stimulating local domestic demand. The private sector has engaged in the construction of hospitals and schools and increasing the supply of goods continuously, and such expenses have the effect of increasing domestic demand. While this point has been made in past research, its specific economic impact is still not clear.¹⁴ With CSR spending on the rise, its demand-side effects should be analyzed in the future.

India's CSR ecosystem is currently in the process of development. How it evolves will provide insights into the extent to which CSR can contribute to national development and the achievement of the SDGs. Further, it will provide learning on the division of roles between government and the private sector in development investment and the nature of the private sector's contribution to society in a liberal economy.

Final Remarks

According to the Sustainable Development Report 2023, India ranks 112 out of 166 countries in terms of achievement.¹⁵ Thus it is imperative that the country continue its efforts to achieve the SDGs. In this context, there is no

14. Sharma et al. (2023).

15. Sachs et al. (2023).

doubt that CSR can play a significant role. Furthermore, in light of the country's population size, economic heft, and amount of carbon dioxide emissions as a percentage of the world's total, improvement of development indicators in India should also contribute to global security. We need to acknowledge that India's performance will directly affect the international achievement of the SDGs.

The institutionalization of corporate contributions in social development is an important part of the measures to achieve the SDGs in India. The success of institutionalization and the evolution of the CSR ecosystem as a result may also have a significant impact on the world's achievement of the SDGs. If India's efforts can show concrete results, the country could serve as a role model for other nations.

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