



CSR Spends in India: Any Funding for SWEs?

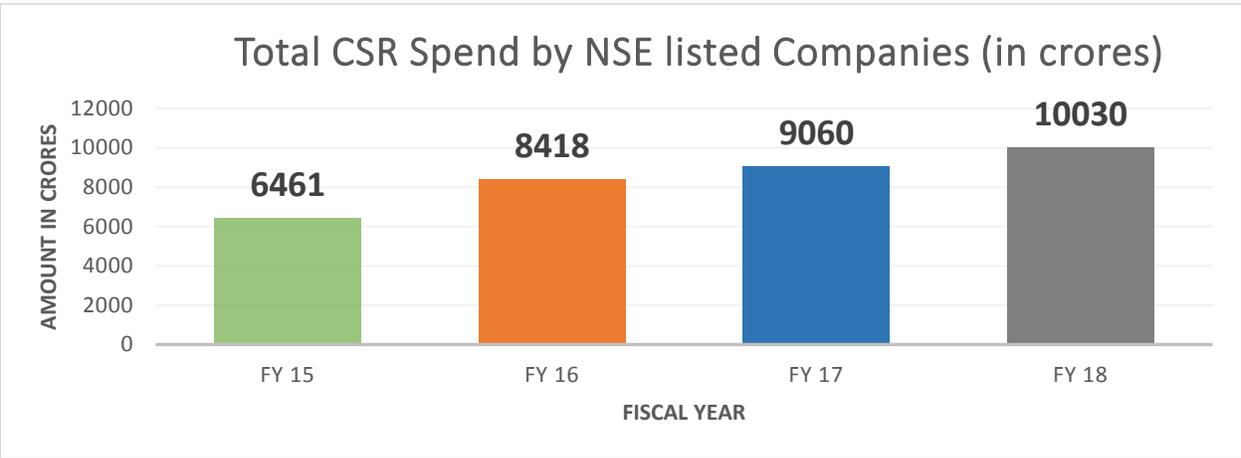
The Companies Act 2013 is evolving rapidly. In July 2019 according to new CSR norms, a company has to earmark a part of its profit towards social activities and transfer all unspent amount into an escrow account (if it is an ongoing project). The amount which remains unspent after 3 years would be transferred to any fund specified in Schedule VII of the Companies Act. Non-compliance with CSR norms has been made a civil offence and moved to a penalty regime.

The section 135, commonly known as the '2 percent rule' mandated the companies with an annual turnover above INR 1000 crores, net worth over INR 500 crores or a net profit more than INR 5 crore to spend 2 percent of their after-tax profits on CSR projects. The section also required the companies to invest in CSR projects which did not add to their bottom line. An amendment in CSR rules made on September 2014 capped the expenditures of the companies for building CSR capacities of their own personnel and their implementing agencies to 5% of the total CSR expenditures for a given financial year.

The move to make CSR mandatory was welcomed by many entities as it would bring private sector rigor in social projects however this move also met some resistance. Nonetheless, what started as a mandate soon became a part of India's corporate culture. The larger companies which fell in the compliance bracket started actively seeking CSR projects. The first two years witnessed some struggle by the companies in selecting and implementing the projects, however, after that, there was a year on year improvement.

How much has been spent

By September 2018, the top 100 companies of India (N100) ranked according to their market capitalization, had a CSR policy in public domain. The total spending of all the NSE listed companies was INR 10,030 crores, a hike of 970 crores over 2017. The collective spending of all the companies (listed and unlisted) from FY 15 to FY 18 has crossed 50,000 crores.



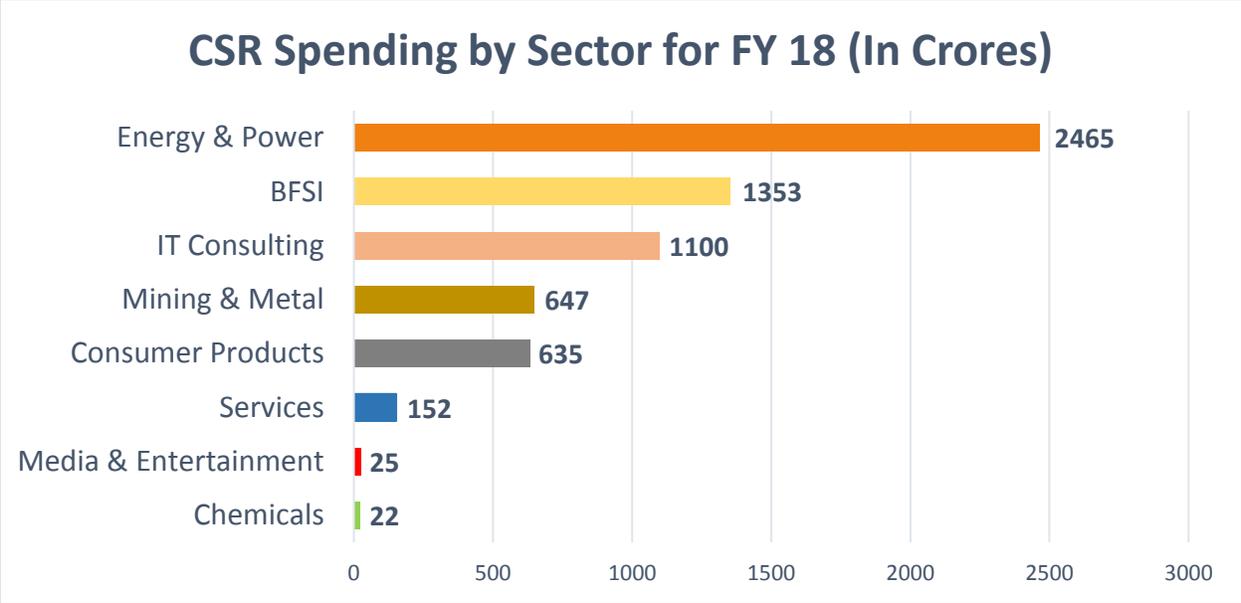
Source: NSE Infobase: Developed & Powered by PRIME Database

However, the road towards mainstreaming CSR as a standardized function within the companies has not been very smooth. IN FY 18, almost a third of the listed 1,913 companies which fall under the CSR compliance could not spend their CSR funds for various reasons. Companies reported some of these reasons as delays in project identification, difficulties in procuring in-house CSR expertise or the losses incurred in business operations. The total unspent funds by the listed companies were to the tune of INR 60,000 crores over the past four years.

The CSR processes have matured in India over the past four years. There has been a substantial drop in contribution to PM relief funds over the past four years. In FY 17 only 23 companies gave INR 45 crores to PM relief funds. In FY 16, 79 companies had contributed INR 80.55 crores. In the year before that, the contributions were to the INR 107.43 crores by 120 companies.

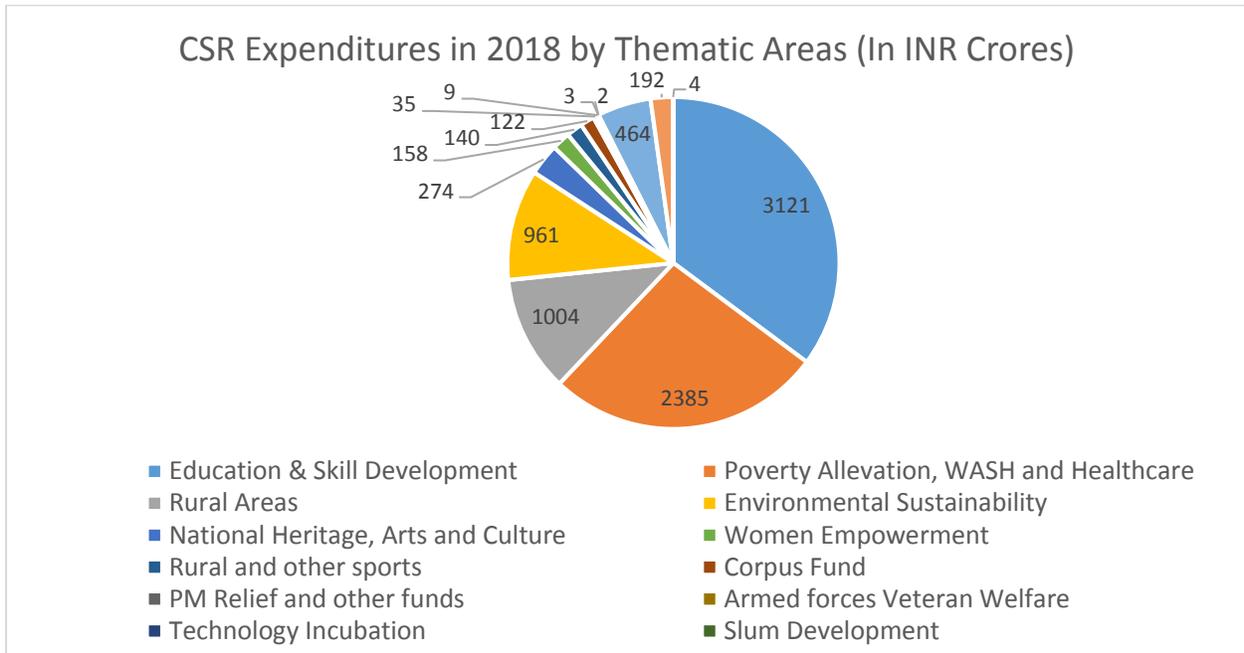
Who spent where

In a sector-wise break up of CSR spending, the companies that belong to the Energy and Power Sector led the overall CSR spending whereas the Media and Entertainment companies were the laggards. The Energy & Power sector contributed INR 2465 crores in 2018.

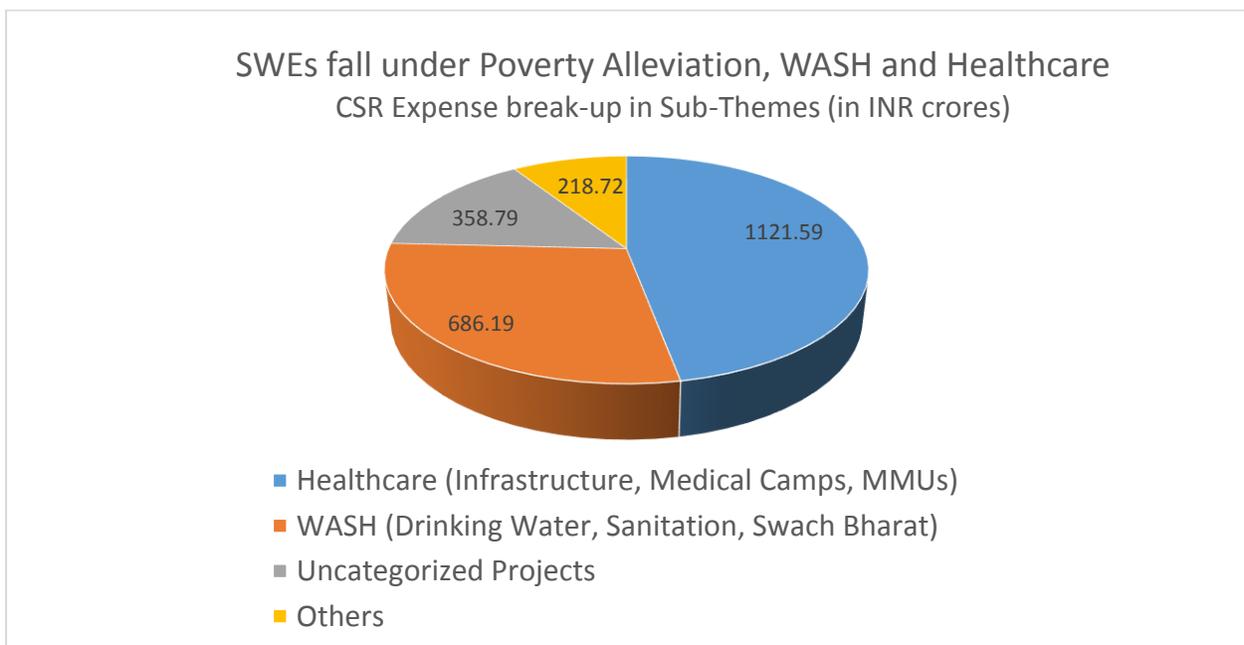


Data: The KPMG reporting survey 2018

A CSR analysis of 359 large companies listed in BSE revealed that the CSR expenditure was highest in Education & Skill Development followed by Poverty Alleviation, WASH and Healthcare in FY 18. The CSR spend on the theme of Poverty, WASH and Healthcare was INR 2385 crores of which INR 686.19 crores were spent on WASH-related projects. Provision of Safe Drinking Water is a component of WASH and comprises of several projects such as setting up of water filtration units and water ATMs in water-stressed areas and running community awareness programs promoting the consumption of safe drinking water. Clean water is an enabler of good health, hygiene and women empowerment. However, the CSR contributions to the cause of Safe Drinking Water have been highly disproportionate to the benefits yielded by this cause. The total CSR contribution made for Safe Drinking Water from FY 15 to FY 17 was INR 407.85 crores. A mere 1% of all CSR contributions made during this period.

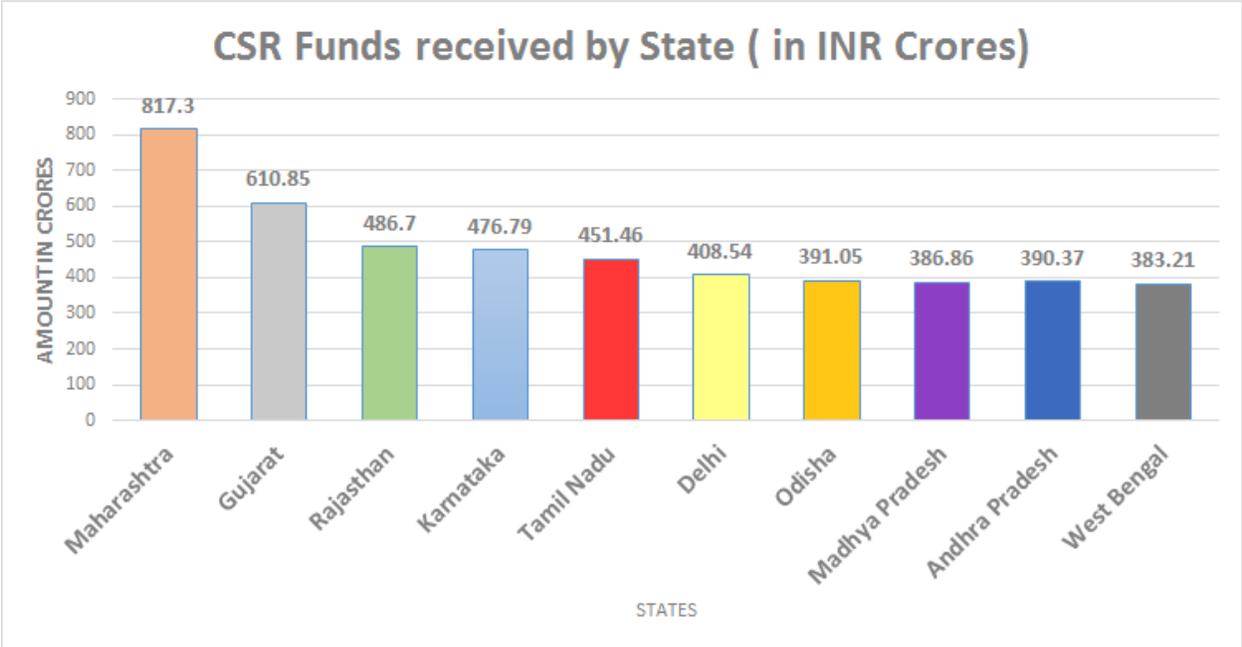


Source: India CSR Outlook Report 2018



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Among the Indian states, the biggest beneficiary of CSR funds was Maharashtra followed by Gujarat and Rajasthan. According to NSE Infobase, Maharashtra received INR 817.3 crores from 518 companies in FY 18 and Gujarat received INR 610.85 crores from 466 companies.



Source: NSE Infobase: Developed & Powered by PRIME Database

CSR is slowly but steadily getting embedded in the corporate DNA of India. The statistics reveal the improvements in the compliance rates in several parameters. The alignment of the corporate sector in India with the community welfare activities will make an effective and long-lasting impact on the country's development.