Research report on CSR trends and opportunities in India

TABLE OF CONTENTS

Research objectives and methodology

Objectives

In order to catalyze the participation of Japanese companies in India, the Japan International Cooperation Agency (JICA) collaborated with Samhita Social Ventures to conduct a study with the following objectives:
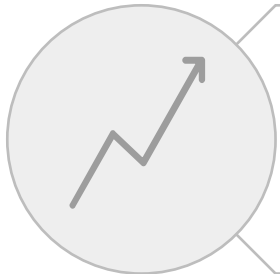
Map the macro trends in CSR in India since the introduction of Section 135
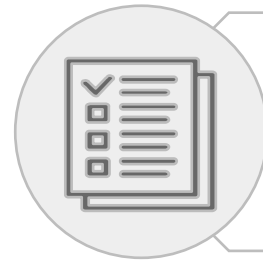
Analyze CSR trends among Japanese, Indian and other companies

Recommendations and pathways to strengthen CSR performance among companies

Methodology

The study adopted a mixed methods approach using primary (qualitative & quantitative) & secondary data

Secondary research

• Review of CSR data from csr.gov.in and the High Level Committee report by MCA

Primary research (quantitative)

• A structured, digitized survey administered to 446 companies part of Japan Chamber of Commerce and Industry in India (JCCII).
• 92 responded (a response rate of 21%), out of which 45 were undertaking CSR in India

Primary research (qualitative)

• Interviews with 26 companies
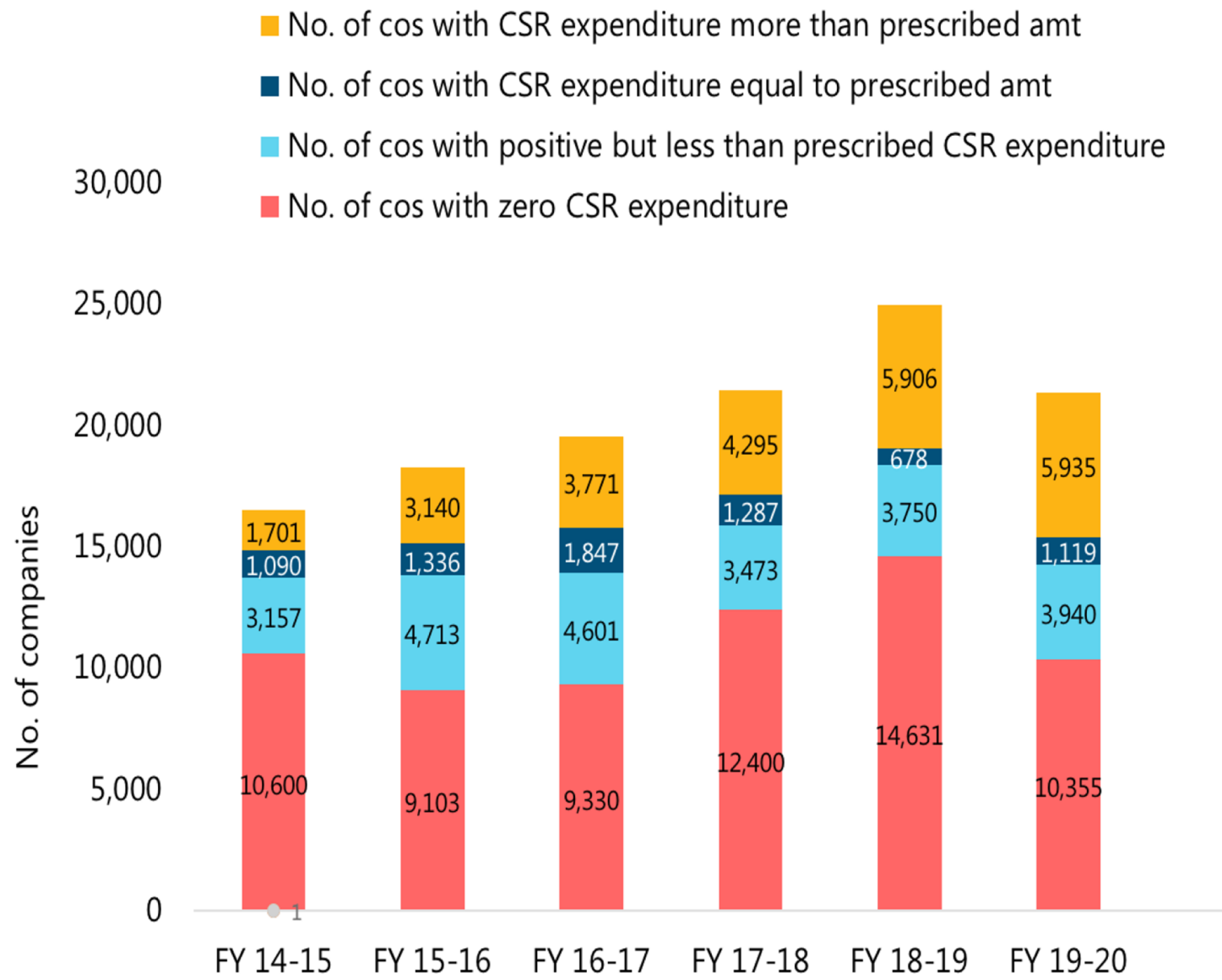• Interviews with 12 non-profits and social enterprises

Six years of CSR performance in six graphs

- Number of companies eligible for CSR under Section 135 has constantly increased since 2014-15, reflecting an increasing economic growth in India.
- No. and proportion of companies undertaking some CSR expenditure has increased consistently.
- Companies spending exact or more than the prescribed amount increased from 15% to 26%.
- Under the 'zero CSR expenditure category' from 2014-15 to 2017-18:
  - Companies with zero or negative prescribed amounts has reduced from 49% to 23%
  - Companies with zero CSR expenditure but prescribed a positive amount had increased from 51% to 77%

Note: Data for the year 2019-20 is still being updated by the Ministry of Corporate Affairs and thus is not being considered in the analysis

Compliance rates of companies (2014-20)

- No. of cos with CSR expenditure more than prescribed amt
- No. of cos with CSR expenditure equal to prescribed amt
- No. of cos with positive but less than prescribed CSR expenditure
- No. of cos with zero CSR expenditure

No. of companies

	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20
More than prescribed	1,701	3,140	3,771	4,295	5,906	5,935
Equal to prescribed	1,090	1,336	1,847	1,287	678	1,119
Positive but less	3,157	4,713	4,601	3,473	3,750	3,940
Zero CSR	10,600	9,103	9,330	12,400	14,631	10,355
	1					

- Companies have spent a total of ~INR 92,700 cr. on CSR activities so far
- CSR expenditure has witnessed a gradually increasing trend over years
- Total expenditure amounts to 68% of the prescribed amount on average.
- Better compliance can be attributed to:
  - Push factors: scrutiny of corporate spending by MCA & civil society
  - Pull factors: investors & customers reward more socially responsible practices, maturing of corporate processes, strengthening of social sector
- However, there was still a high value of unspent funds (INR 24,407 crore) between 2014-2018.
- Commonly reported reasons for not spending prescribed CSR amount:
  - Challenges in identifying suitable projects & implementation partners
  - Delays caused in implementation of multi-year projects
  - Lack of prior expertise
  - Inability to form satisfactory CSR policy

Prescribed and Actual Spend on CSR (2014-20)

■ Total CSR expenditure   ■ Total prescribed amt

FY	Total CSR expenditure	Total prescribed amt
FY 14-15	10,066	17,140
FY 15-16	14,517	17,044
FY 16-17	14,342	19,790
FY 17-18	13,909	23,248
FY 18-19	18,728	NA*
FY 19-20	21,231	NA*

CSR spend in INR crore
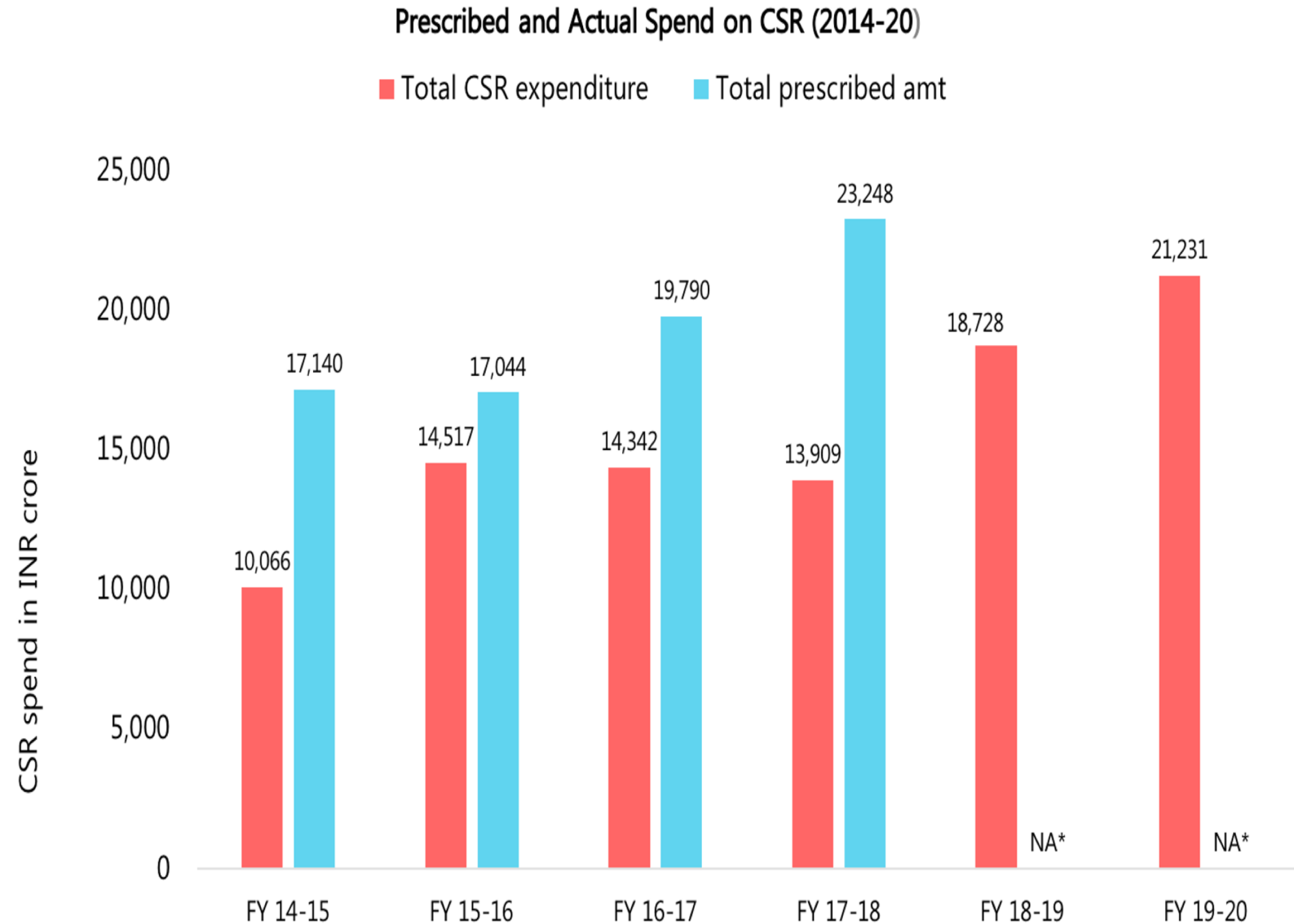
Source: csr.gov.in

*The total prescribed amount for the years 2018-20 is not available

Distribution of total CSR expenditure across Schedule VII Cause Areas (2014-20)
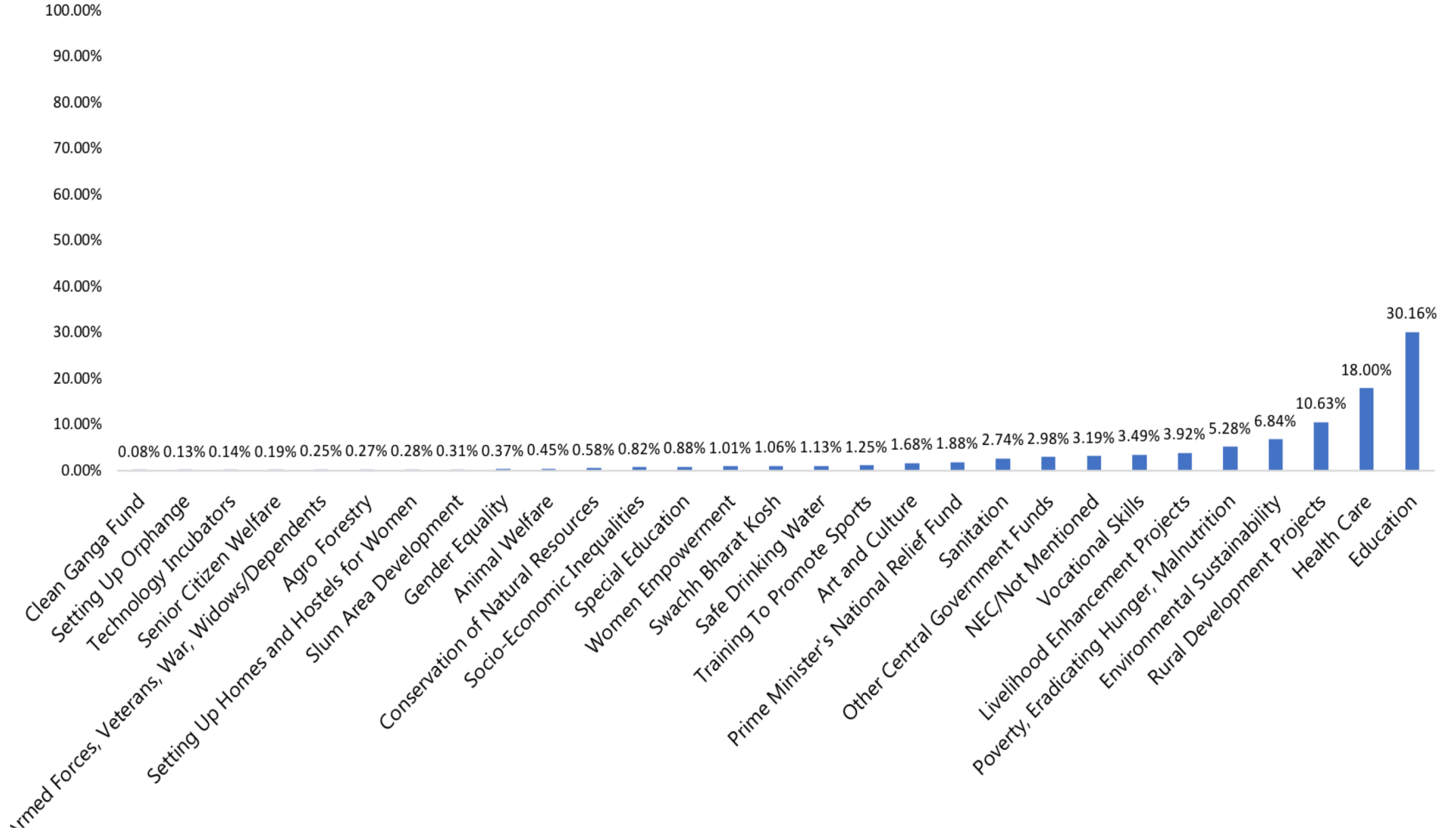
Macro CSR trends: CSR spending across states

CSR spending across Indian states (2014-20)

■ Over INR 10,000 crore

■ INR 5,000-9,999 crore

■ INR 1,000-4,999 crore

■ Less than INR 1,000 crore or no data available
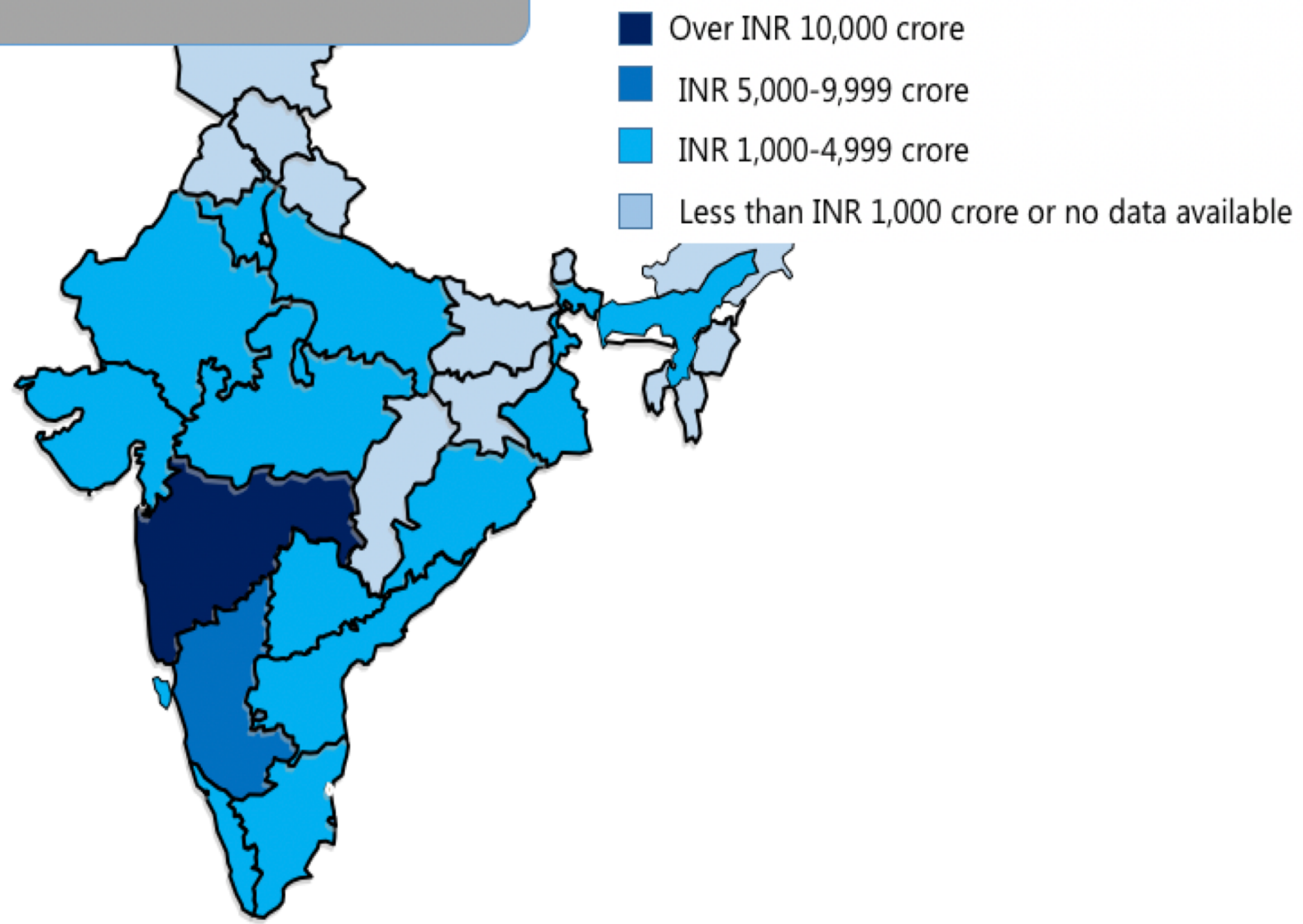
- Maharashtra, Karnataka, Gujarat, Andhra Pradesh, Tamil Nadu, Odisha & Delhi combined received 44.55% of total CSR expenditure-

- Jharkhand, Bihar, Chhattisgarh, Madhya Pradesh & Uttar Pradesh received only 5.69% of total CSR expenditure.

- On average, 41% of CSR was executed through other implementing agency, mostly referring to non-profits.
- The next most popular way of spending was directly by the company, mostly implying hiring vendors to execute activities such as building, repairs etc.
- Around 9% companies executed CSR through own corporate foundations.
- Over the years, the share of non-profits initially increased and has then plateaued.

Modes of implementation (2014-20)

■ Not Mentioned

■ By Central or State Government entities

■ Directly by company

■ By Trusts/Societies/Section 8 companies set up by the Company itself

■ Other Implementing Agency
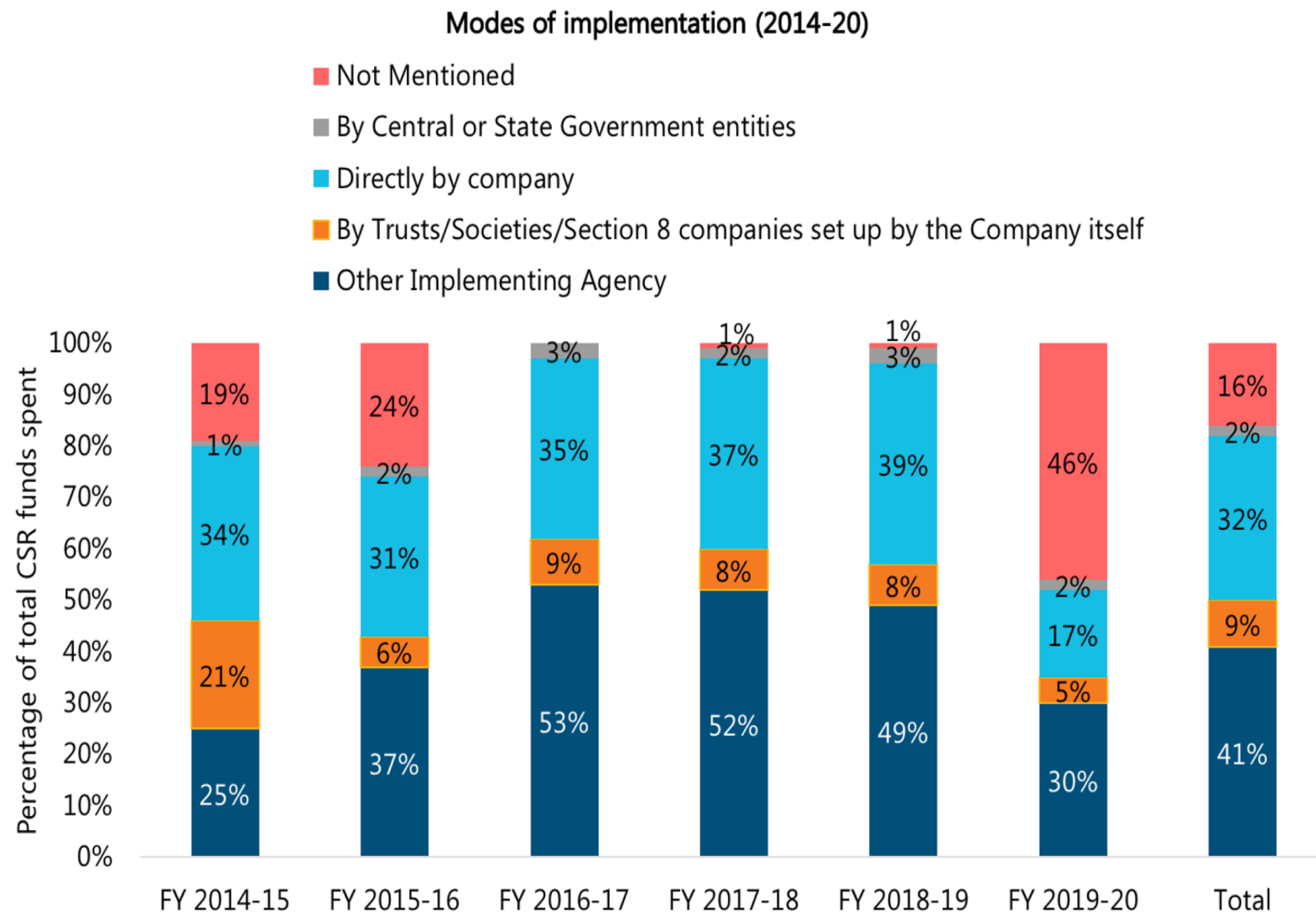
Findings on CSR approaches among Japanese companies operating in India

Profile of Japanese companies surveyed

The sample consisted of 45 companies from diverse industries

49% Japanese companies operating in India undertake CSR

91% eligible under Section 135

9% do so voluntarily

Industry distribution

38% - auto

9% - infra & allied

9% - pharma/ health

9% - electronics

9% - Mnfctg., material handling

7% - Chemical

7% - BFSI

4% - IT

9% - other
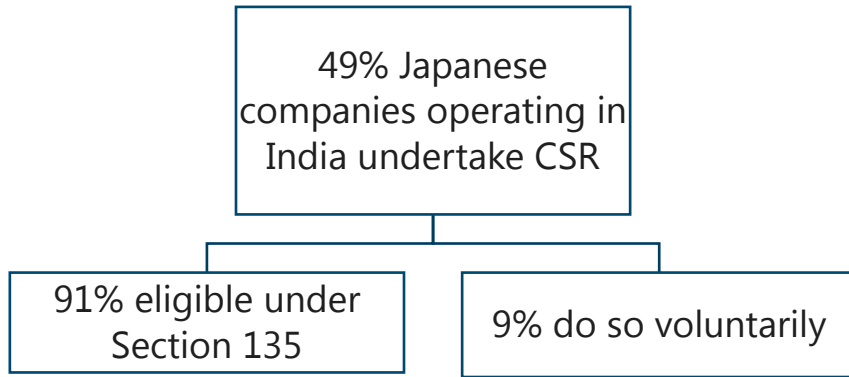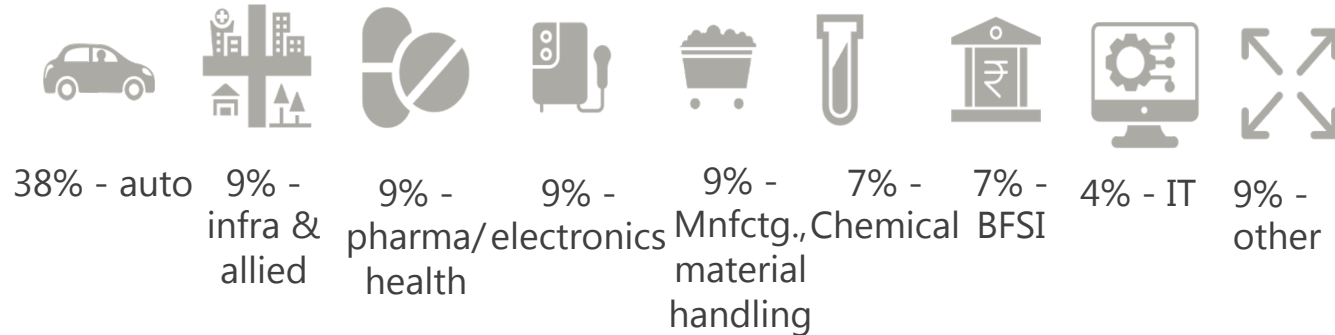
CSR Spend in INR crore

Total spend

Avg. per company spend

174.78 — 2017-18 (n=41) — 4.26

211.87 — 2018-19 (n=42) — 5.04

229.67 — 2019-20 (n=41) — 5.60
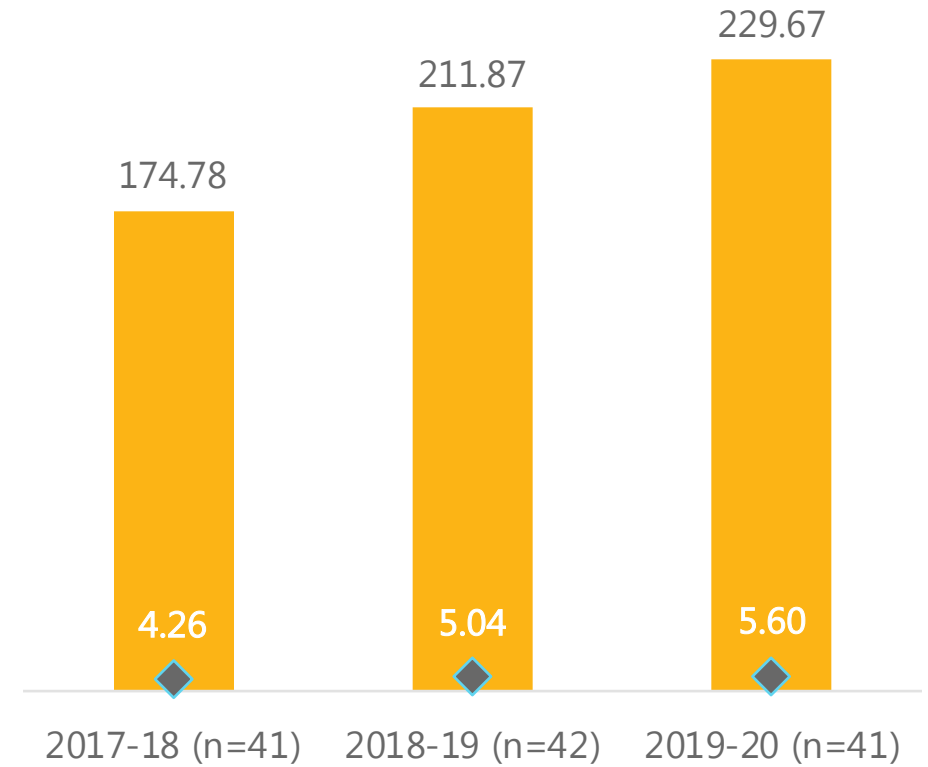
CSR planning and set-up

CSR Policy and approach

- 81% Japanese companies operating in India had a CSR Policy
- All companies highlighted compliance to be a crucial aspect
- Around 40% companies indicated 'doing good' (SDGs, social welfare, poverty alleviation) among their top motivators
- 86% companies reported a strategic approach, though in a limited way:
  - The local community around company was the most popular business stakeholder
  - 34% reported brand visibility to be a driver of CSR
  - Fewer (7-9%) companies reported using CSR as a differentiator from competitors, or using it as a strategy to engage customers,, employees or explore new markets

Team

- 36% companies had dedicated CSR teams.
- A majority depended on other business functions - HR (23%), Accounting and Finance (16%), Legal and Compliance (16%), Corporate Communications (7%), and Marketing (2%)
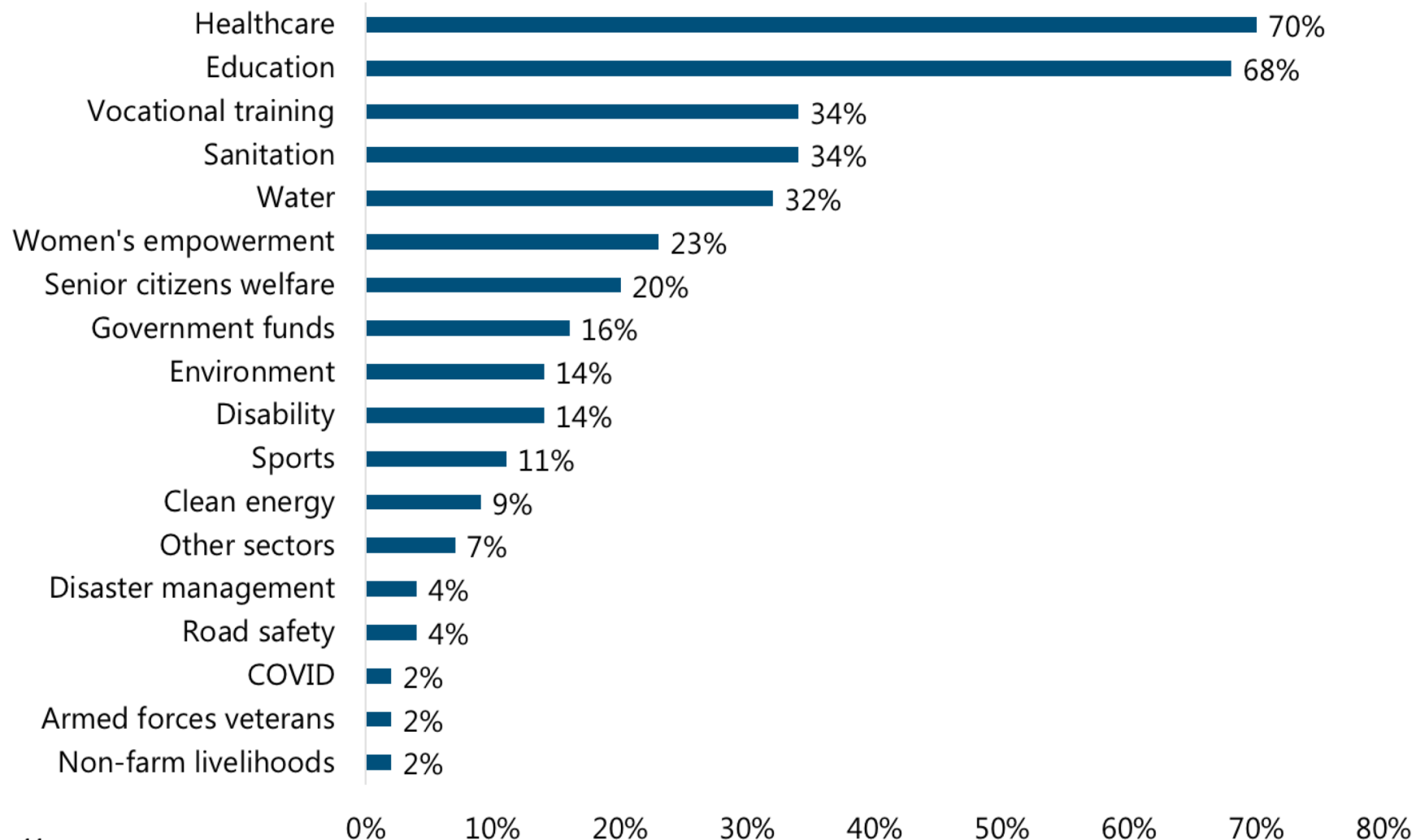
Stakeholders engaged

- CSR planning was mainly seen as an internal affair within the company
- 82% reported involving their Boards and a similar proportion reported involving their internal team in-charge of CSR
- Involvement of other supporting functions was limited – 50% said they involved HR, 34% legal, 29% accounts and finance

Cause area wise selection

Which sectors have you focused on in the past 3 years (2017-20) for your CSR activities?

Sector	Percentage
Healthcare	70%
Education	68%
Vocational training	34%
Sanitation	34%
Water	32%
Women's empowerment	23%
Senior citizens welfare	20%
Government funds	16%
Environment	14%
Disability	14%
Sports	11%
Clean energy	9%
Other sectors	7%
Disaster management	4%
Road safety	4%
COVID	2%
Armed forces veterans	2%
Non-farm livelihoods	2%

n = 44
Total adds up to more than 100% as companies were allowed to select multiple responses
Source: Survey administered to Japanese companies

- Most companies supported an average of 3.44 causes
- Japanese companies mirrored national trends:
  - 70% supported healthcare
  - 68% supported education
- Factors driving cause area selection:
  - Combining local needs of communities, Schedule VII areas & inclinations of their top management
  - Supporting cause areas for which implementation partners had approached them
  - Recommendations from the Japanese embassy

State wise spending

State-wise distribution of CSR programs of Japanese companies

State	Percentage
Delhi	39%
Haryana	29%
Pan India	27%
Maharashtra	23%
Tamil Nadu	20%
Rajasthan	16%
Karnataka	14%
Gujarat	11%
Uttarakhand	9%
Uttar Pradesh	9%
West Bengal	7%
Andhra Pradesh	4%
Chattisgarh	4%
Madhya Pradesh	4%
Punjab	4%
Andaman and Nicobar Islands	2%
Assam	2%
Kerala	2%
Meghalaya	2%
Odisha	2%
Jammu and Kashmir	2%
Puducherry	2%

Percentage of companies
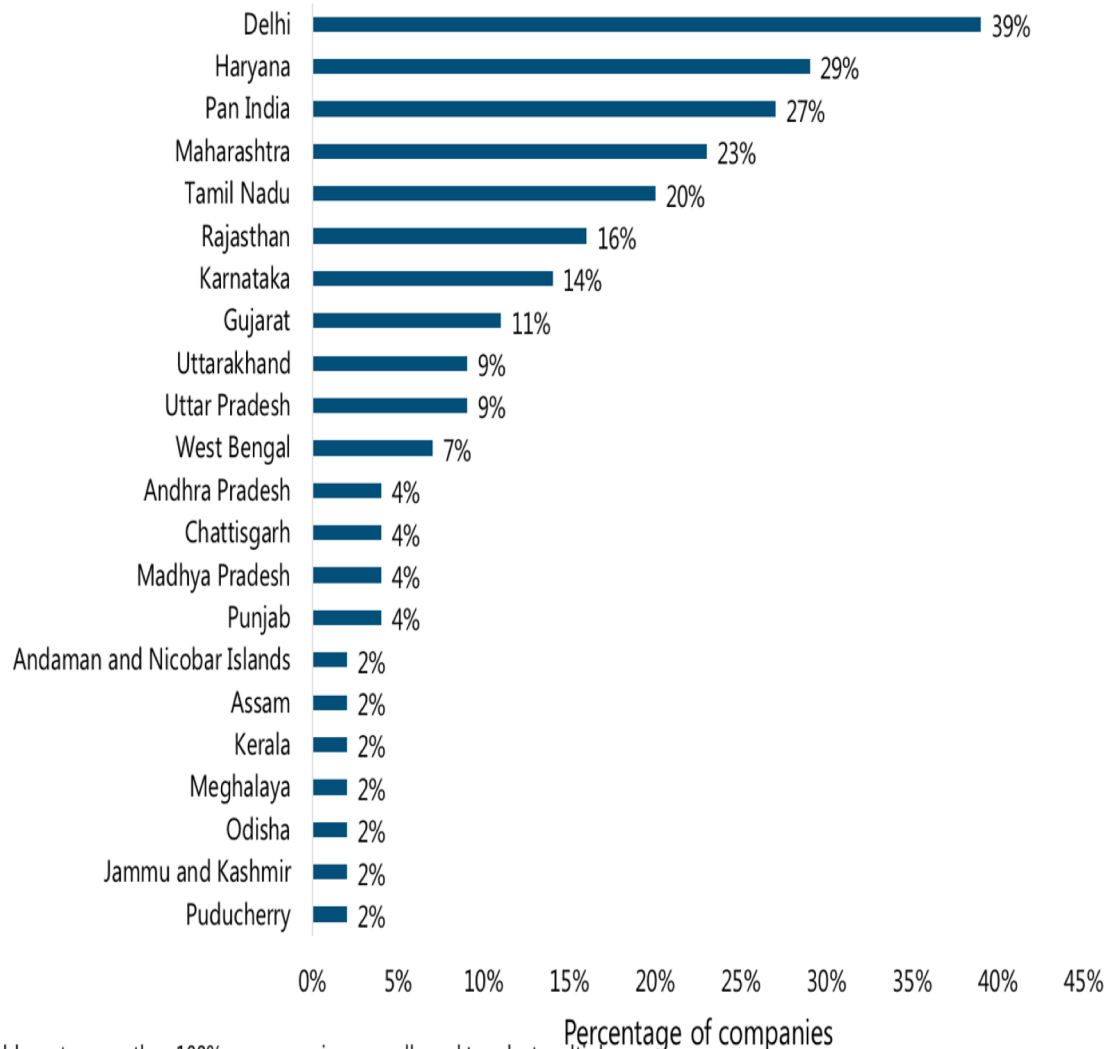
n = 44
Totals adds up to more than 100% as companies were allowed to select multiple responses
Source: Data scraped from csr.gov.in

- Japanese companies execute CSR projects in 2.08 states on average
- In terms of states with highest number of Japanese companies with CSR projects, Delhi (39%) and Haryana (29%) topped the list, followed by Maharashtra (23%), Tamil Nadu (20%) and Rajasthan (16%)
- States such as Karnataka (INR 20.67 crore), Haryana (INR 9.18 crore) & Delhi (INR 8.8 crore) received the most CSR funding between 2019-20
- Concentration of CSR spending across the above states is likely due to the presence of Japanese operations in these states
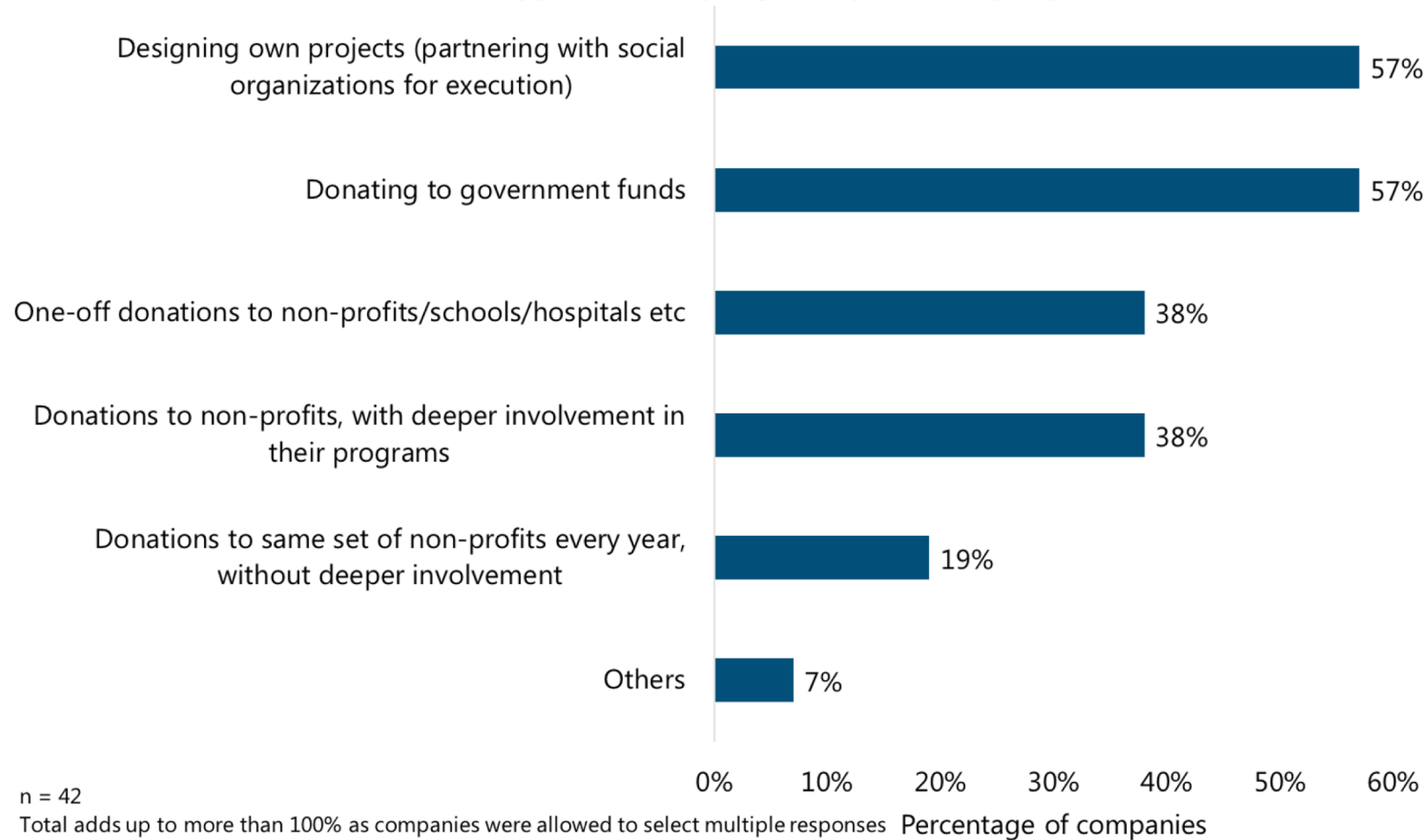
Local area spending

- All Japanese companies prioritized spending in local areas around their operations.
- Percentage of CSR amount spent in areas around company operations:
  - 1/4th companies spent 90%
  - 3/4th companies spent more than 50%
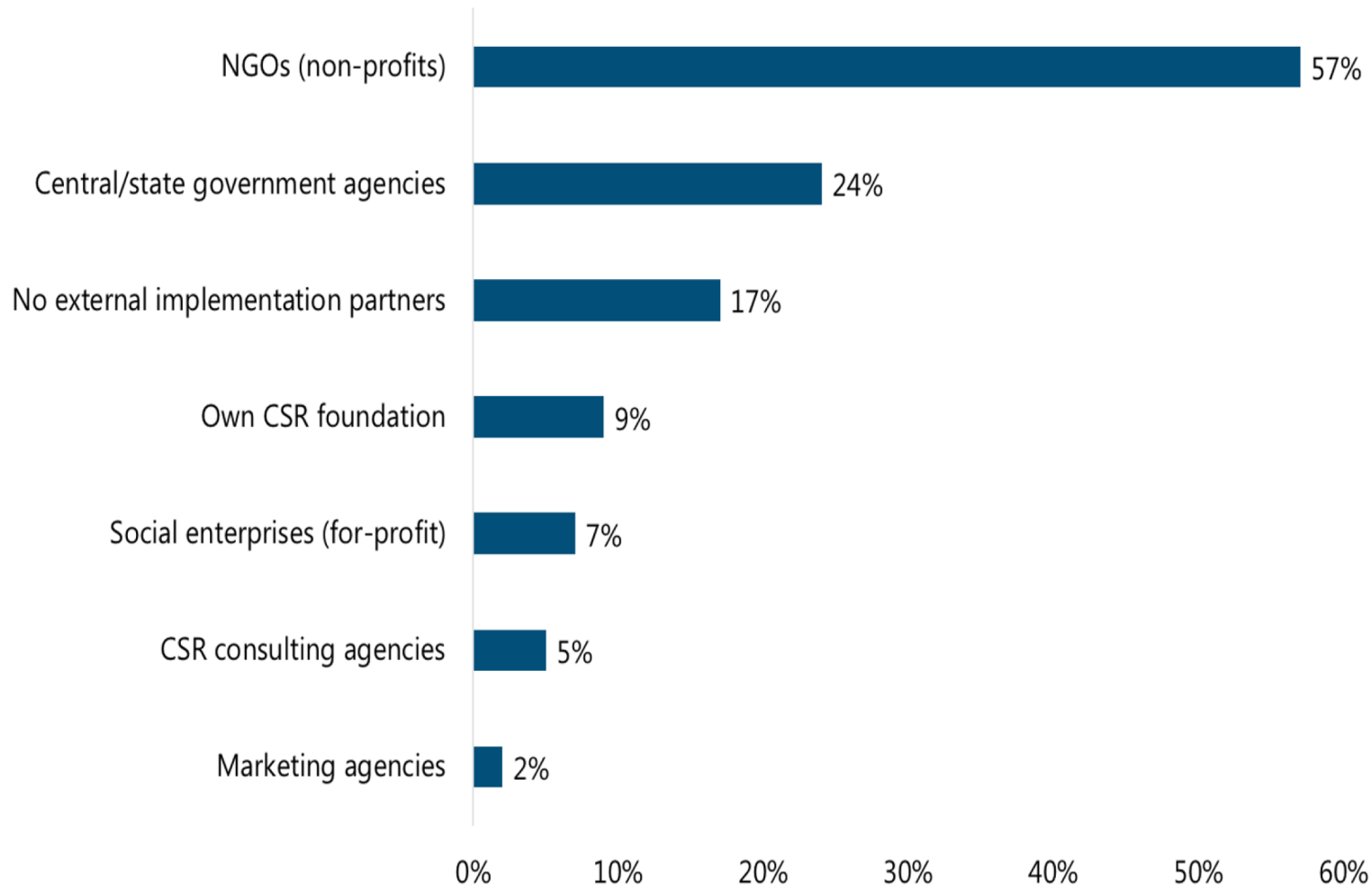
Types of programs supported

What describes the types of CSR programs your company undertakes?

Designing own projects (partnering with social organizations for execution) — 57%

Donating to government funds — 57%

One-off donations to non-profits/schools/hospitals etc — 38%

Donations to non-profits, with deeper involvement in their programs — 38%

Donations to same set of non-profits every year, without deeper involvement — 19%

Others — 7%

n = 42
Total adds up to more than 100% as companies were allowed to select multiple responses
Source: Survey administered to Japanese companies

Percentage of companies

- More than half of companies (57%) reported that they designed their own programs & partnered with social organizations for program execution.
- Around same proportion (57%) reported that they donated to government funds, with 13% of companies reporting that they contributed 100% of their CSR budget to government funds in 2019-20.
- 38% reported that they do not design CSR programs but provide support & donations to implementing partners and similar proportion reported one-off donations.
- 19% reported that they provide donations to implementation partners without deeper involvement in their programs
- Companies reported that the average duration of CSR programs was between 6 months and 1 year

Choice of implementation partners

Which agencies do you partner with to execute CSR programs?

Partner	%
NGOs (non-profits)	57%
Central/state government agencies	24%
No external implementation partners	17%
Own CSR foundation	9%
Social enterprises (for-profit)	7%
CSR consulting agencies	5%
Marketing agencies	2%

n= 42
Total adds up to more than 100% as companies were allowed to select multiple responses
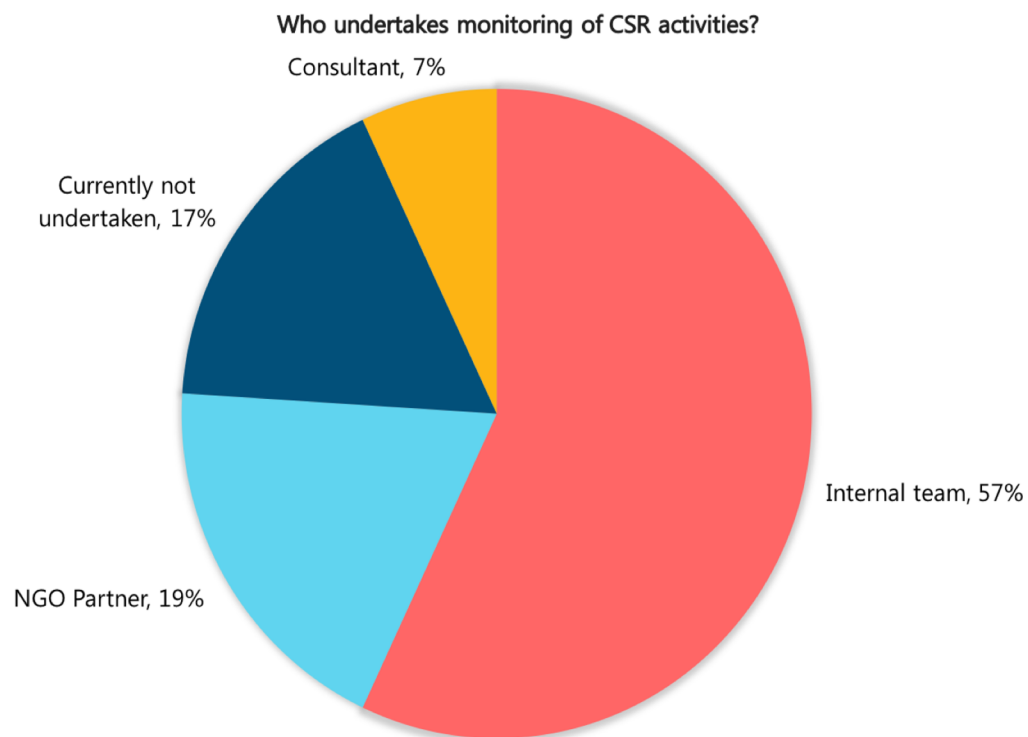Source: Survey administered to Japanese companies

- Nonprofits were the most preferred implementation partners, reported by 57% of companies. Companies have a preference for working with NGOs over other implementation partners due to their established networks & understanding of local communities.
- This was followed by government agencies (24%).
- 17% reported that they did not have any external CSR partners for execution.
- Most have not partnered with social enterprises till date.
- These trends are similar to national CSR trends.

Process for selecting implementation partners

Recommendations from Board of Directors	37%
Recommendations from employees and other internal stakeholders	33%
An open 'Request for Proposals' method	24%
Internet search	2%
Association with other companies	2%
Others	2%

Monitoring and impact measurement

Monitoring CSR projects

Who undertakes monitoring of CSR activities?

Consultant, 7%
Currently not undertaken, 17%
NGO Partner, 19%
Internal team, 57%
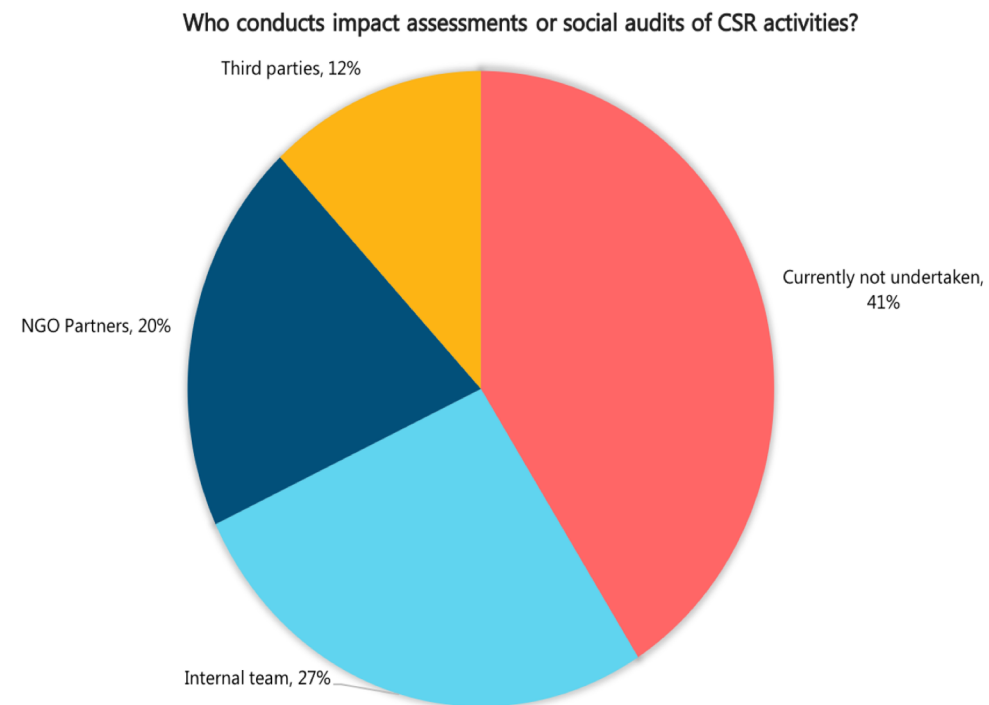
n = 42
Source: Survey administered to Japanese companies

- 57% companies reported that internal teams conduct monitoring of programs
- 19% reported that NGO partners undertook monitoring
- 17% reported they did not undertake regular monitoring of their programs

Measuring the impact of CSR projects

Who conducts impact assessments or social audits of CSR activities?

Third parties, 12%
NGO Partners, 20%
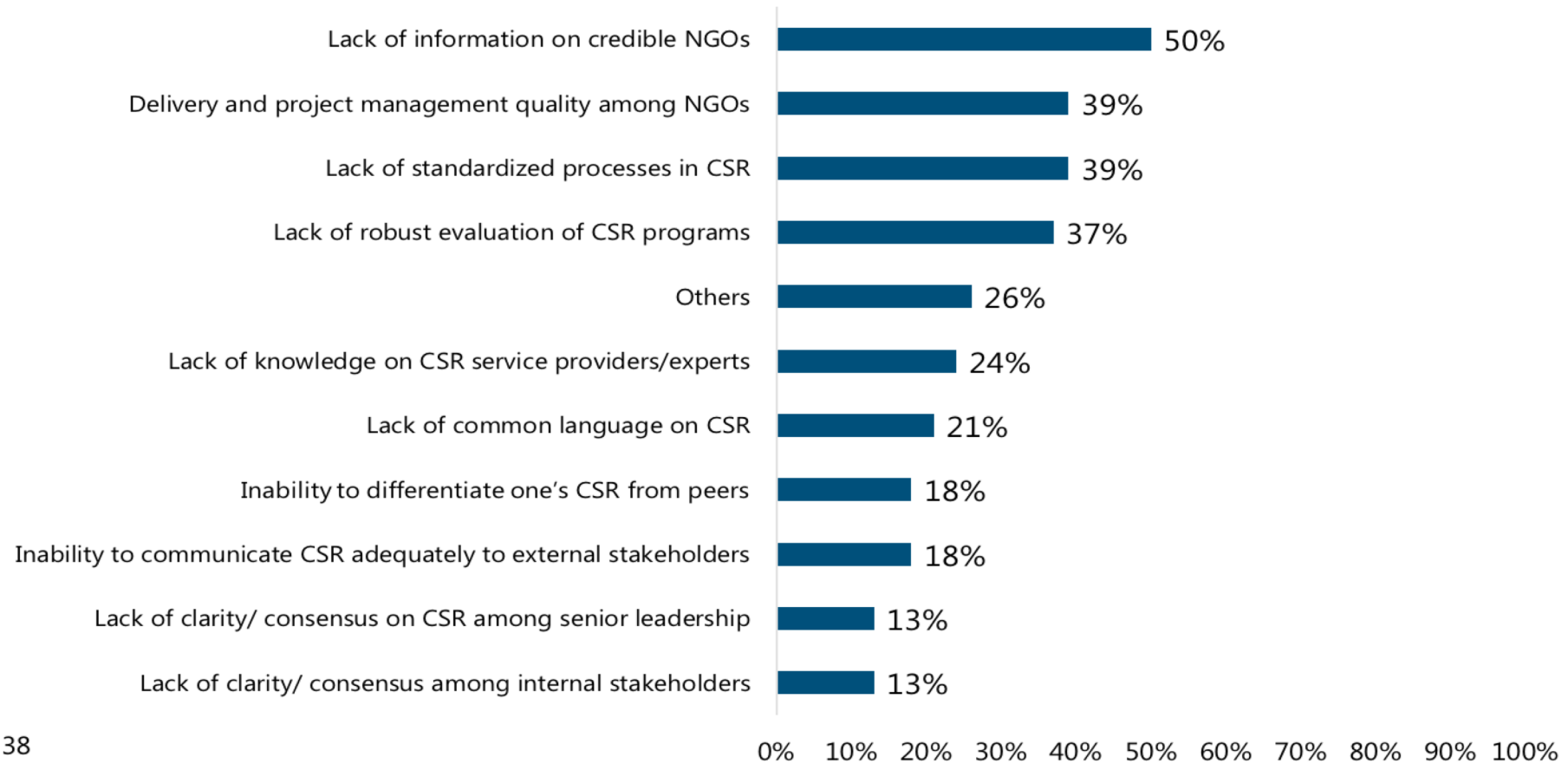Currently not undertaken, 41%
Internal team, 27%

n = 41
Source: Survey administered to Japanese companies

- At 38%, a sizeable proportion of companies did not conduct impact assessments
- 24% of companies reported that their internal team was in charge of conducting impact assessments
- 18% reported relying on NGO partners
- 5% had commissioned third party assessments.

Challenges experienced

- Most Japanese companies surveyed were in their first few years of conducting CSR in India, so were still familiarizing themselves with India's CSR landscape
- Most commonly reported challenge by companies was lack of information on credible NGOs (50%), followed by delivery & project management capabilities of NGOs & lack of standardized processes (reporting, due diligence & impact measurement) (39%)

What are the top challenges your company faces in terms of creating a company-wide CSR strategy and implementing it?

Challenge	Percentage
Lack of information on credible NGOs	50%
Delivery and project management quality among NGOs	39%
Lack of standardized processes in CSR	39%
Lack of robust evaluation of CSR programs	37%
Others	26%
Lack of knowledge on CSR service providers/experts	24%
Lack of common language on CSR	21%
Inability to differentiate one's CSR from peers	18%
Inability to communicate CSR adequately to external stakeholders	18%
Lack of clarity/ consensus on CSR among senior leadership	13%
Lack of clarity/ consensus among internal stakeholders	13%

n = 38
Total can add up to more than 100% as companies were allowed to select multiple responses
Source: Survey administered to Japanese companies

Findings on CSR approaches among Indian & MNC companies operating in India

Findings on CSR approaches of Indian and MNC companies

Types of approaches

- A move from compliance to strategic to catalytic CSR
- A mixed approach combining philanthropic and strategic objectives

Planning & management

- A combination of decentralised and centralised structures
- Choice of location and causes determined by intersection of business objectives, local needs and national priorities.

Type of programs

- A combination of community-based programs and flagship programs.

Interest in innovation

- While there was an appetite and intent to support innovation, companies were careful about such programs due to restrictive funds, lack of flexibility, less manpower to monitor, reputational risks etc.

Industry & government partnerships

- Greater willingness to partner with other companies
- Government partnerships sought for scale and credibility

Technology for monitoring

- Uptake of technology platforms by to onboard implementation partners, track key activities & milestones of programs
- Have helped in efficient M&E, and enabled transparency

Defining features of an ideal CSR program

- While not absolutely essential, many flagships leveraged a business competency or addressed business stakeholder.
- This helped companies to justify their CSR programs internally, build stronger buy-in, protect from ad-hoc changes

Strategic to a company

- All flagships focused on addressing well-defined problems with comprehensive solutions
- Programs followed a theory of change

Addresses the issue in a comprehensive manner

- Many flagships were co-created between CSR departments & NGOs
- Led to co-ownership of the program & more of a hands on role from the CSR dep, enabled by continuously open channels of communication

Program design is co-created

- Many flagships were designed for scale & unusually entailed standardized processes, protocols & training
- Most started out as smaller pilot programs, post which their effectiveness was tested before scaling

Potential to replicate and scale

- Flagships involved comprehensive & elaborate M&E systems with SMART indicators
- Assessed internally & by third parties

Robust monitoring, evaluation & learning systems

- All flagships began the process of the buy-in with consultation & involvement of local communities which continued throughout the program lifecycle
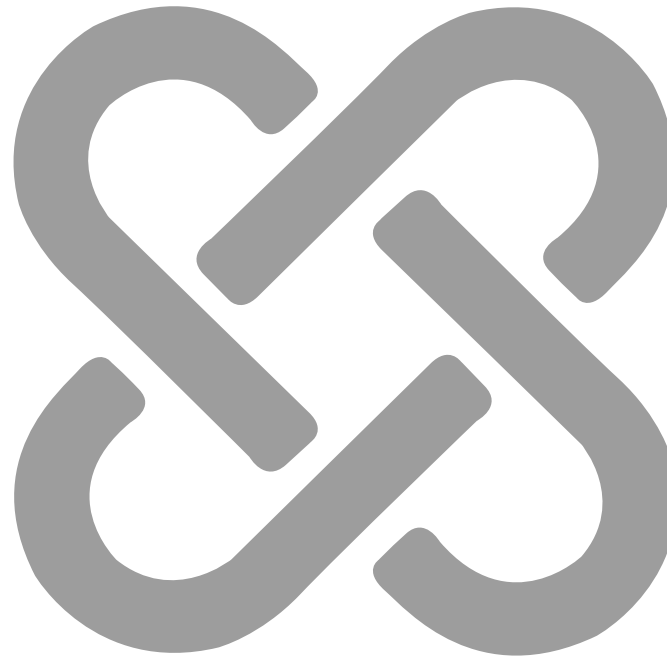- Critical for smooth execution & sustainability post exit

Community & stakeholder buy-in

Thematic priorities to centre around effects of COVID-19

- Supporting COVID-19 measures will remain a focus in the upcoming year, with many supporting immediate healthcare & livelihood relief & others supporting long-term recovery
- Hybrid models for vocational training could become popular
- Addressing pandemic's impact on education & environment will become imperative

Focus on technology

- The pandemic has driven the use of technology in the CSR ecosystem, expected to continue rising as-
  - An integral part of interventions; such as digital literacy, telemedicine,
  - To enable program delivery; technology can improve scale & uptake & reduce costs of program delivery
  - As a tool to manage, monitor & report on program performance; pandemic has compelled adoption of technology tools for M&E

Focus on innovations

- As the CSR landscape matures companies will become more open to supporting innovative ideas
- Few companies have already begun supporting innovative financing instruments such as Development Impact Bonds etc.
- Driven by a growing realization that CSR needs to become more results-oriented & drying up of CSR funds due to the impact of COVID-19

Focus on impact measurement

- There is an increased focus on impact measurement within CSR rules, social audits within Social Stock Exchange
- Financial reporting, impact evaluation, outcome measurement will become more standardized
- Implementation partners are expecting to see a rise in third party assessments