CRISIL
Foundation

Altruism rising

The CRISIL CSR Yearbook

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Executive summary

Between Gordon Gekko's exhortation three decades back that "*Greed is good. Greed is right. Greed works...*" in the seminal movie *Wall Street*, and the ruthless competition of the nineties and the noughties, there was little time for 'passive niceties' such as spending on corporate social responsibility (CSR).

That mindset, however, seems to be changing ever so slowly. After all, cold, relentless, profit pursuits had wrought the global financial crisis and much public indignation. On their part, companies are also realising that businesses can sustain and thrive only if the communities they serve also endure and flourish.

Given the milieu, it was great to note that in fiscal 2016, India Inc inched closer to the 2% CSR spending mandated by the Companies Act, 2013.

An analysis of 4,887 companies listed on the Bombay Stock Exchange showed as many as 1,505 of them, or 30%, met the criteria stipulated in the Companies Act for mandatory spending and reporting on CSR in fiscal 2016. Of this lot, 77% reported their CSR spend, compared with 75% of those eligible in fiscal 2015.

And the purse-strings were opened wider: CSR spending was up 22% over fiscal 2015, and there were fewer companies (7% of the eligible companies compared with 10% in fiscal 2015) that did not disclose such details.

In this second edition of *The CRISIL CSR Yearbook*, we capture these and other major trends. Unlisted companies were left out for want of data.

Another interesting angle was collaboration among companies, with the focus shifting more to CSR outcomes. A quick survey showed an overwhelming number of companies saying they are open to collaboration, though they face challenges such as not knowing who to partner with, to how to structure and report on such partnerships.

CRISIL Foundation believes collaboration would be a force multiplier in CSR, even as government oversight and encouragement continues. Quite what the 'Effective Altruism' movement worldwide, inspired by the redoubtable philosopher Peter Singer, author of *The Most Good You Can Do*, suggests: apply evidence and reason to find the most effective way to change the world, rather than be driven by the 'feel-good' or 'less guilty' effects of doing charity.

A year of better compliance

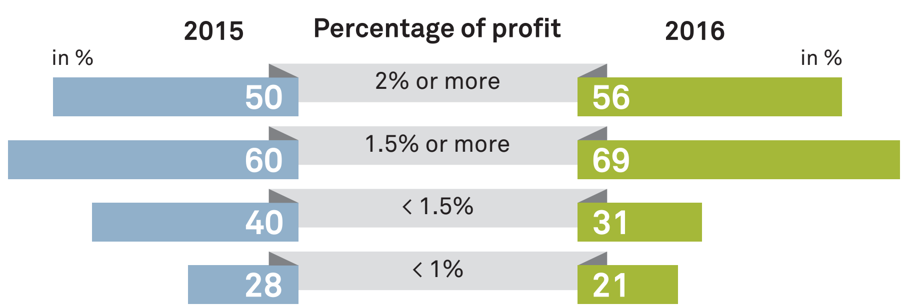
The Companies Act, 2013, encourages corporates to spend at least 2% of their average net profit of the past three years on CSR activities. Fiscal 2016, the second year of implementation of the CSR obligation, saw 1,158, or 77% of the eligible 1,505, formally reporting such activity. Their CSR spending edged up to 1.64% in fiscal 2016, compared with 1.35% (by 1,024 companies) in fiscal 2015.

The absolute money spent by them was over Rs 8,300 crore compared with Rs 6,800 crore in fiscal 2015. To reach the mandated 2% mark, these companies would have had to spend another Rs 1,835 crore.

There were 133 companies that either didn't spend a dime, or were still freezing their CSR agenda. But even that's an improvement given that 200 companies were in this zone in fiscal 2015.

Of the 1,024 companies that figured in our analysis last year, 921 continued to meet the CSR eligibility criteria in 2016. Nearly two-thirds of them increased their CSR spend, while nearly one-third reduced. Encouragingly, 56% of them spent 2% or more compared with 50% in fiscal 2015.

Fewer players yet to open their account



Biggies catch up, smaller ones cruise

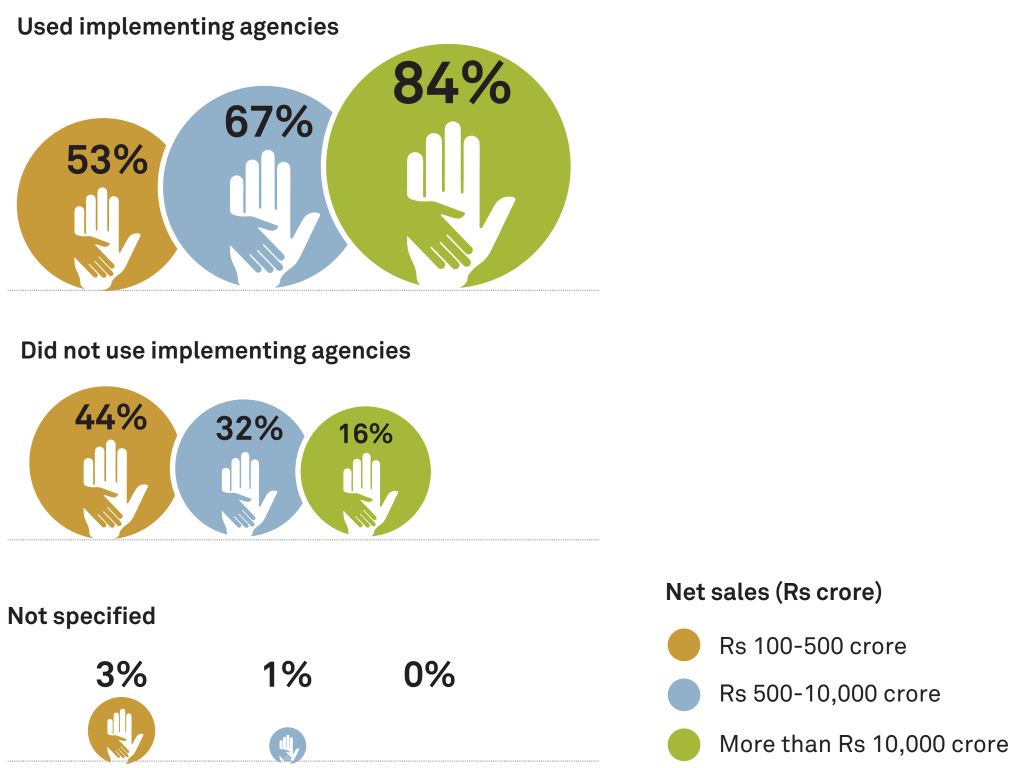
The spending profile of larger companies improved significantly, with more than half of them adhering to the 2% mandate versus roughly a third last year. And smaller companies continued their enthusiastic run.

Spending profile (% of profit)	Percentage of companies by sales turnover					
	Rs 100-500 crore		Rs 500-10,000 crore		More than Rs 10,000 crore	
	2015	2016	2015	2016	2015	2016
2% or more	53%	57%	50%	56%	31%	53%
1.5% or more	62%	69%	59%	70%	47%	69%
<1.5%	38%	31%	41%	30%	53%	31%
<1%	26%	22.1%	29%	22%	36%	22%

There were two reasons for the 22 percentage point jump in adherence by the larger companies: One, they have started to surmount the challenge of large-scale interventions, which takes more time and effort. And two, they are using implementing agencies, mainly non-governmental organisations (NGOs), for execution.

Interestingly, over 84% of the large companies – with sales of Rs 10,000 crore or more – use implementing agencies. Somewhat counterintuitively, many smaller ones prefer going solo.

Partnership with NGOs helps boost compliance



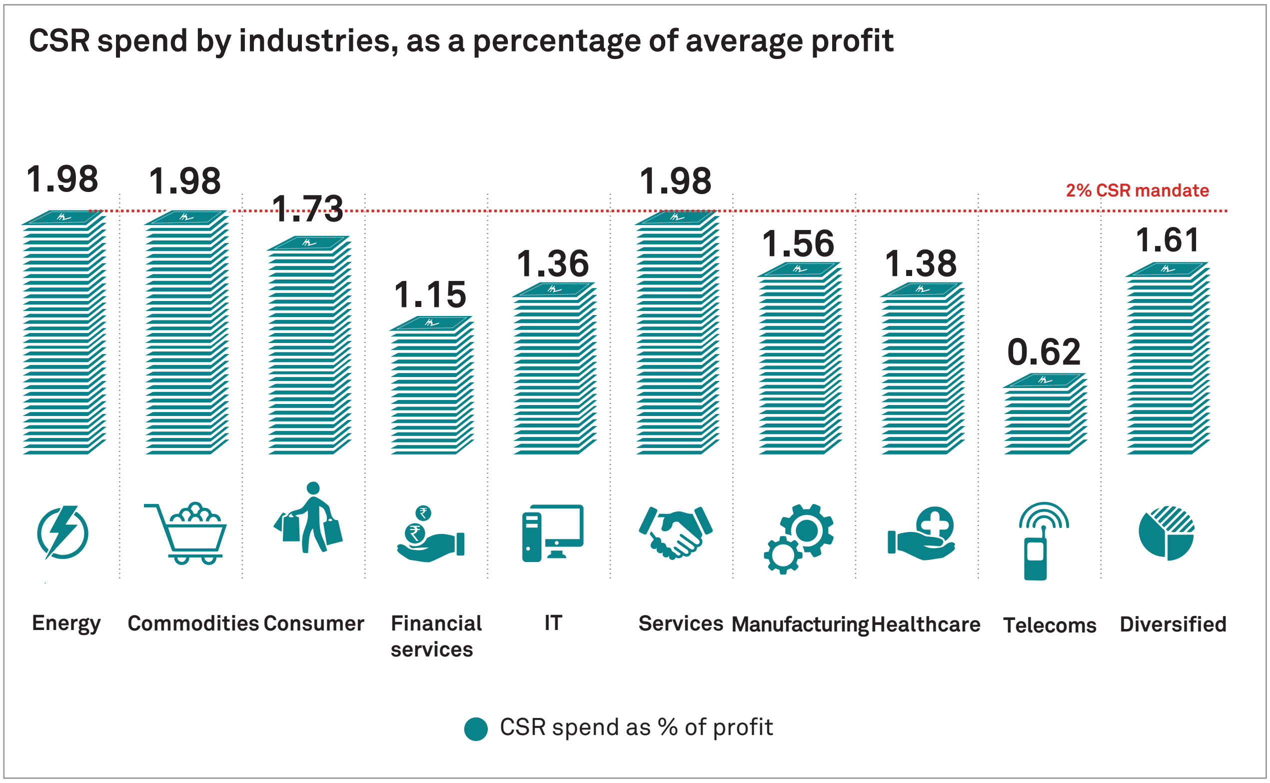
Public sector pulls ahead

Both public and private sector companies improved their CSR spending, with an increased proportion complying with the 2% stipulation. However, public sector undertakings made distinct progress.

Spending profile (% of profit)	2015		2016	
	PSUs	Private	PSUs	Private
2% or more	43%	52%	65%	56%
1.5% or more	60%	61%	80%	69%
<1.5%	40%	39%	20%	31%
<1%	30%	28%	11%	21%

Energy sector remains the spending leader

On average, nearly half the companies across industries (except commodities) are still spending less than 2%. The Financial Services, IT and Telecom sectors, which generate a third of the net profit of listed companies, have been rather parsimonious.



Some sectors still punching below their weight

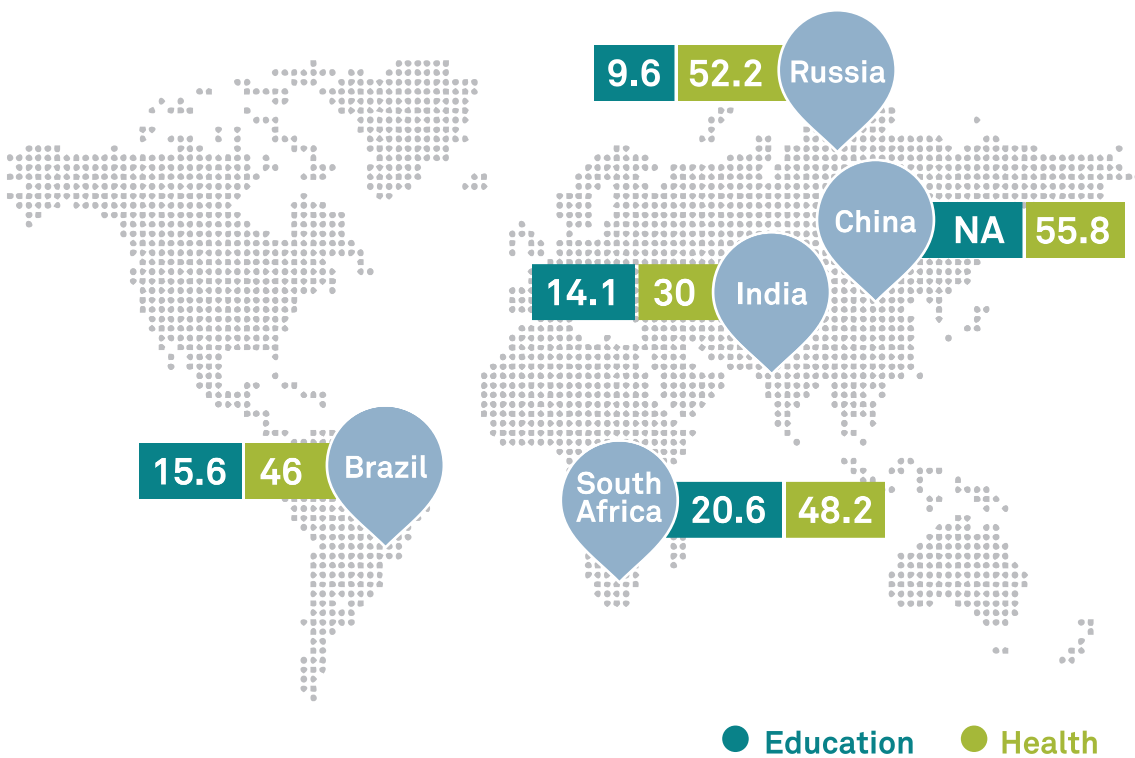
Sector	Number of companies	Share of profit	Share of CSR spend
Energy	42	26%	31%
Commodities	219	12%	15%
Consumer	248	11%	11%
Financial Services	97	16%	11%
IT	53	12%	10%
Services	139	7%	9%
Manufacturing	263	8%	8%
Healthcare	64	4%	3%
Telecoms	6	3%	1%
Diversified	27	1%	1%
Total	1158	100%	100%

In fiscal 2016, more than half of the companies spent 2% or more, except those from telecoms and IT. Commodities and diversified industries stood out, with 60.2% and 59.2%, respectively, of companies in the sector spending 2% or more. Telecoms performed poorly with nearly half of the companies spending less than 1%.

Corporates adding to government efforts

What's good to see is education and healthcare getting the bulk of CSR spend. That's heartening given that, as a percentage of total government expenditure, the money set aside in the Union Budget for 2015-16 – Rs 68,306 crore for education and Rs 44,516 crore for healthcare – is well below what other BRICS nations commit normatively. Something similar can be done in sports, where a minuscule Rs 1,592 crore was budgeted last fiscal so that India can harvest a better medals tally at the next Olympics in Tokyo.

CSR spend as a percentage of total government expenditure



Source: World Bank

Technology spending rockets

Spending on technology interventions has seen more than eight-fold increase to Rs 128 crore from a mere Rs 15 crore in fiscal 2015. But a caveat is in order here: this could be because most companies had begun CSR planning in fiscal 2015, and spending materialised only in fiscal 2016. Then there were the tax incentives, too.

CSR activity	2015		2016	
	Spending (Rs crore)	As a percentage of total	Spending (Rs crore)	As a percentage of total
Education and skills development	2,250	33%	2,686	32%
Healthcare and sanitation	1,875	27%	2,614	31%
Rural development project	892	13%	1,123	14%
Environment	623	9%	564	7%
Relief funds	216	3%	494	6%
Empowerment	140	2%	269	3%
Funds for technology development	15	0%	128	2%
National heritage protection	120	2%	127	2%
Promotion of sports	89	1%	78	1%
Slum area development	0	0.00%	5	0.10%
Benefits for armed forces veterans and families	15	0.20%	4	0.04%
Others*	606	9%	258	3%
	6,841	**100%**	**8,349**	**100%**

Compliance levels consistent across states

More than half the companies in all states spent 2% or more. The top 10 states make up 95.8% of the total CSR spend, with Maharashtra contributing 40.5%, followed by NCT of Delhi with 24.7%. Average CSR spend by company was the highest in NCT of Delhi, followed closely by Karnataka and Maharashtra.

States*	2015				2016			
	No of companies	Total amount spent	Less than 2% on CSR	2% or more on CSR	No of companies	Total amount spent	Less than 2% on CSR	2% or more on CSR
Maharashtra	**332**	2943	49.00%	51%	**391**	3382	45.30%	54.70%
NCT of Delhi	**125**	1232	62.00%	38%	**128**	2061	45.30%	54.70%
Gujarat	**95**	580	49.00%	51%	**118**	666	45.90%	54.10%
Tamil Nadu	**101**	228	43.00%	57%	**111**	305	40.50%	59.50%
West Bengal	**74**	343	44.00%	56%	**86**	443	43.10%	56.90%
Telangana	**57**	283	54.00%	46%	**59**	355	47.50%	52.50%
Karnataka	**48**	497	57.00%	43%	**56**	491	46.50%	53.50%
Uttar Pradesh	**34**	71	38.00%	62%	**30**	47	23.40%	76.60%
Rajasthan	**30**	107	52.00%	48%	**30**	115	43.40%	56.60%
Haryana	**24**	129	38.00%	62%	**29**	135	34.50%	65.50%
Rest of India	**104**	427	43.00%	57%	**120**	350	45.90%	54.10%

*By registered head office

The future is collaborative

Fiscal 2016 saw some companies announcing that they were joining hands for CSR activity, even as Prime Minister Narendra Modi himself weighed in on its many virtues on several occasions.

Yet, actual instances of collaboration have been hard to come by. Under the earlier CSR provision in the Companies Act, 2013, a company could conduct activities only on its own or through a holding, subsidiary or associate company.

But this changed with a February 2014 notification of the Ministry of Corporate Affairs amending the provision. As per Rule 4(3), Companies (Corporate Social Responsibility Policy) Rules, 2014, "A company may also collaborate with other companies for undertaking projects or programmes or CSR activities in such a manner that the CSR Committees of respective companies are in a position to report separately on such projects or programmes in accordance with these rules."

Put simply, two companies can now undertake CSR activities jointly through a separate legal entity that could be a trust, society, or a third company.

This is particularly beneficial to smaller firms that find it hard to spend on CSR projects directly given their relatively modest corpus. However, large corporates stand to gain no less since collaboration is the greatest force multiplier when it comes to making an impact.

So what's keeping corporates from exploring the opportunity with gusto?

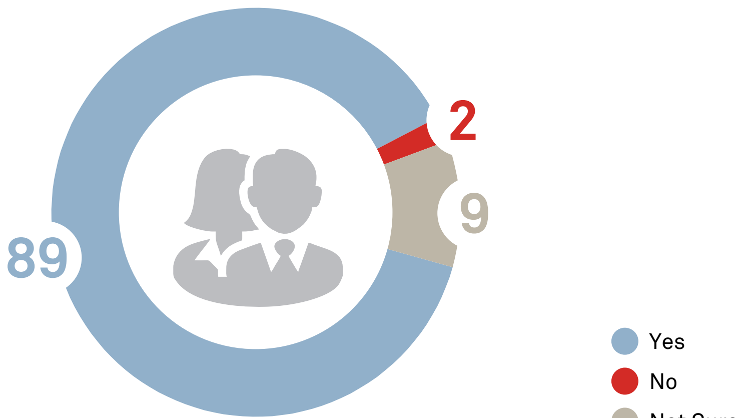
We ran a quick survey to identify the issues and possible solutions (see Methodology, Page 18). The small sample size notwithstanding, the broad contours that emerge are telling:

Majority agree collaboration can enhance impact

Most of the respondents said corporates should collaborate for better impact.

Do you believe partnerships between corporates can improve social impact?

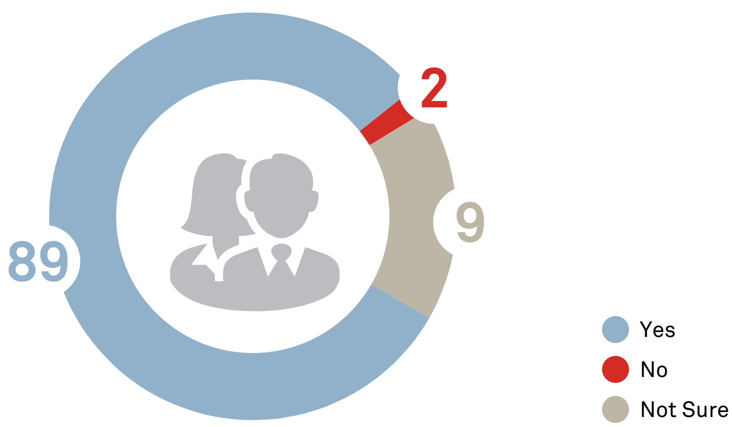
In %



Big thumbs up to joint efforts

Would you like to collaborate with other corporates to enhance impact?

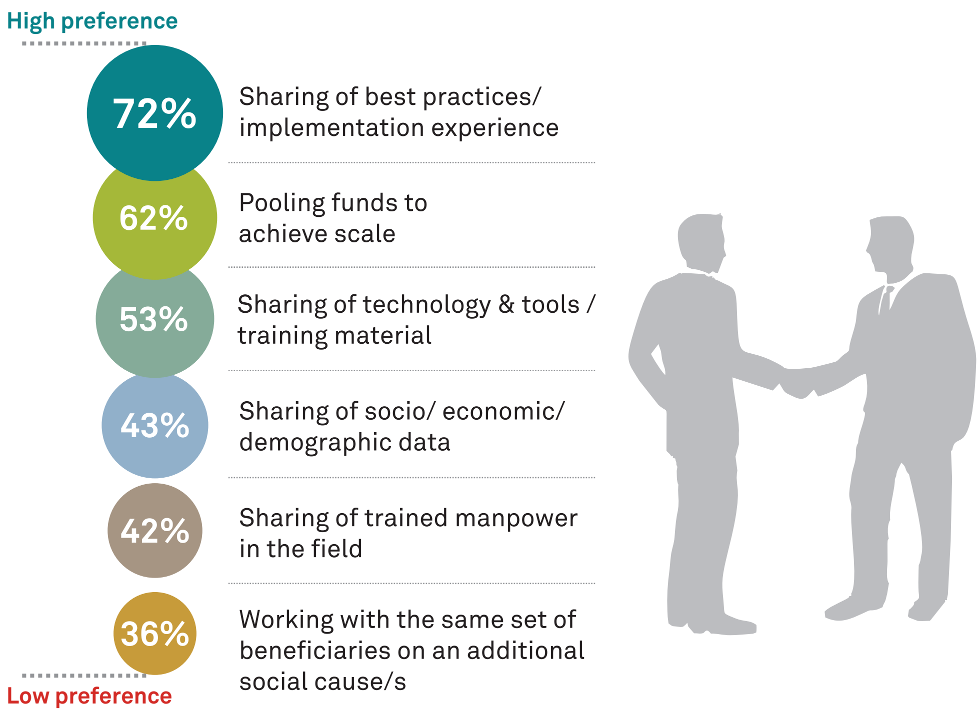
In %



Sharing of best practices most preferred route

Majority of the respondents that were open to collaboration said they would like to share best practices and implementation experience with others. Sharing of technology, tools and training material ranked next in preference. A good number were also open to pooling funds.

What's the best way a partnership between corporates can work in CSR?

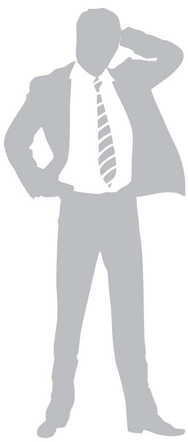


Note: Respondents had the flexibility of selecting multiple options

Lack of information, clarity on rules major challenges

Lack of information was underscored as the biggest challenge by corporates, followed by lack of clarity on how to report commitments separately and how to structure working models.

What are the challenges to partnership?



- **36%** Not clear about how to report separately on partnership projects in accordance with Companies Act, 2013, and Companies (CSR Policy) Rules, 2014
- **28%** Do not know whom to partner with
- **20%** Do not know how to structure working model for partnership
- **16%** Do not have required approvals from the management

Note: Respondents had the flexibility of selecting multiple options as rank 1 (on a scale of 4, with 1 being the highest)

The way forward

We believe greater policy facilitation can be a huge fillip to collaboration given that corporates and their implementation partners are largely open to the idea. Based on survey responses, the issues that need to be addressed are as follows:

- **Lack of information on collaboration opportunities and partners:** Many companies open to collaboration aren't sure where to find like-minded, value-aligned partners. This would require the setting up of a real-time CSR activity grid to spot relevant opportunities.

- **Lack of clarity on rules:** The refrain among corporates and NGOs is that there is little clarity on reporting when it comes to partnership projects. Clarifications would thus spur interest.
  - Lack of uniform tax incentives: Currently, only contributions to the Prime Minister's Relief Fund, scientific research, rural development projects, skill development projects, agricultural extension projects as enlisted in Schedule VII enjoy exemptions under different sections of the Income Tax Act. The incentives can be uniformly applied to other segments, too.

- **Lack of clarity on working models:** Collaboration among corporates for philanthropic work predates the CSR regulation. However, the pitch has queered since the 2% norm kicked in. With reporting made mandatory, corporates seem to be preferring to spend the money themselves rather than join hands.
  - The question of brand identity: This is a big hurdle, because collaborating corporates may not be able to call the project/s their own despite wholesome spending. Some good, working examples can illuminate the path for others. The alternative may be to incentivise collaboration.

- **Lack of management approval:** We believe that with greater clarity on rules and incentives, and as working models become more visible and stable, corporates will be more forthcoming and actually seek out collaboration opportunities.

Methodology

We began with 4,887 companies listed on the Bombay Stock Exchange on the basis of three financial parameters in any of the preceding three fiscals:

1. Net worth of Rs 500 crore
2. Revenue of Rs 1,000 crore or more
3. Profit after tax of Rs 5 crore or more

In all, 1,505 companies met the criteria, of which only 1,158 (~77%) had reported their CSR spend for fiscal 2016. About 133 companies were not able to spend or were in the process of implementing their CSR plans, while 111 said that they were not required to spend on CSR. There were 46 companies which did not report about CSR activity and for 57 others, we could not find annual reports for fiscal 2016.

We then generated a list of companies where more information was necessary to understand CSR spends. This required extracting data from public disclosures. This was followed by number crunching, validation and multiple quality checks across data points to arrive at the conclusions. Data for this was sourced from CRISIL, stock exchange websites, and other public sources.

For the survey on collaboration, we reached out to corporates and some NGOs. The list was well-distributed, with large, medium and small companies. We got over 50 responses within the small window offered. The survey used question to gauge their preferences and we have used the most-preferred choices for the purpose of analysis.

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

CRISIL is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

CRISIL Foundation

CRISIL Foundation was set up in March 2013, as a public charitable trust, to fulfill the corporate social responsibility (CSR) of CRISIL Ltd. As a responsible corporate citizen, it is our mission to empower communities within and beyond our areas of operations. Mein Pragati, the flagship financial capability building programme run by CRISIL Foundation, enables disadvantaged communities by strengthening their financial capabilities. As on date, Mein Pragati has reached out to more than 70,000 women in Assam. Efforts to scale up Mein Pragati resulted in outreach to 17,000 women in Rajasthan. CRISIL Foundation is also sharing the Mein Pragati model with corporate foundations across cities, and customising interventions through strategic partnerships, expected to benefit 5,000 households (urban poor, small and marginalised rural farmers). Additionally, to sustain impact, efforts to develop a network of skilled community and village-based resource persons, and nurture an enabling environment are ongoing. CRISIL RE, the flagship community outreach programme in cities, empowers CRISIL's vibrant workforce as agents of change in Ahmedabad, Chennai, Gurugram, Hyderabad, Kolkata, Mumbai, Pune, and Bengaluru. The programme uses a combination of centrally driven and employee-led projects for social impact and community outreach, engaging more than 1,500 employee volunteers as on date (more than 40% of CRISIL's employee base), and facilitating a better quality of life for the urban poor.

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