

# Are Mandatory Corporate Social Responsibility (CSR) Interventions in India Demand-Driven? The Case of Karnataka

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## Abstract

Corporate Social Responsibility (CSR) scenario in India witnessed a paradigm shift with the announcement of the Companies Act, 2013 which made CSR mandatory. Post the Act, there is an increase in the availability of CSR funds. Majority of the companies adopted the model of partnering with local NGOs to plan and implement programs. The Act envisages a positive role for CSR funds to promote social development in the country by complementing public expenditure. In this new role, CSR funds are expected to be invested where there is greater demand for social interventions. In this background, the study makes an attempt to test the hypothesis that CSR interventions are supply-forced rather than demand-driven in the case of Karnataka. The study observed greater CSR investments in developed districts and districts which are ranking low on the Human Development Index received a lower share. The analysis shows that CSR interventions are supply-forced rather than demand-driven.

**Keywords:** Corporate Social Responsibility (CSR) Expenditure, Demand Driven, Human Development Index, Mandatory Corporate Social Responsibility (CSR)

## 1. Introduction

Corporate Social Responsibility (CSR) in India moved from *voluntarism* to *mandatorism* with the introduction of the Companies Act, 2013. It witnessed a paradigm shift in CSR policy in India and converted CSR activities into a project mode. Practically it has transited CSR from a philanthropic and/or voluntary perspective to a more structured, objective, and measurable format (Mitra *et al.*, 2018). According to Section 135 of the New Companies Act, 2013 any registered company with a net worth of INR 5000 million or a turnover of INR 10000 million, or making a net profit of INR 50 million during the immediately preceding financial year should spend at least two percent of the average net profits on CSR activities.

Initially, the mandatory regime was not welcomed by major industrial giants in India. Displeasure was expressed by Azim Premji of WIPRO. According to him CSR contributions to society need to “come from within”. While addressing a press conference he said “I don’t think you generate CSR by putting statutory requirements. I think there is enough social consciousness among the larger companies to drive it based on what they consider their responsibility” (Economic Times, 2011). Ramaswamy of Sonata Software looks at it from stakeholders’ perspectives. He opines that “shareholders who are the main stakeholders in the company should be given the right to decide how much of a company’s resources be devoted to CSR” (The Times of India, 2011). After the announcement

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of the Act, Ratan Tata who is the Chairman Emeritus of Tata group said “The mandated 2% the government (enforced) becomes like a tax” (DNA, 2015).

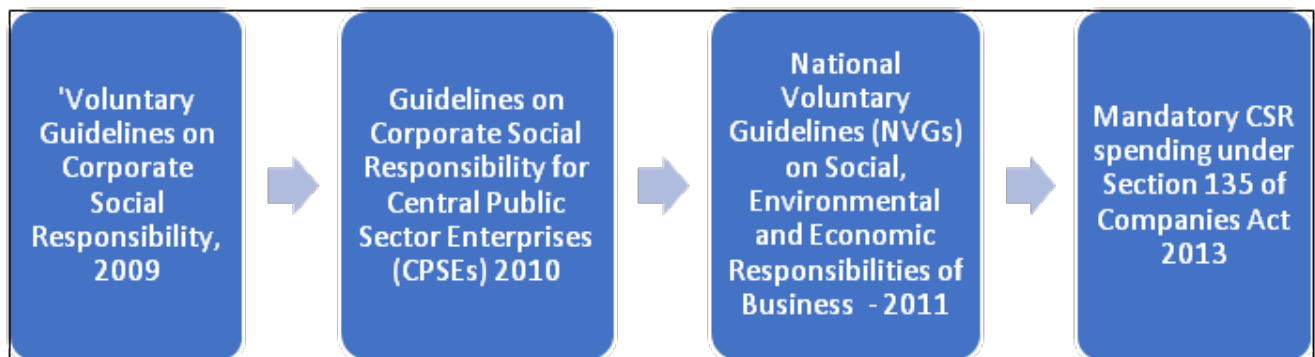
The mandatory CSR legislation is based on what is known as *Chatterjee Model* named after Bhaskar Chatterjee who is instrumental in framing the mandatory CSR guidelines. The basic idea behind Chatterjee Model is that CSR should be linked to the country’s social development. It must be outcome-oriented. In his words “it is based on the Stephen Convey principle of ‘Begin with the End in Mind’. It says that make profits, reach a stable situation of making profits for three years and then focus on social issues” (Chatterjee & Mitra, 2016). According to Chatterjee, it is a different model which helps in bringing the strengths of the private sector to complement or supplement the government interventions without duplicating. When these two important stakeholders work together, it contributes to developing the human capital of India (Mitra, 2014). The mandatory CSR regime witnessed changes in the voluntary initiatives in India. Several companies have started foundations for the implementation of CSR. It was found that 34% of the top 300 firms in India work through their foundations or trusts and 30% of the firms collaborate with non-profit organizations to carry out their CSR activities (Rai & Bansal, 2014).

The motivation for this paper is the basic philosophy behind Chatterjee Model. “While all the earlier CSR models viewed CSR as a business opportunity, the Chatterjee Model of CSR is focused on the social development agenda of the nation” (Chatterjee & Mitra,

2017). It is made keeping in mind the unique Indian context and is linked to the inclusive development agenda of the nation (Chatterjee & Mitra, 2016). In this background, the basic questions that the paper addresses are: What is the nature of CSR investments in Karnataka? Are there any temporal changes in the investments? Are the investments demand-driven? The analysis is based on the premise that if CSR was to contribute to inclusive development, the interventions should be demand-driven.

## 2. Evolution of Mandatory Corporate Social Responsibility in India

Mandatory CSR in India has evolved over some time (Figure 1). The earlier regulations were in the form of voluntary guidelines. Ministry of Corporate Affairs (MCA, 2009) released Corporate Social Responsibility Voluntary Guidelines (2009) encouraging companies to achieve higher corporate governance. In continuation of this, the National Voluntary Guidelines (NVGs) on Social, Environmental and Economic Responsibilities of Business was released by MCA (2011) with a set of nine principles to inculcate responsible business conduct. The High-Level Committee (HLC) on CSR 2018 (MCA, 2019) observed that the NVGs were developed based on the socio-cultural context of India as well as global best practices and with extensive consultations with different stakeholders like Government, academics, civil society representatives and business. Principle eight stresses the responsibility



Source: The author

**Figure 1.** Progress towards mandatory CSR regime.

of businesses to support the government's inclusive growth and equitable development agenda. However, The Guidelines on Corporate Social Responsibility for Central Public Sector Enterprises (CPSEs), issued by the Department of Public Enterprises (DPE) on the 1<sup>st</sup> of April, 2010 form the base for introducing mandatory CSR. According to Chatterjee, the then Secretary for Central Public Sector Enterprises (CPSE) who prepared the guidelines "this is the kernel of CSR in India" (Chatterjee & Mitra, 2016).

## 2.1 The Companies Act 2013

According to the Act "CSR means and includes but is not limited to: (i) Projects or programs relating to activities specified in Schedule VII to the Act or (ii) Projects or programs relating to activities undertaken by the board of directors of a company (Board) in pursuance of the recommendations of the CSR Committee of the Board as per declared CSR Policy of the company subject to the condition that such policy will cover subjects enumerated in Schedule VII of the Act" (Government of India, 2014). The focus areas identified in the Schedule VII of the Act are eradication of extreme hunger and poverty, promotion of education, promoting gender equality and empowering women, reducing child mortality and improving maternal health, combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria, and other diseases, ensuring environmental sustainability, employment enhancing vocational skills, social business projects, contribution to the Prime Minister's National Relief Fund or any other fund set by the Government. Companies (Corporate Social Responsibility Policy) Rules, 2014 provided a prescribed format for the disclosure of CSR expenditure in the Annual Report. The High-Level Committee on Corporate Social Responsibility 2018 observed that Section 135 of the Act and Companies (CSR) Policy Rules 2014 provides a robust framework for companies to contribute to the country's development challenges by sharing their managerial skills, technology and innovation through partnerships (MCA, 2019). In his efforts to evolve a distinctly different CSR model for India, Chatterjee emphasized the following aspects which were not considered in earlier CSR policy discussions (Mitra & Schmidpeter, 2016).

- a. Quantification of CSR Spent
- b. Projectivization of CSR
- c. Assigning CSR Accountability to People
- d. Linking CSR to the inclusive development agenda of the nation
- e. Outcome-based CSR
- f. Delinking CSR from the core business of the company
- g. Harnessing the Strengths of the Corporate Sector
- h. Implement CSR through NGOs
- i. Structured CSR reporting reflecting the CSR activities
- j. Auditing of CSR with the bottom of the line entry

Disclosing the mode of implementation of CSR activities is a mandatory requirement of the Act. According to KPMG India's CSR Reporting Survey (KPMG, 2019), 94 percent of the companies surveyed have CSR Foundations in 2018-19 compared to six in 2014-15. The study observed that 90 percent have indicated/given preference to work in partnerships with implementation agencies indicating that companies have realized the importance of collaboration and partnerships, promoting SDG Goal 17 of 'Partnerships for the Goals' (KPMG, 2019).

## 2.2 Amendments to the Act

The Companies Act 2013 has been amended in 2019 to facilitate the companies to deposit the unspent CSR funds into a fund prescribed under Schedule VII of the Act within the end of the fiscal year. However, the amount should be spent within three years from the date of transfer. The latest amendment came in 2021 with the Central Government Gazette Notification dated 22<sup>nd</sup> January 2021 (Government of India, 2014) which is known as Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021. With the new amendments, companies can undertake multi-year projects for the implementation of CSR as they are permitted to set off the excess amount spent up to three succeeding fiscal years. The CSR Amendment Rules 2021 expanded the areas of intervention and included

research & development of new vaccines, medication, and medical devices related to COVID-19 and overseas training of Indian sports personnel representing any state or union territory at the national level or India at the international level in the eligible expenditure.

### 3. Literature Review

Recent literature in the area of CSR is centered around understanding the legitimacy of mandating CSR, measuring CSR contribution, the challenges in the implementation of mandatory CSR, etc. About mandating CSR in Indonesia, Waagstein (2011) argues that even if it is legitimate, it is problematic in practice as it requires precise interpretation of the concept of CSR and an effective implementation mechanism with appropriate means of verifying the impact. Rioux and Vaillancourt (2020) support the argument that CSR private governance schemes should be regulated by national and international laws to make CSR more efficient. A possibility of co-production of policy options by the state and companies for the practice of CSR was explored by Haslam (2020). But Hira (2020) observed a large-scale failure of existing CSR systems in addressing ongoing global environmental and labor standards.

In the Indian context, the apprehensions were about the loss of freedom to companies in taking independent decisions under the prescription of focus areas in the Act (Ramesh & Mendes, 2015) and the crowding of CSR projects around the neighborhoods of big companies (Sarkar & Sarkar, 2015). Skewness in the distribution of CSR funds across states was observed by the High Level Committee on CSR (MCA, 2019). Manchiraju and Rajgopal (2017) observed negative relation between mandatory CSR and shareholder value. On the positive side of mandatory CSR, a mediating effect between CSR communication and firm performance was observed. Due to this, the management should start looking at CSR as an investment rather than expenditure (Mitra *et al.*, 2018). Another positive impact of a mandatory law was an improvement in corporate social disclosure (Ghosh, 2020). At the institutional level evaluation, the positive impact of the CSR interventions was well documented. According to

the studies of the Department of Management Studies, Indian Institute of Technology (2016) and the National Institute of Rural Development and Panchayati Raj (2017) CSR interventions have a positive impact on the beneficiaries.

Frameworks and indices were developed to measure the impact of CSR interventions quantitatively. While Social Contract and Stakeholder Theories were used in evaluation frameworks (Nippatlapalli & Nair, 2016), CSR Impact Index (CSRII) was developed to measure the effectiveness of CSR activities (Singh & Agarwal, 2013). The authors observed that scalable models are not developed and the CSR budget is spent on a project-to-project basis. Dharmapala and Khanna (2016) analyzed CSR activity with a quasi-experimental variation. Using Nussbaum's list of central capabilities, Renouard and Ezvan (2018) developed a framework to analyze the contribution of CSR to the capabilities of different stakeholders. The authors showed that by quantifying the impact of businesses' activities on various dimensions of stakeholders' lives, and especially on the most vulnerable ones, the business can be held accountable for the negative externalities they produce.

The linkage between SDG and CSR has been well documented (Tsalis *et al.*, 2020). The prescriptive nature of the Indian CSR legislation was found to be helpful to achieve SDG targets better than the voluntary regime (Nair *et al.*, 2021). Jayaprakash and Pillai (2018) argue that CSR programs can make a positive impact on the achievement of SDG targets. The HDI dimension of CSR expenditure observed that less attention is paid to health and environmental sustainability in CSR investments (Mulky, 2017; Singal, 2021). Partnership with local bodies was found to be creating a better environment for the utilization of CSR funds to address local social problems of health care, sanitation and illiteracy. In the case of Indonesia, CSR interventions were found to be supporting human development (Lee, 2012).

The tensions involved in integrating CSR with the business strategy were explored by Sitaloppi *et al.* (2021). The study identified management practices to

address the CSR tensions and supported the integration of CSR with business strategy. The awareness and knowledge levels of the employees were found to be important for the effective implementation of CSR programs (Ravikumar, 2020). Lack of clear understanding of CSR and poor community participation were identified as major challenges for the implementation of CSR (Gupta, 2014; Kumar, 2019).

### 3.1 Demand-driven Approach to Development

A demand-driven approach to development is not a new concept. International Fund for Agricultural Development (IFAD, 2020) adopted a demand-driven approach to rural development projects in Mali in 2007. The concept has evolved from a series of discussions at several high-level forums led by the UN and OECD with the involvement of several stakeholders and came out with the principles that form the basis for a demand-driven approach to development (Bandura and Hammond, 2019). The challenges in adopting this approach are lack of clarity, poor institutional capacity, etc. The related concept of demand-driven innovation found its usage in the development sector in recent years. Arguing for the importance of the demand side in promoting innovations for sustainable development, Saviotti and Pyker (2013) observed that while promotion of innovation from the supply side is important for productivity growth, the creation of adequate demand for new goods and services resulting from innovation is a necessary condition for sustainable development. Similarly, in the case of CSR funds, while it is important to focus on the supply of funds, it is equally important to see if they are meeting the demands of the community. As observed by the HLC, the objective of mandatory CSR is not only to raise funds for development but also to encourage companies to come out with innovative solutions to the problems that communities are facing. This kind of Demand-Side Financing (DSF) creates greater social value.

Industrial policies of different countries were analyzed with the demand-driven policy analytical framework

by Santiago and Weiss (2018). The findings indicate that the demand-driven interventions are usually implemented as part of broader policy mixes including supply-driven measures. The potential for the applications of demand-driven, community-led approaches to livelihood support in the post-war situation was explored in a collaborative study by ILO and the World Bank. It is based on the understanding that demand-driven methods may be uniquely suited to meeting challenges to livelihood support and economic revitalization posed by post-war environments. The study identified eight “operational principles” for the application of demand-driven approaches for livelihood support in conflict contexts which are equally applicable to developing countries (Goovaerts *et al.*, 2006). Evaluation of the project on the Demand-Driven Extension Approach in Pakistan showed that the demand-driven approach increased the self-help tendency among villagers which resulted in decreased dependency on the government for services (Qamar, 2011).

A review of some of the studies reveals that a majority of them are at the micro-level. The macro perspective on the implications of CSR spending received scanty attention. Similarly, very little is known about the demand-driven nature of CSR interventions. It is taken for granted that once the priority areas are identified, funds would automatically flow in the desired direction. But due to spatial differences in development, mandating the areas of intervention is only a necessary condition, but not a sufficient condition to achieve inclusive development. It is imperative to understand if CSR funds are invested in the areas where they are most demanded.

## 4. Methodology and Data Sources

Karnataka is one of the top five states in India in CSR spending. Several multinational companies from India are located in this state. The number of CSR companies has increased from 53762 in 2015 to 97839 in 2022. The amount of CSR contribution also increased from INR 4034.6 million in 2014-15 to INR 9666.2 million in 2020-2021. Therefore, Karnataka is considered as

a case to analyze the demand-driven nature of CSR investments in India.

In the present analysis, the amount of CSR expenditure is considered to represent the supply side of CSR interventions and the need to promote human development is considered as the demand side. Therefore, it is expected that lower the human development, greater the demand for CSR interventions.

The paper is based on secondary data from 2014-15 to 2020-21. Data about CSR expenditure was collected from the CSR portal. The Human Development Index (HDI) of different districts in Karnataka was adopted from the calculations of Rao and Ravishankar (2020) based on the National Family Health Survey – 4 for the period 2015-16. The Correlation Coefficient was calculated to understand the association between CSR expenditure and HDI. The quantitative data is supplemented by qualitative observations based on interactions with CSR practitioners of companies and NGOs.

#### 4.1 Analytical Framework

The analysis is based on the premise that CSR expenditure can be demand-driven as the new guidelines provide enough opportunity for the involvement of stakeholders. Under the new regime, companies adopted different models for fulfilling their CSR obligation. They are:

- Contribution to Government Schemes
- Implementation through NGOs
- Formation of Not-for-Profit organization registered as section eight company/trust/society
- In-house CSR activities by the employees

Figure 2 explains the path for demand-driven interventions in the implementation of CSR. Based on the interactions with the companies and also with the NGO representatives who are implementing CSR projects, it is observed that in all the models described above, it is possible to design demand-driven interventions. In the case of the first model, the demands are identified by the line departments and projects are prepared based on the

demand. But in the second model, the grassroots level NGOs, due to their involvement with the community can evolve demand-driven interventions. In the third model of CSR interventions through registered trust, projects are designed based on the needs assessment. As in the fourth model, when companies directly implement also, needs assessment/feasibility studies are undertaken to identify local needs. Theoretically, the fund allocation is based on identified community demands in all the models.

## 5. Analysis

Data relating to the nature of CSR interventions, their distribution and linkages with human development is presented below.

### 5.1 Mapping of CSR Interventions

Since the implementation of mandatory CSR, companies have been reporting data about CSR interventions classified according to the broader areas specified in the Act. Based on the data reported in the CSR portal of the Ministry of Corporate Affairs, the nature of CSR interventions in Karnataka is analyzed (Table 1).

Promotion of education and livelihoods has attracted the highest share of CSR expenditure by the companies in Karnataka. From the CSR reports of larger companies in Karnataka, such as Infosys, Wipro, Tech Mahindra and TCS, it was observed that companies are supporting training programs introduced by the Government of India. They are also contributing to higher educational institutions like IIMs and IITs. Health, eradication of hunger, poverty, addressing malnutrition and provision of safe drinking water are the other sectors where 21.37% of the CSR funds are spent during the reporting period. In addressing these issues while some are partnering with NGOs and also Government, several have directly contributed to the swatch Bharath Kosh (SBK). On an average INR 67.5 million was contributed to SBK by the companies in Karnataka. Environmental protection and support for animal welfare also received 16.63% of the total CSR funds. The expenditure under the rural development category comprises all the expenditure spent on the

promotion of rural areas. Only 5.45% of the total expenditure comprising INR 3496.38 million was spent on rural development projects. From the expenditure, it is clear that a major share CSR amount was spent on health and education-related projects in Karnataka during the 7 years.

## 5.2 Changing Priorities of CSR Expenditure in Karnataka

Though the average expenditure presented in Table 1 indicates a higher share of expenditure on health and education, there are inter-year differences. Disaggregated data shows (Table 2) that while health and education-related interventions remained the priority of companies throughout the period, the other sectors gained popularity in recent years.

The share of education in general, education of the disabled and livelihoods has increased from 34.84% in 2014-15 to 50% in 2018-19. However, there is a decline in later years. The pandemic has diverted the priorities from education and livelihoods to the provision of health care, addressing poverty and malnutrition issues. The share of expenditure on health, eradication of hunger, poverty and malnutrition has shown an increase during the pandemic years from 19.82% in 2014-15 to 24.86% in 2019-20 and then to 27.83% in 2020-21. The share of expenditure on the conservation of resources also increased to 3.22%. However, the share of expenditure on women empowerment projects, and gender equality has shown a marginal increase only.

One important observation is a reduction in the share of expenditure on the rural development category during the pandemic years. The share of expenditure on rural development was 5.29% in 2014-15 and it declined to 2.27% in 2020-21. Contribution to SBK has increased considerably during the pandemic period. The share of contribution to SBK has increased from 0.08% in 2015-16 to 5.35% in 2020-21. Slum area development has also taken a back seat during the pandemic period.

## 5.3 Linkages between CSR Interventions and HDI in Karnataka

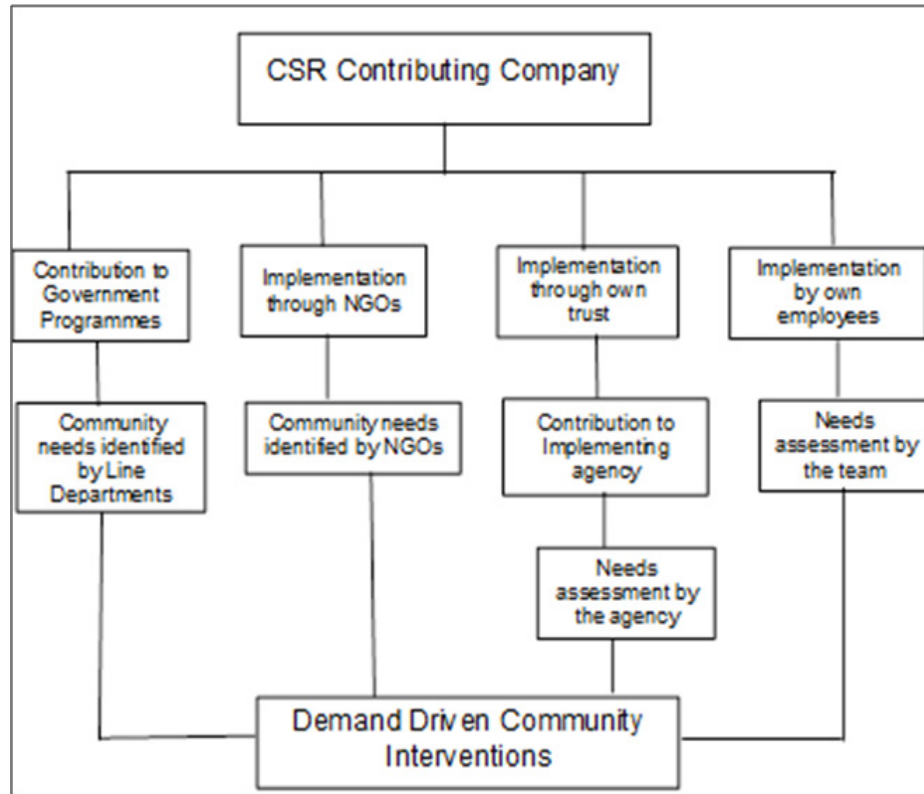
As observed in the analytical framework, the new CSR guidelines create an opportunity for guiding

the interventions to meet the community demands. Improving human development is considered a community demand because the human development approach defines development in terms of access to health, education and decent living. In this framework, if the interventions are demand-driven, more interventions should have been in districts with low HDI. To understand this, district-wise average CSR expenditure during seven years is compared with the HDI of the district (Table 3).

The data reveals different combinations of HDI and average expenditure. Some districts which are performing well in HDI also received higher average CSR spending. For example, Bangalore Urban district which is ranking two with a high HDI value of 0.831 also received an average of INR 337.10 million. Similarly, the Udupi district ranking first in HDI value also ranked high with INR 154.12 million during the same period. On the other hand, the districts which are ranking low received lower CSR funds. Some of the districts in this category are Bidar, Gulbarga and Yadgiri. In the case of Yadgiri, though the district is ranking 30<sup>th</sup> with an HDI value of 0.528, it received only INR 5.75 million during the seven years. The other category of districts is those with lower HDI, receiving a higher amount of average CSR funds. Chitradurga is one such district with 26<sup>th</sup> rank in HDI value, but 10<sup>th</sup> rank in CSR expenditure. This is a positive indication of funds reaching where they are most demanded. A distributional matrix (Table 4) explains this.

Districts are categorized into low and high HDI categories based on their rank. All the districts above the 15<sup>th</sup> rank are classified as developed districts. The same criterion is used to classify the districts based on the average CSR expenditure during seven years period. The matrix reveals the following four categories.

*Category I:* The districts that are ranking high both in HDI and average CSR spending are in this category. Out of the total of 30 districts in Karnataka, eight districts are in this category. Though these districts are ranking high in HDI, a higher amount of CSR funds was spent.



Source: The author.

**Figure 2.** Analytical Framework.

**Table 1.** The pattern of CSR expenditure during 2014-15 and 2020-21 (INR in million)

Areas of intervention	Total expenditure	Average expenditure/ year	Share of each category
Education, Differently Aabled, Livelihood	30164.15	4309.17	4.70
Encouraging Sports	724.60	103.51	0.11
Environment, Animal Welfare, Conservation of Resources	10678.43	1525.49	1.66
Gender Equality, Women Empowerment, Old Age Homes, Reducing Inequalities	1697.80	242.54	0.26
Health, Eradicating Hunger, Poverty and Malnutrition, Safe Drinking Water, Sanitation	13719.24	1959.89	2.14
Heritage Art and Culture	867.80	123.97	0.14
Other Sectors (Technology Incubator and Benefits to Armed Forces and Admin Overheads)	212.96	30.42	0.03
Rural Development	3496.39	499.48	0.55
Slum Area Development	225.32	37.55	0.04
Clean Ganga Fund	2.95	0.98	0.00
Swachh Bharat Kosh	405.54	67.59	0.06
Prime Minister's National Relief Fund	289.34	57.87	0.05
NEC/ Not Mentioned	1116.57	279.14	0.17
Any Other Fund	605.75	100.96	0.09
Total Expenditure	64206.85	9172.41	10.00

Source: National CSR portal, <https://csr.gov.in/>



**Table 2.** Share of different interventions (In percentage to total investment)

Areas of Interventions	2014-2015	2015- 2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Education, Differently Abled, Livelihoods	34.84	40.87	52.18	47.01	50.68	49.77	36.86
Encouraging Sports	0.84	1.65	0.54	1.49	1.24	0.88	1.29
Environment, Animal Welfare, Conservation of Resources	13.14	20.69	13.32	24.37	14.18	13.22	17.28
Gender Equality, Women Empowerment, Old Age Homes,	2.68	1.85	3.16	2.53	2.50	2.93	3.22
Health, Eradicating Hunger, Poverty and Malnutrition, Safe Drinking Water, Sanitation	19.82	25.03	21.40	15.13	18.81	24.86	27.83
Heritage Art and Culture	2.36	0.85	0.67	1.15	1.73	0.81	3.92
Other Sectors	0.09	0.05	0.31	0.15	0.86	0.33	0.05
Rural Development	5.29	4.65	6.23	6.76	6.76	4.15	2.27
Slum Area Development	0.07	0.08	0.17	0.01	1.85	0.29	--
NEC/ Not Mentioned	20.88	2.62	0.64	--	--	0.08	--
Clean Ganga Fund		0.01	0.02	0.02			
Swachh Bharat Kosh (SBK)		0.08	0.04	0.09	0.84	0.30	5.35
Any Other Fund		1.18	0.89	0.81	0.55	1.35	1.63
Prime Minister's National Relief Fund		0.40	0.44	0.49	--	1.01	0.30
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: Calculated by the author.

*Category II:* The districts with higher HDI value, but lower CSR spending are in this category. In these districts, since they are performing well in terms of standard of living, health, and education, a lower amount of CSR spending is justified. A total of seven districts out of 30 are in this category.

*Category III:* This contains districts with low HDI value, but is ranking high in CSR expenditure. This is also justified because these districts are low in HDI, and there is greater demand for social investments. Six districts are in this category.

*Category IV:* Districts that are ranking low in HDI, as well as CSR spending, are in this category. For example, Yadgiri district with an HDI value of 0.528 is ranking lowest among the districts and CSR expenditure is also as low as INR 5.75 million during the reference period. Nine districts are in this category. The lack of CSR investments in these districts indicates that the investments are not demand-driven.

**Table 3.** District-wise average CSR expenditure and human development index (INR in million)

District	Average CSR investment between 2014-15 and 2020-21 (INR in million)*	Rank in amount	Human development index**	Rank in HDI
Bagalkot	11.26	19	0.643	27
Bangalore Rural	550.49	1	0.682	19
Bangalore Urban	337.10	2	0.831	2
Belgaum	30.51	12	0.684	18
Bellary	75.13	9	0.635	28
Bidar	3.44	30	0.661	24
Chamarajanagar	5.02	29	0.74	12
Chikkaballapur	22.47	15	0.671	22
Chikkamagaluru	7.92	24	0.746	8
Chitradurga	52.27	10	0.658	26
Dakshina Kannada	266.25	3	0.826	3
Davanagere	6.98	25	0.741	11
Dharwad	97.90	6	0.764	5
Gadag	10.81	21	0.679	20
Gulbarga	5.63	28	0.663	23
Hassan	9.84	22	0.745	9
Haveri	8.38	23	0.729	14
Kodagu	20.41	17	0.752	7
Kolar	79.26	8	0.709	16
Koppal	5.94	26	0.672	21
Mandya	10.85	20	0.739	13
Mysore	96.43	7	0.742	10
Raichur	21.74	16	0.584	29
Ramanagara	117.34	5	0.718	15
Shimoga	27.00	14	0.76	6
Tumkur	29.58	13	0.696	17
Udupi	154.12	4	0.837	1
Uttara Kannada	36.18	11	0.771	4
Vijayapura	11.31	18	0.66	25
Yadgiri	5.75	27	0.528	30

Source: \*National CSR portal <https://csr.gov.in/>;

\*\*Rao and Ravishankar (2020).

**Table 4.** CSR spending and HDI Matrix

Category I (Higher HDI and Higher CSR Spending)	No. of Districts	Category II (Higher HDI and lower CSR Spending)	No. of Districts
Bangalore Urban, Dakshina Kannada, Dharwad, Mysore, Ramnagara, Shimoga, Udupi, Uttara Kannada.	8	Chamarajanagar, Davanagere, Hassan, Haveri, Kodagu, Kolar, Mandya	7
Category III (Lower HDI and higher CSR Spending)	No. of Districts	Category IV (Lower HDI and lower CSR Spending)	No. of Districts
Bangalore Rural, Belgaum, Bellary, Chikkaballapur, Chitradurga, Tumkur	6	Bagalkot, Bidar, Chikmagalur, Gadag, Gulbarga, Koppal, Raichur, Vijayapura, Yadgiri	9

Source: Calculated by the author.

**Table 5.** Correlation between CSR expenditure and different indices of HDI

Variables	Pearson Correlation	Sig. (2-tailed)	N
Correlation Between Expenditure and LSI	.488**	.006	30
Correlation Between Expenditure and HI	-.140	.460	30
Correlation Between Expenditure and EI	.429*	.018	30
Correlation Between and HDI	.400*	.028	30

Source: Calculated by the author.

\*Correlation is significant at the 0.05 level (2-tailed);

\*\*Correlation is significant at the 0.01 level (2-tailed).

LSI = Living Standard Index, HI = Health Index, EI = Education Index.

## 5.4 Correlation between CSR Expenditure and Different Components of HDI

Human Development Index is an aggregated index of the Living Standard Index (LSI), Health Index (HI), and Education Index (EI). As per the HDI estimates (Rao and Ravishankar, 2020), though the Mysore district is having a high value of 0.812 in LSI, it is having a low EI of 0.662. On the other hand, the Yadgiri district which is having the lowest HDI value of 0.528 is showing a high HI of 0.788. The district is performing poorly in LSI and EI. The same is the case with Ramanagara where the HDI value is high (0.718) and HI is above the state average (0.915). But it is performing poorly in EI (0.532). Based on these observations, correlations between average CSR expenditure and different indices of HDI are calculated (Table 5).

A positive and significant association between CSR expenditure and LSI is observed indicating that districts with higher LSI received higher CSR funds. On the other hand, the correlation between CSR expenditure and HI is negative. The correlation is weak and not significant. But the sign shows that higher expenditure has gone to districts with lower HI, which is a positive trend. The correlation between CSR expenditure and EI is also positive and significant. This indicates that a higher amount of CSR funds is spent in districts where EI is high. The overall HDI is also positively associated with CSR expenditure. The CSR expenditure in different districts of Karnataka is positively associated with higher HDI in the districts and the correlation coefficient (0.400) is significant

indicating that higher CSR funds are spent in districts that are performing well in HDI. At this stage, we are not able to establish the contribution of CSR funds to HDI because of two reasons. Firstly, there are no estimates of how much output is generated in each district due to CSR interventions. Secondly, there is no information about what is the share of CSR funds in meeting the development targets in each sector.

## 6. Discussion

World over there is a change in the philosophy of CSR. It moved from simply being philanthropic to developing partnerships with the stakeholders. The companies are expected to take responsibility for their impact on society and in the market-led economies, the role of public authorities is to provide appropriate incentives for taking up CSR including by setting benchmarks (European Commission, 2019).

In the Indian context, CSR moved from philanthropic to the mandatory regime, passing through a voluntary regime. The introduction of mandatory CSR in 2013 is a paradigm shift in CSR policy. The companies Act 2013 mandated CSR spending and equated CSR with the implementation of programs. The basic philosophy behind this policy is that CSR should contribute to the country's social development. To achieve this CSR spending should be committed, and guided and the outcomes are to be measured. The policy encourages partnerships between companies and community-based organizations/NGOs and also with Government in planning and implementing interventions based on

local demands. Initially, there was a mixed response to mandating CSR. But when it came into practice in 2014, CSR funds increased from INR 40.35 million in 2014-15 to INR 148.06 million in 2019-20 in Karnataka alone. With the inclusion of expenditure on COVID-19 under the CSR category, several companies have contributed to the COVID relief projects. Companies made a cumulative spend of INR 1100 million on Covid-19 till June 2021 since it was made eligible for CSR spending in 2020 (CRISIL, 2021). Data available in the public domain shows that a major share of CSR funds in Karnataka is spent on capability-promoting projects/sectors. Projects relating to the promotion of education, livelihoods, health, eradication of hunger, and the environment have received a higher share. But projects promoting gender equality, women empowerment, and rural development received less attention. The intra-state analysis reveals the skewed distribution of CSR funds in different districts in Karnataka. The districts which are ranking well in terms of human development indicators have received a higher share of total CSR funds in Karnataka. The positive correlation between CSR spending and human development indicators supports this argument that higher CSR funds are invested in districts with higher human development status. On the other hand, the districts which are poor in human development received lesser CSR funds. This may be partially due to the guidelines provided in the Act. The first proviso to section 135(5) of the Act provides that the company shall give preference to local areas and the areas around where it operates. Since a majority of the large companies are located in developed districts, there is crowding. Subsequently, MCA clarified that due to the national priorities and the focus on Sustainable Development Goals, it is difficult to separate the preference to the local area. Therefore, the direction in the Act is only directory and not mandatory and companies need to balance local area preferences with national priorities. Even so, companies seem to be focusing on local areas.

From the analysis, it appears that the CSR investments are more supply-forced rather than demand-driven. Investments are not taking place where there is a greater demand for funds to improve human development. However, there are large gaps in knowledge that need

to be filled to make CSR spending demand-driven. The landscape of the development sector has changed considerably with the introduction of mandatory CSR and provision for the involvement of NGOs. While CSR became a major source of funds for NGOs, companies are looking for credible NGOs with innovative ideas and capabilities to manage the projects professionally. But there is scanty information about the capabilities of the planning and implementation teams in understanding the local demands. Planning projects which will have a long-term impact and are scalable is essential. Managing projects professionally is also essential to improve their impact over time (Ray, 2013). Developing people-centric analytical approaches to evaluate the contribution of CSR to the capabilities of people and use the evidence for planning further forms an essential component in the entire process. The people-centered framework that would provide criteria to assess corporations' impacts and responsibilities, both on human development in the long term and on stakeholders' capabilities in the short term is very important (Renouard & Ezvan, 2018). The Capability Approach provides tools for understanding the impact of this when CSR is viewed as a tool to achieve social development with inclusive growth.

## 7. Conclusions and Suggestions

The literature shows that there are several micro-level studies, but these studies do not throw light on the macro picture to answer the questions like what is the impact of mandatory CSR on social development, whether the interventions are demand-driven? Is there equity in resource allocation? Are there any scalable models? etc. A recent assessment by NITI Aayog also pointed out at lack of a macro-level view. The report says "while there is no question that the private sector in India has contributed significantly to addressing social challenges through CSR and that the last six years have seen tremendous progress in understanding and adherence to government regulation - there is a dearth of a macro-level view of the social impact of such policies" NITI Aayog (2021). Further research is needed to understand the involvement of stakeholders/community in planning the projects. Mapping of the process involved in planning, and measuring specific

contributions at regular intervals relating it to overall objectives at the macro level is very important. The other areas that need further research are estimating the share of CSR funds in each sector, measuring the contribution of CSR to human development and measuring the social return on CSR investments.

At the policy level, providing incentives to companies for investments in backward districts and guiding them in the identification of these areas based on evidence helps. An independent coordinating agency in each state with a mandate to provide evidence-based guidance to the companies is essential to make CSR interventions demand-driven.

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