Confederation of Indian Industry

CII-ITC Centre of Excellence
for Sustainable Development

10 YEARS
OF CELEBRATING SUSTAINABILITY

CSR TRACKER 2015

BEYOND A BILLION DOLLARS SPEND

CSR performance of companies in FY15

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PREFACE

Corporate social responsibility or CSR in India assumed significant importance and common understanding with the passage of Companies Act 2013. Resting in Section 135 of the Act, CSR, for legislative purposes, came to be known as companies spending a part of their profits for activities related to nation building as guided by Schedule VII.

Almost 70 years since independence and now more than two decades of above seven percent GDP growth rates, India is still home to the largest population of poor in the world, the largest population of undernourished and malnourished children, millions of unskilled people migrating from agrarian rural settlements to sprawling shanties in urban settlements, and another few hundred millions defecate in open. Most of India's freshwater sources have been polluted and it has the largest number of most polluted cities of the world, led by Delhi.

It is understandable that these gaps in development and deterioration on some aspects could be attributed to inefficiencies in design, delivery, and financing for development by the State. However, growing accumulation of wealth of small percentage of Indians associated with the rapid economic growth in the 1990s, and the exhibition of that wealth through penetration of various forms of media across income strata, brought to fore the widening gap in quality of life of one billion people and the impending conflicts between the few haves and the many have-nots.

Perhaps, the first time that government at its highest level asserted this growing problem to business was in 2007, when then Prime Minister Dr Manmohan Singh gave a ten-point Social Charter to business at the National Conference and Annual Session of Confederation of Indian Industry. The Social Charter was the government's call for "Partnership for Inclusive Growth". That was followed by an initiative of Indian Ministry of Corporate Affairs to draft and announce National Voluntary Guidelines (NVG) for Social, Environmental and Economic Responsibilities of Business. Expectedly they remained voluntary in adoption by most business. The Indian Securities and Exchange Board managed to mandate disclosures on NVG by top hundred companies on stock exchanges, which was expanded to 500 companies in 2015. Privately, regulators and businesses agree that mandatory disclosures are only a matter of compliance and companies may not have necessarily translated the guidelines into action.

Alongside these developments was a new Corporate Law on the drawing board. Companies Act 1956 was due for an overhaul in the aftermath of scandals such as Satyam. In the meanwhile, regulations for listed companies had improved and there needed to be semblance between companies of different ownerships. New Companies Bill was taking shape of a legislation that would set new standards of corporate accountability, responsibility and transparency.

This was largely the context that led to the creation of Section 135. It manages to bring accountability, responsibility and transparency in CSR, contrary to the popular yet incorrect perception or understanding that it mandates spends on CSR. The Section primarily does two things:

1. Makes CSR a board matter, which is a mandatory requirement, and
2. Attempts to increase transparency by mandating disclosures on CSR Policy, planned activities and actual implementation at the end of the year.

The Section does suggest eligible companies to spend two per cent of net profits on CSR, but allows the option for underspend providing reasons approved by the board.

Viewed objectively, the legislation attempts to bring CSR (as defined by Section 135) from the periphery to the centre of doing business. It does intend for top management and boards to spend time on it and deal with CSR activities in a strategic and planned manner. It entrusts the boards with the accountability and responsibility of CSR as a business function as well as their company's contribution to nation building. Therefore, CSR now requires engagement, and not just transactional involvement, of company secretary, audit, legal, and finance, in addition to CSR, human resources, and public relations. Headquarters will have to work more closely with managers at sites, who typically are required to keep local communities in good books.

The mandatory disclosures will increase transparency. With that also comes public scrutiny, especially for companies putting out annual reports in public domain. It is out there for concerned stakeholders to check planned vis-a-vis actual CSR activities. A couple of years into the future, questions on impact will emerge. Boards should not be waiting then to ask similar questions in periodic meetings that they are supposed to conduct.

Success of this legislation lies in sincere implementation and patience. It is the responsibility of each stakeholder to do its bit. If majority of companies do a sincere job at CSR, then there is not much for governments to tighten screws. Legislatures and governments should look at the larger picture and must prevent misuse of law for short-term or limited gains or view CSR spends as source of funding. Implementing agencies have their bit in improving their processes and quality of implementation. Then there are CSR consultants and auditors who have to encourage companies to plan beyond annual plans, and be creative and innovative in solutions rather than play safe with conventional approaches. Then there are organisations such as Confederation of Indian Industry that have a critical role of catalytic agents carved out for them.

CII-ITC Centre of Excellence for Sustainable Development has been requesting companies to be proactive than reactive. Companies are now in a position to estimate CSR budgets for 3-5 years. They can plan CSR activities and estimate intended impact. Resources of the company are then geared to make that impact.

CSR legislation is not perfect like any other legislation anywhere in the world. It has its limitations and flaws. Nevertheless, it's a good beginning. It allows space for collaboration, creativity, and innovation in design and delivery of CSR projects. It is not for legislation to tell companies how. It is for companies to be open to the idea of doing different things and at scale.The enormity of development challenges India faces is huge. Companies, governments or not-for-profits won't be able to make a difference on their own. The enormity calls for collaboration and partnership. Companies will typically bring professionalism and efficiency, not-for-profits the last mile connect, and governments will provide scale and resources. Indians have waited for 70 years for challenges to abate. To solve rapidly the challenges at the scale of one billion people requires creativity and innovation.

EXECUTIVE SUMMARY

The CSR Tracker 2015 is CESD's attempt at consolidating and analysing CSR disclosures of companies listed on the Bombay Stock Exchange and had the legislative obligation to comply with Section 135 of Companies Act 2013. 1,194 companies had this obligation of which 1,181 were analysed.

The CSR Tracker 2015 is the most comprehensive analysis of CSR disclosures as per Companies Act 2013, to date. The scope covers six aspects and 43 indicators, including governance of CSR, financial data, spend areas, and mode of conducting activities. The analysis presented in this report rests on data captured in over 2,000,000 cells of a worksheet.

According to Section 135 of Companies Act 2013, companies of certain financial scale are recommended to spend at least two per cent of their average net profit of the preceding three years on CSR every year.

1,181 companies collectively spent Rs 6,400 crore or USD 1 billion; this is 80 per cent of the collective budget of Rs 8,000 crore. This money was spent by 87 per cent of the companies of which 52 per cent could not manage to spend two per cent of their net profit. The most quoted reasons for underspend are lack of credible implementing agencies or inability to find good or relevant projects.

As many as 97 per cent of the companies had CSR Committees in place, with many companies going beyond statutory requirements on number of independent directors; many have reported independent directors as Chairs of CSR Committee. 94 per cent of the companies had CSR policy in place.

For the first year of compliance, these numbers may not be a bad start. One could make a safe interpretation that the focus has been on putting in place governance structures and processes to spend wisely. Boards need to do a better job. Only 15 per cent of the CSR Committees met at least three times in FY15; 54 per cent of the CSR Committees met less than three times; 31 per cent of the companies have not made any disclosure on meetings of CSR Committee, which is also not in conformance to Companies Act 2013.

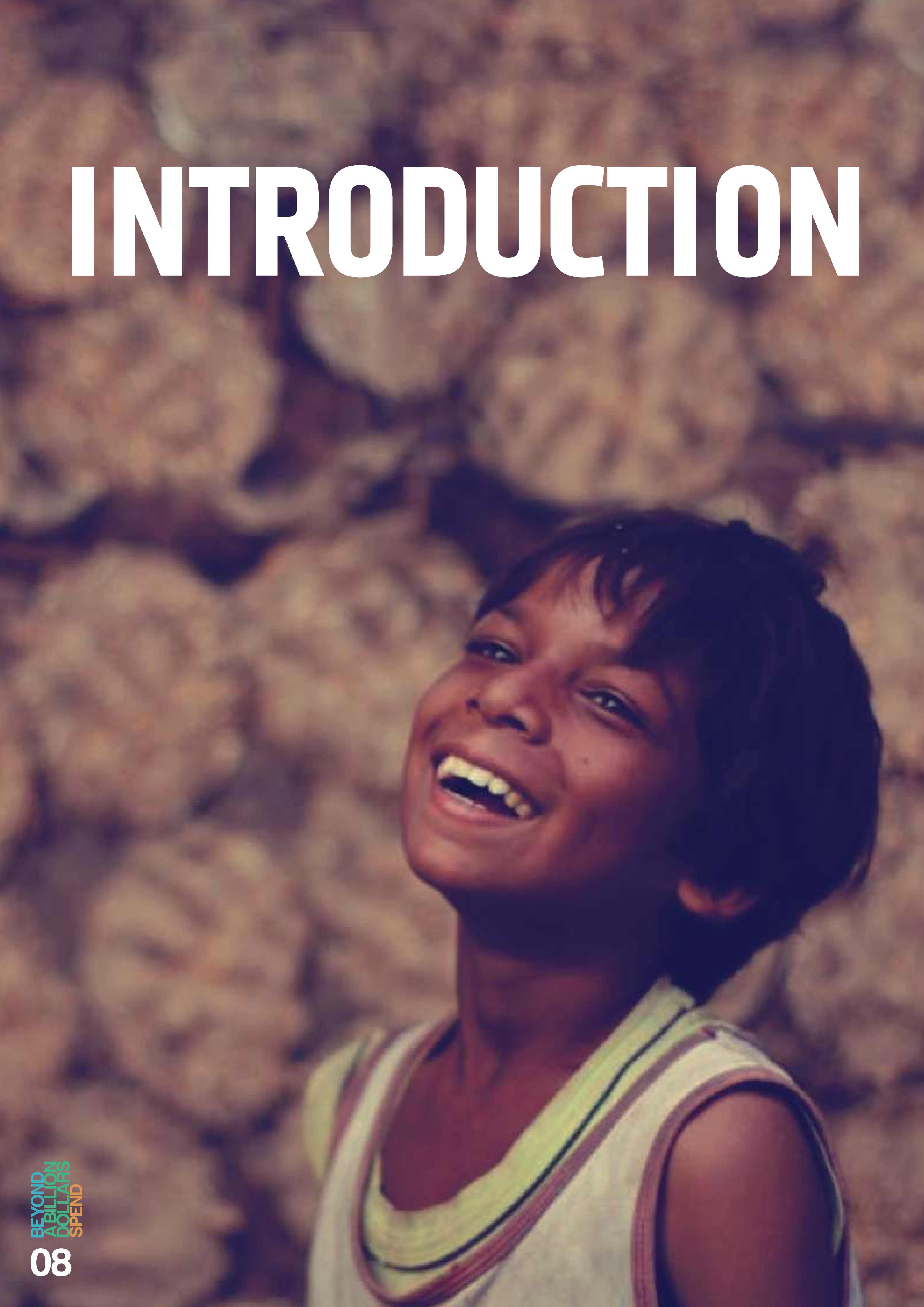
Some of the results are predictable. For instance, industrialised states drew most of the companies as compared to less industrialised states. More than half of the 1,200 companies have had CSR operations in Maharashtra and Gujarat, whereas only three per cent have had engagements in North-East. This is in part an outcome of the CSR legislation, which advocates geographic proximity of CSR activities to operations of business. The statistics might slightly improve in favour of non-industrialised states if the government were to remove this prescription or advice.

Education and skills, health and sanitation, and rural development are the top three areas for spend, garnering around 70 percent of the money spent. These are in line with development challenges of the country and scale.

Most of the companies that spent on CSR activities did so via implementation agencies. This mode of implementation could validate 'lack of credible implementing agencies' as one of the key reasons for not spending at least two per cent of net profit.

Contrary to widely held cynicism, Prime Minister's Relief Fund wasn't the safe bet for many companies. Only 1.6 per cent of the total spend went that way.

INTRODUCTION



Corporate social responsibility (CSR) in India, once a utopian concept, has in recent years evolved into something that business cannot ignore. To facilitate this transition, the Ministry of Corporate Affairs, in recent years, has put in place policies to encourage businesses to become more responsible. One such is the 'National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities of Business, 2011'.

The National Voluntary Guidelines or the NVGs comprised of nine principles, of which, Principle (viii) was to 'support inclusive growth and equitable development'.

Principle (viii) was the foundation for Section 135 of the Companies Act, 2013, which was effective from 2014-15. With the implementation of the Act, India became the first and the only country to mandate governance and disclosures on CSR, and suggest a minimum spend of two per cent of net profits.

CSR Legislation

Section 135 suggests that companies with an annual turnover of Rs.1,000 crore and more, or net worth of Rs. 500 crore and more, or a net profit of Rs. 5 crore or more to spend at least two per cent of their average net profits of the previous three financial years on CSR activities.

The key elements of the legislation are that any company that falls into the above criteria does the following:

1. Constitute a CSR Committee of the board, comprising three or more directors out of which at least one director must be an Independent Director
2. Formulate and recommend a CSR policy to the board
3. The board shall ensure that the company spends, in every financial year, at least two per cent of its average net profit for the previous three financial years, in fulfilment of its CSR Policy
4. The Director's Reports of a company covered under these rules pertaining to a financial year commencing on or after the 1st day of April 2014 shall include an annual report on CSR activities in the specified template. In case a company fails to spend two per cent of its profits, the board needs to specify the reasons for the same.

According to the Act, 'Corporate Social Responsibility' means and includes but is not limited to: (i) Projects or programmes relating to activities specified in Schedule VII of the Act; or (ii) Projects or programmes relating to activities undertaken by the board of directors of a company (Board) in pursuance of recommendations of the CSR committee of the Board as per declared policy of the company subject to the condition that such policy will cover subjects enumerated in Schedule VII of the Act.'

Eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation and making available safe drinking water

Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects

Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups

Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water

Protection of national heritage, alt and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts

Measures for the benefit of armed forces veterans, war widows and their dependents

Training to promote rural sports, nationally recognised sports, paralympic sports and Olympic sports

Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government

Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women

Rural development projects

The Central government has specified various schemes of national importance as part of Schedule VII and to qualify for CSR spends.

स्वच्छ भारत एक कदम स्वच्छता की ओर

NAMAMI GANGE

PMKVY प्रधानमंत्री कौशल विकास योजना PRADHAN MANTRI KAUSHAL VIKAS YOJANA

GOVERNANCE

The study analysed compliance related to governance by looking at the following two aspects:

CSR Committee: presence of a committee, number of committee members, and frequency of CSR committee meetings

CSR Policy: presence of a CSR policy, presence of CSR policy on website, and brief description of the CSR policy in the annual report

Key Finding

Majority of the companies have governance structures in place

CSR Committee

97% of the companies have a board-level CSR Committee

Of these 97% have an Independent Director as a member of the committee

46% of these companies have an Independent Director as the Chair of the CSR committee

% of companies with a board level CSR Committee

Position of the CSR Committee chair on the Board

INDEPENDENT DIRECTOR **46%**

EXECUTIVE DIRECTOR **26%**

NON-EXECUTIVE DIRECTOR **12%**

PROMOTER EXECUTIVE **4%**

NON-EXECUTIVE NON-INDEPENDENT DIRECTOR **4%**

COMMITTEE CHAIR POSITION NOT MENTIONED **3%**

PROMOTER DIRECTOR **3%**

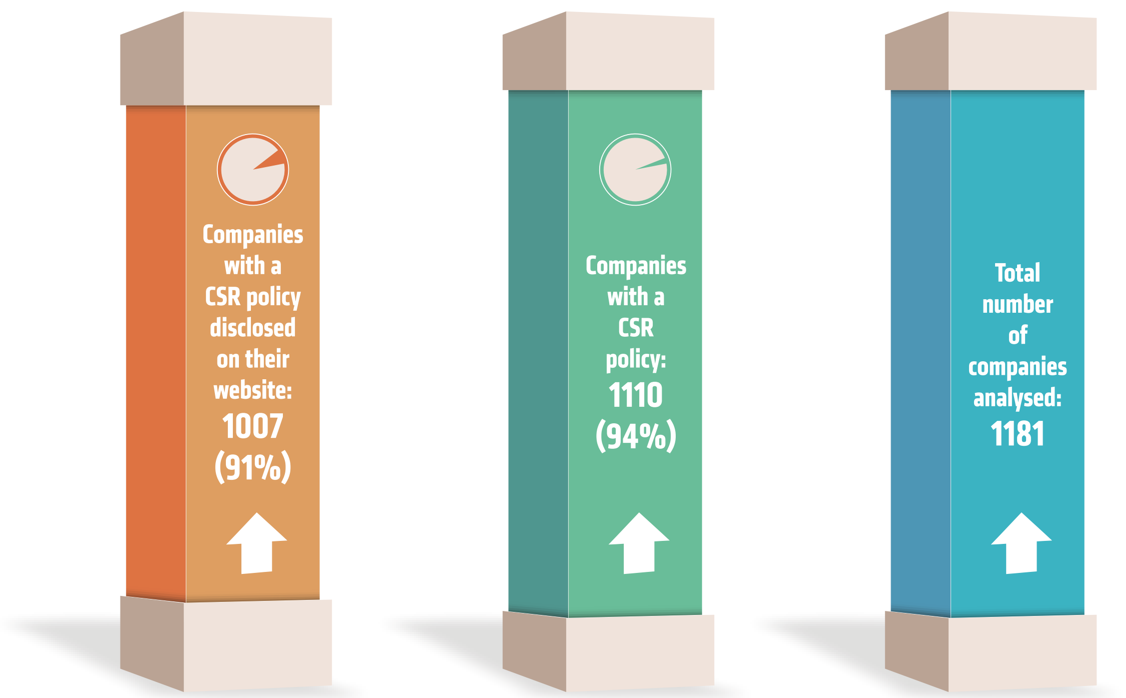
NON-INDEPENDENT **1%**

PROMOTER NON-EXECUTIVE **1%**

There was no significant difference in these governance indicators between state-owned companies and non-state-owned companies.

CSR Policy

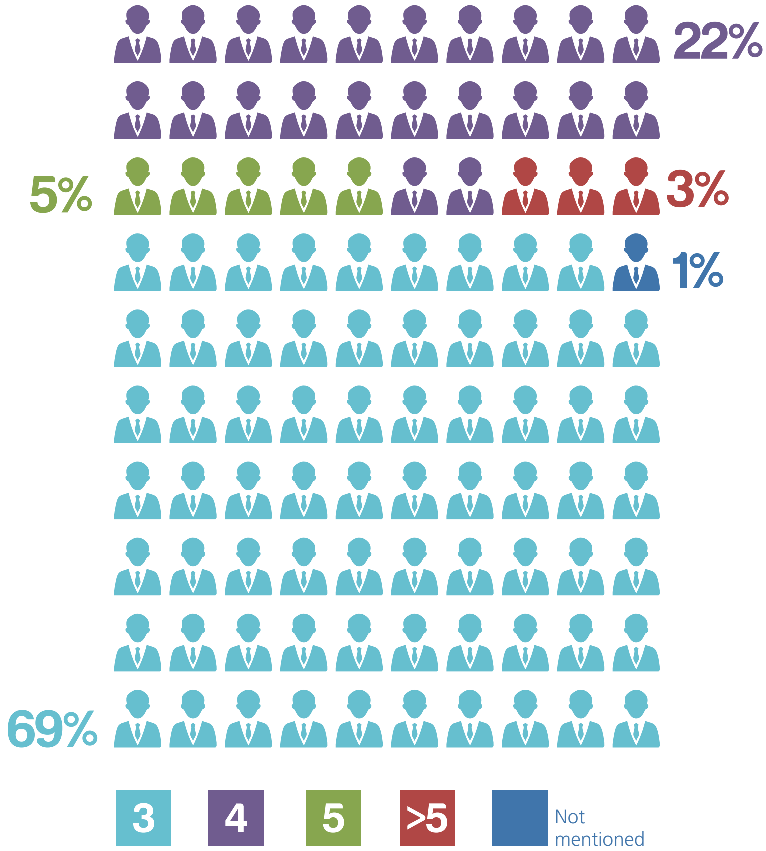
94% of the companies have a CSR policy, of those 91% have disclosed their CSR policy on the website.

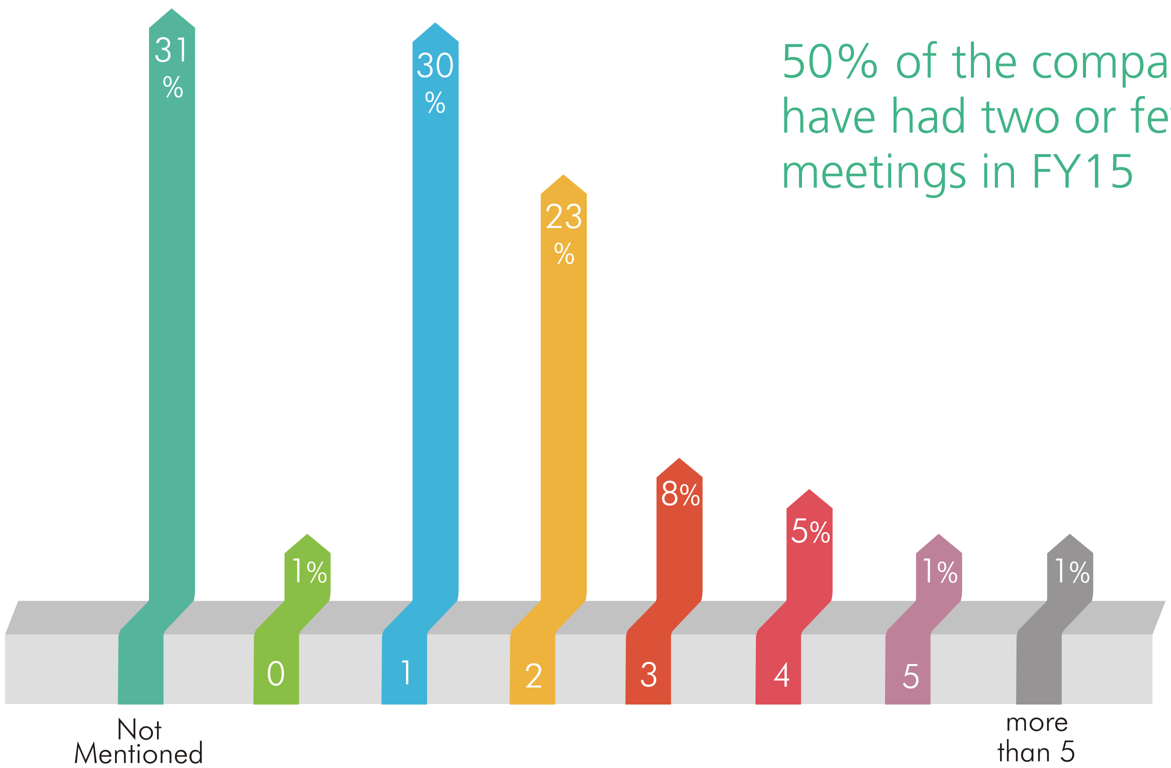


CSR Committee Members

99% of the companies that have a CSR Committee have at least three members in it (the remaining 1% have not mentioned the size of the committee in their annual report)

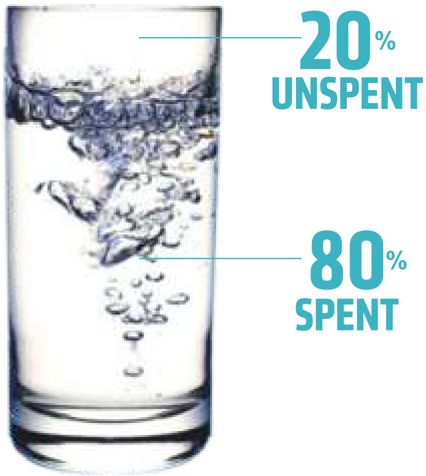
30% of the companies have four or more Committee members, whereas the mandatory requirement is three members





50% of the companies have had two or fewer meetings in FY15

CSR SPENDS



Glass 80% Full

USD 1 billion or INR 6400 crores is the amount spent by publicly listed companies in India on CSR over the last financial year. Their estimated budget should have been INR 8000 crore. It is still significant considering potential impact on social welfare and nation building.

While a majority of the amount was spent across the activities as listed out in Schedule VII, a few companies opted for activities other than those listed. Education and healthcare saw the biggest influx of corporate funds, while Maharashtra and Gujarat saw the most number of companies investing in CSR in the state.

4% of the companies that have invested in CSR are state-owned companies and their contribution amounts to 28% of the total CSR spend in 2015. Of this 28%, almost 70% is attributed to six companies. Similarly, 46% of the total CSR amount invested by non-state owned companies is attributed to nine companies.

There is no significant correlation between company's area of expertise or business and its CSR initiatives.

Spends Across Development Areas

Activities under the areas of education and healthcare accounted for more than 50% of the CSR spend with almost 70% of the companies investing in these two areas. This is similar to global corporate and individual philanthropic trends of spending primarily on education and health-related causes.

Rs 1950 crores was spent in the field of education through construction and improvement of academic facilities.

Rs 1750 crores was spent towards healthcare and sanitation which included initiatives such as health camps, construction of medical facilities, building toilets, providing safe drinking water and the like. Toilet construction, especially in rural areas and in public schools, was observed to be a major thrust area keeping in mind the national-level initiatives of Swachh Bharat and Swachh Vidyalaya.

Swachh Bharat

Some companies clearly marked out CSR activities for Swachh Bharat Abhiyan (Rs 110 crores), some chose to donate it to Swachh Bharat Kosh and others have classified this spend under sanitation initiatives.

More than 60% of the companies have invested in either 1 or 2 activity areas

10% of the CSR spend was directed towards environmental and ecological initiatives that focused on conservation of natural resources.

Clean Ganga
CSR spend towards this activity has been merged with the relevant Schedule VII activity.

Technology incubation was the least favoured channel

Rs 107 crores was spent as contribution to the Prime Minister's Relief Fund. 8% of the amount was spent by state-owned companies which constituted 3% of the total number of companies that contributed to the Fund.

Others: CSR spend on activities outside the 10 items was categorised as 'Others' for the purpose of this analysis. This category included items that could not be classified easily into Schedule VII such as:

- Money spent towards setting up foundations, corpus donations
- Donation to Chief Minister Funds, disaster relief funds
- Money spent towards identifying implementation agencies
- Project management expenses paid to implementation agencies or NGOs
- Overhead expenses

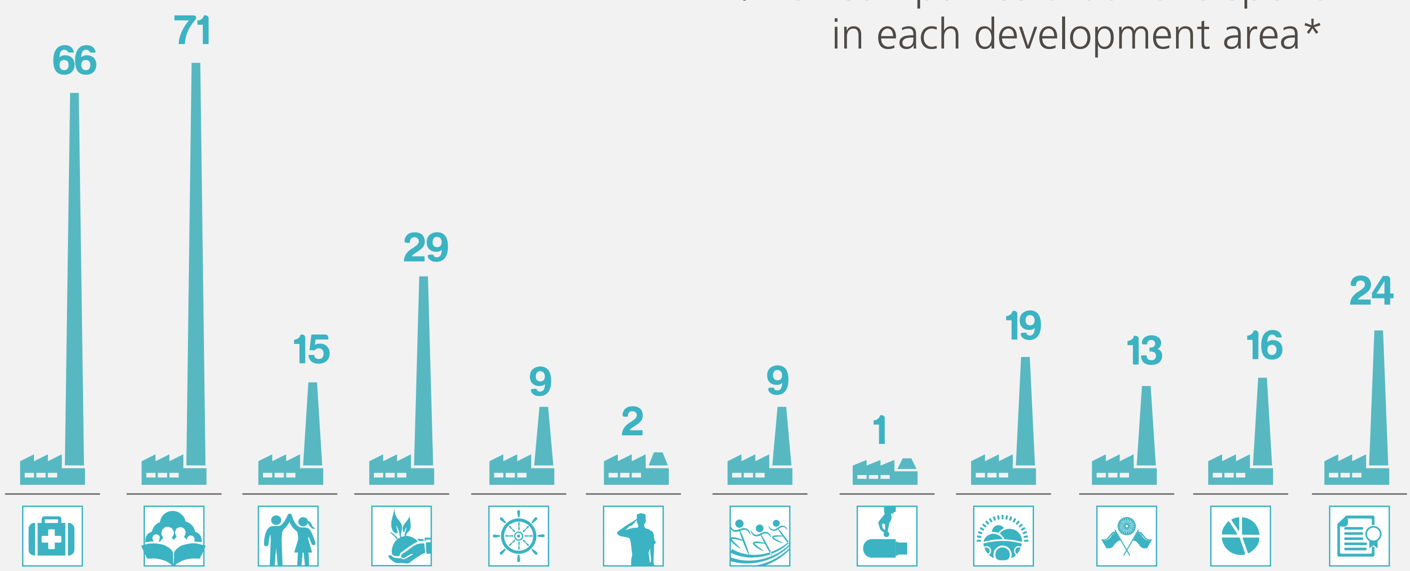
This category also included items that should NOT be included such as:

- Salaries of CSR staff
- Administrative expenses for the company

CSR Spend (in crores)

31%	EDUCATION AND SKILL DEVELOPMENT	₹1972
27%	HEALTH AND SANITATION	₹1749
10%	ENVIRONMENT	₹651
10%	RURAL DEVELOPMENT	₹666
9%	COMBINATION OF ABOVE	₹589
7%	OTHERS	₹460
2%	GENDER EQUALITY	₹127
2%	PM RELIEF FUND	₹107
2%	NATIONAL HERITAGE	₹67
	ARMED FORCES & VETERANS	₹1
	SPORTS DEVELOPMENT	₹48
	TECHNOLOGY INCUBATION FUND	₹4

% of companies that have spent in each development area*



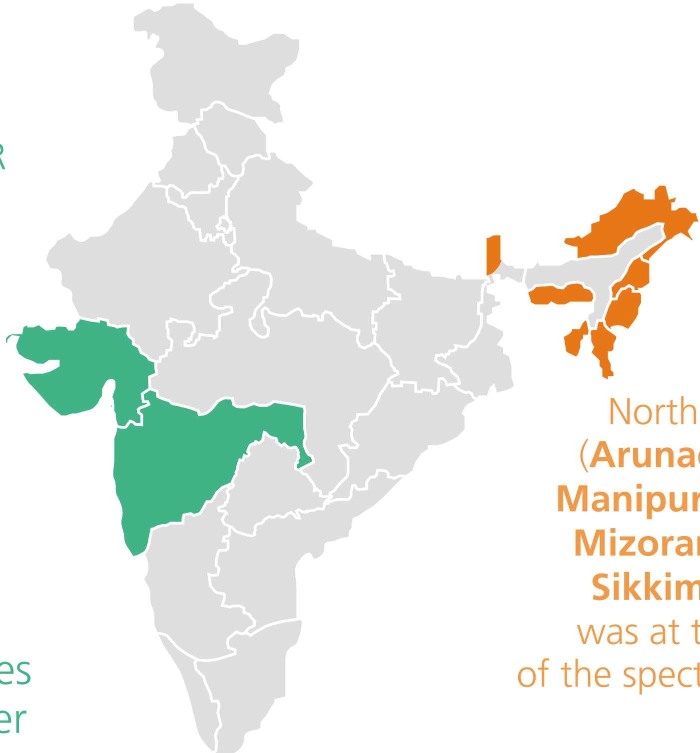
*% figures don't add to hundred as firms invest in multiple areas.

Spends Across Geographical Areas

The Western states of **Maharashtra** and **Gujarat** received CSR investments from more than

50%

of the companies



58%

of the companies invested in either 1 or 2 states

Northeastern region (**Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura**) was at the lowest end of the spectrum with only

3%

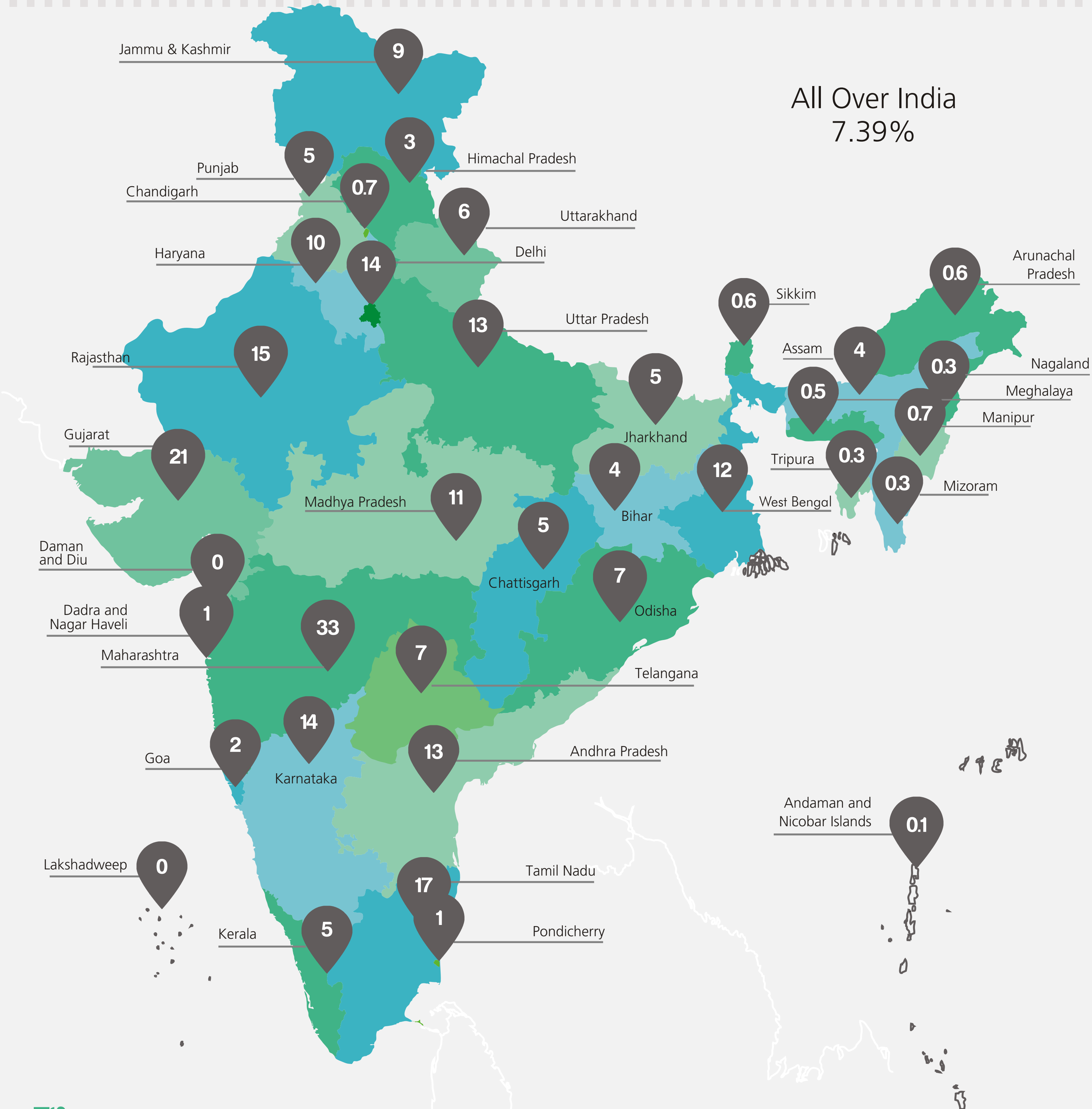
of the companies choosing to invest in those states.

Of the state-owned companies that have spent on CSR, 10 have invested in more than 10 states

5 companies invested in 20 or more states / Union Territories

66 companies mentioned investments were Pan India (not included in chart above)

% of total companies that have invested in a particular state



Number of Companies Spending in Northeast India

State-owned Companies		Non-state-owned Companies	
Assam	10	Assam	24
Arunachal Pradesh	5	Meghalaya	4
Manipur	4	Manipur	3
Sikkim	3	Sikkim	3
Tripura	3	Nagaland	2
Mizoram	3	Arunachal Pradesh	1
Meghalaya	1	Tripura	0
Nagaland	1	Mizoram	0
Total	30	Total	37

Based on the average net profit of the last three years, the 2% prescribed amount was established as the baseline. CSR spend was then analysed to understand in comparison with the 2% target.

Number of companies in our sample

1,181

Number of companies with average net profit of the last three years

> 0 = 975

Companies with average net profit of the last three years > 0 that have spent on CSR:

838

Total number of companies that have spent on CSR:

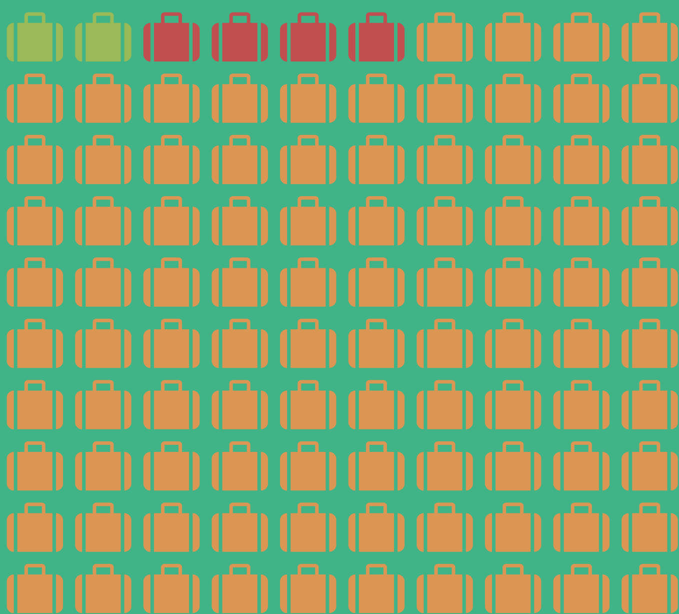
893*

Companies that have spent money on CSR

4%
Loss-making companies that have spent on CSR

94%
Profit-making companies that have spent on CSR

2%
Avg. net profit or loss for last three years not mentioned



* These include companies that have either made a loss or have not clearly mentioned whether or not their average net profit of the last three years > 0

2% Target Spend Analysis

Of the 975 companies that were expected to spend money on CSR activities, the following was observed:

86% have spent on CSR

42% have spent at least 2%, **58%** spent less than 2%.

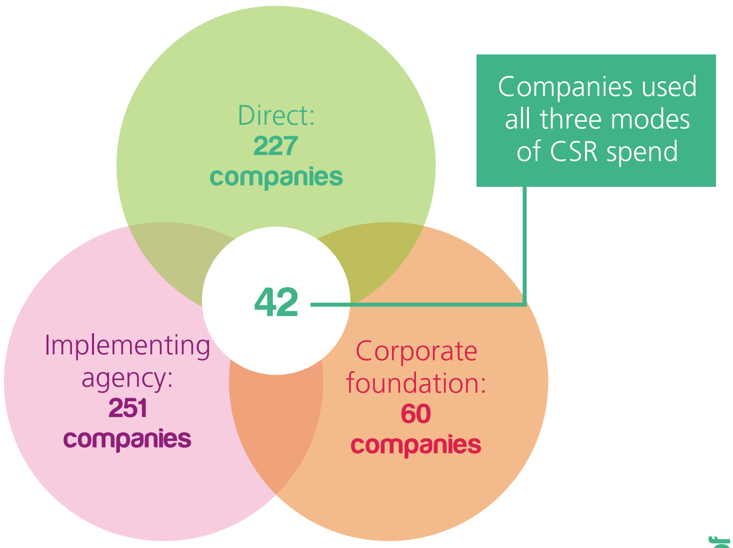
37% of state-owned companies have spent 2%

Companies that spent less than 2% were required to provide reasons for underspend which were approved by the Board. It appears that most of the spending gap was because companies were focused on planning and aligning their CSR structure to comply with the legislation. Interestingly, very few companies attributed the spending gap to the fact that their CSR activity was not included in Schedule VII.

Channels Used for CSR Spend

Companies use either one or a combination of the following channels for CSR spends:

- Directly by the company
- Through the company foundation
- Through implementation agencies



The remaining companies used a combination of two out of three approaches for CSR spend.

Reasons for Underspends

Reason	% of companies
Require more time to plan	35%
Others / Company decision	14%
Multi-year projects	12%
Did not find right project	11%
No reason mentioned	9%
Insufficient funds available	6%
Did not find right implementing agency	4%
Social activity not included in Schedule VII list	1%
Over budgeted	1%
Lack of documentation	1%
Multiple reasons from the list	6%

The most common reason that 35% of the companies gave, was need for more time to plan. According to some of these companies, as it was the first year of the implementation of the mandate, they required the time to set up and put in place their internal processes (such as setting up a Committee, formulating a CSR policy, aligning activities to Schedule VII) and therefore did not have enough time to identify, plan or complete their CSR activities. Most companies claimed that in the following year they were committed to fulfilling their CSR obligations by spending the entire prescribed amounts.

14% of the reasons were categorised under 'Others / Company Decision'. In some cases, it was not apparent what the specific reason was, other than that the company decided not to spend, and it was classified as 'Others / Company Decision'.

Examples include companies that mentioned that they were unable to spend the entire prescribed amount due to administrative and operational hurdles; companies that spent the year setting up a foundation or trust through which they planned to carry out CSR activities; and companies that needed to conserve resources for capital expenditure projects.

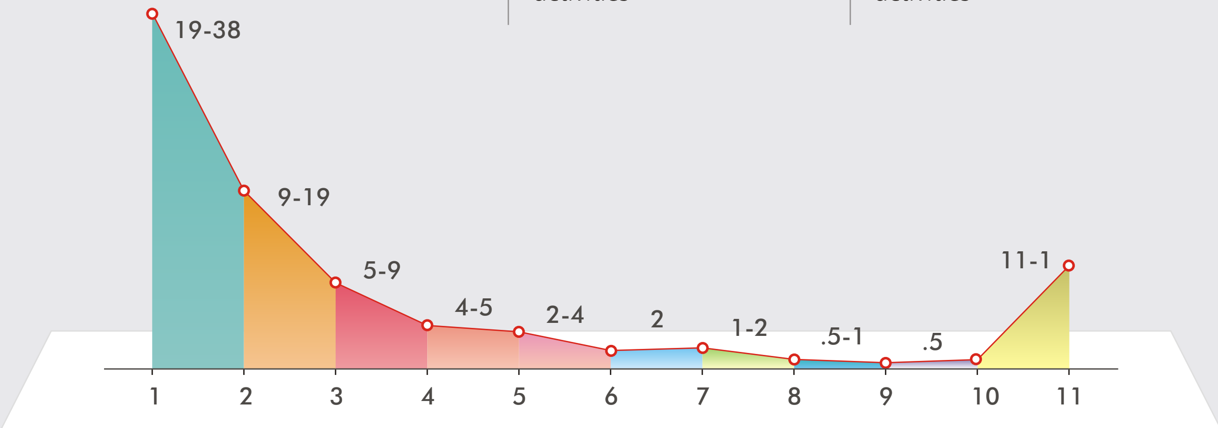
12% of the shortfall in spending was attributed to multiple-year projects. In such cases, while the money was allocated, the company was disbursing the amount periodically depending on the stage of the project and not all at once.

Based on the explanations provided by companies it can be inferred that the CSR spend may grow as companies overcome first year challenges and streamline their processes.

% of companies investing in multiple states or union territories

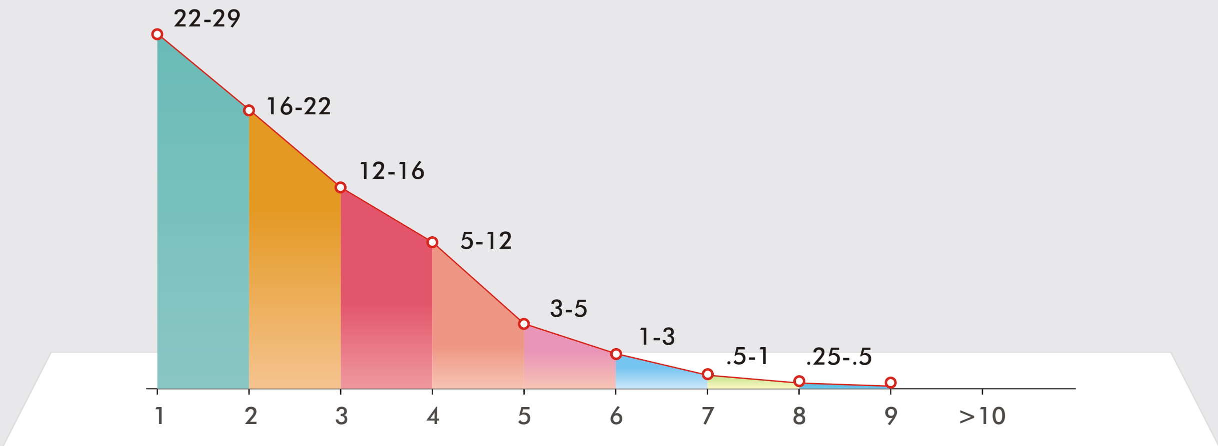
51% of the companies invested in either 1 or 2 activities

91 companies invested in 5 or more development activities



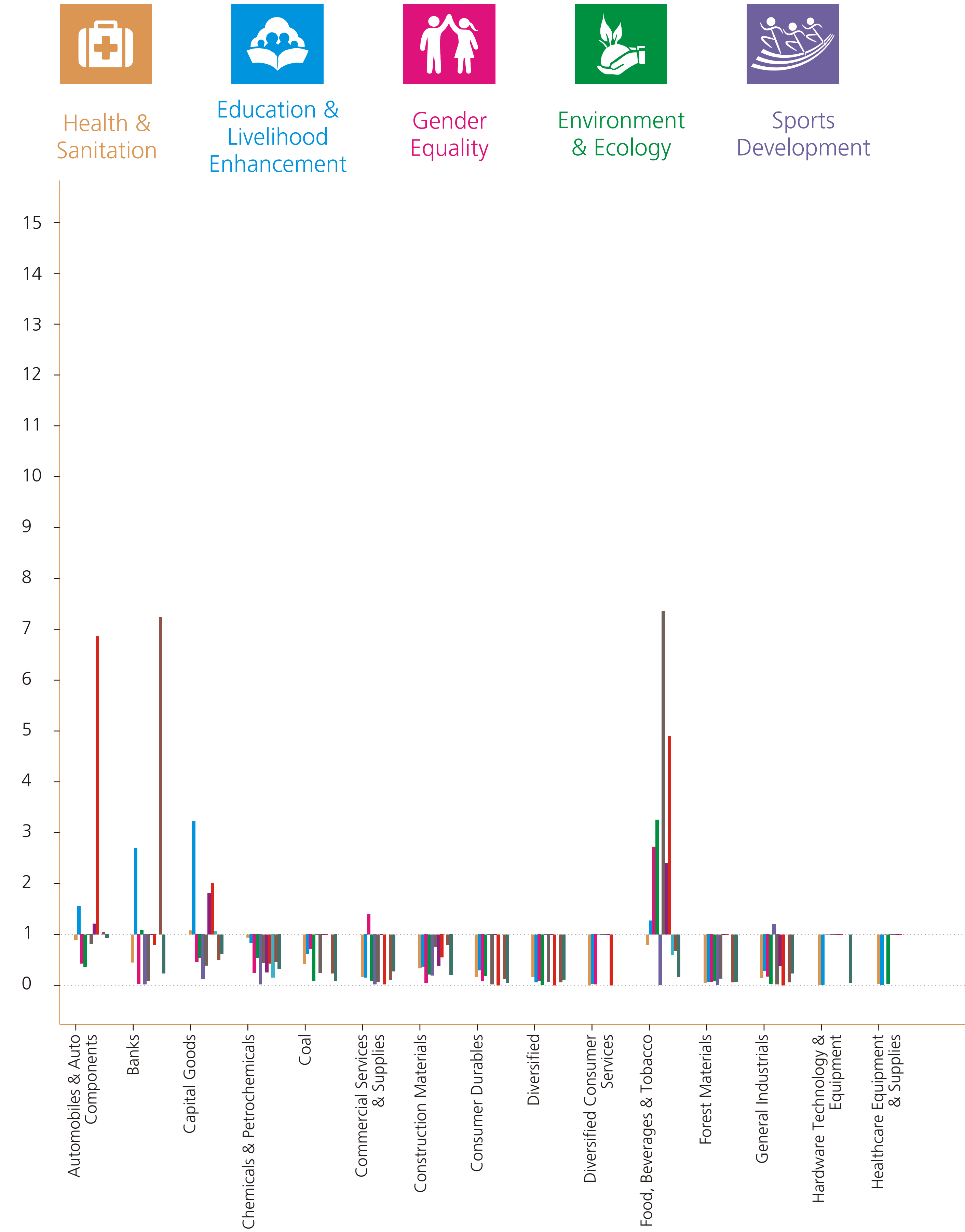
(excluding Pan India)

% of companies investing in multiple development activities



The above graph excludes companies that invested in Swachh Bharat Abhiyan, Clean Ganga Initiative, Combination of the Above, and Others.

CSR Spends of Each Sector in a Development Area to Average Spend in that Development Area



National Heritage, Arts & Culture

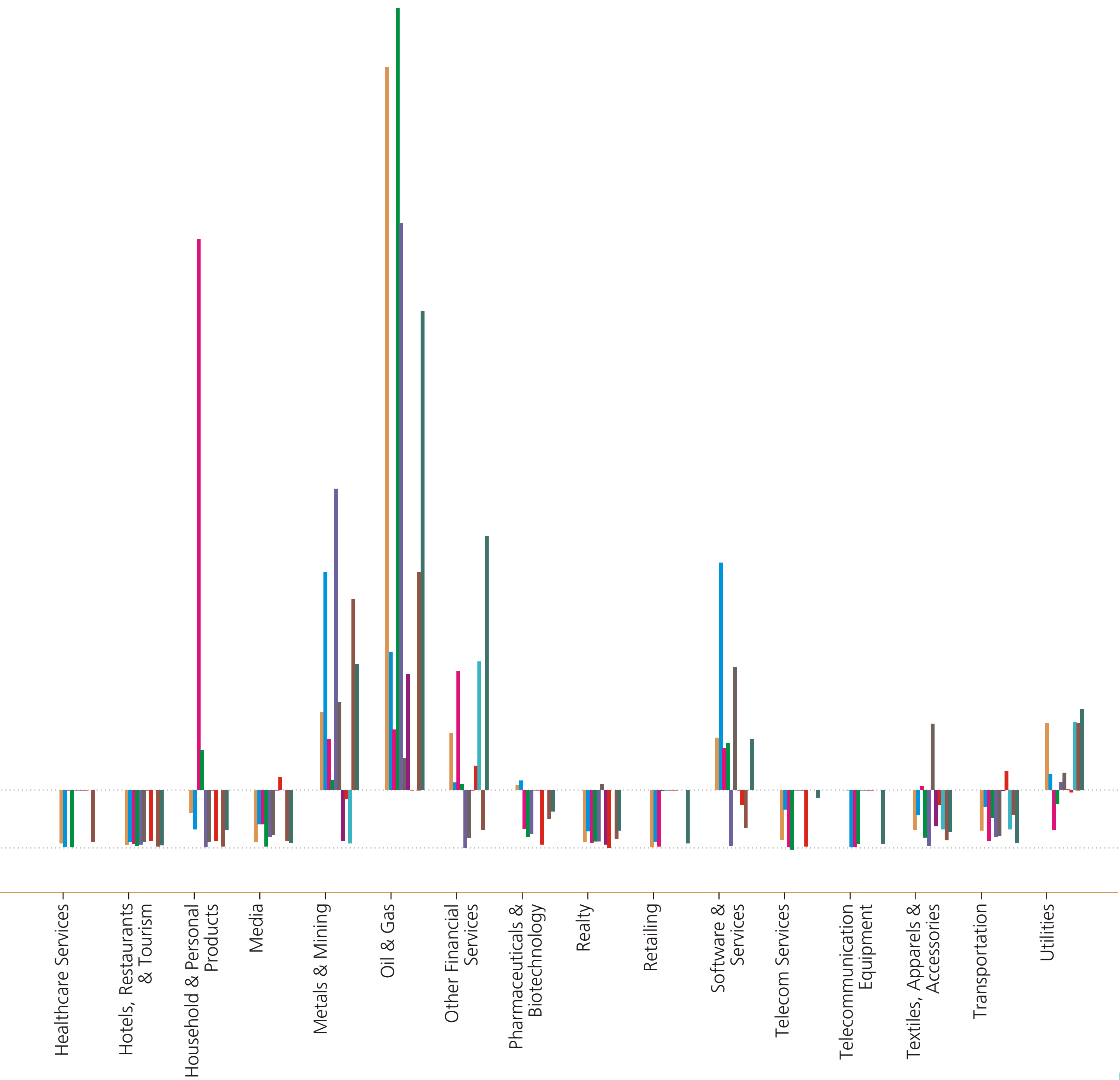
Veterans & Their Dependants

PM Fund & Central Govt. Funds

Technology Incubators

Rural Development

Others



METHODOLOGY

The CSR Tracker 2015 is based on disclosures on CSR of companies to ascertain to what extent they have complied with the legislation.

The Bombay Stock Exchange (BSE) provided a list of companies listed on the stock exchange that fell within the ambit of the legislation. Of the 1294 listed companies, the reports of 1181 were analysed. The companies excluded were done so for the following reasons:

- Financial year did not end on 31 March 2015
- Public sector banks which are governed by the RBI and therefore do not fall under the purview of Companies Act 2013
- Companies whose annual reports were not published at the time of analysis

CESD analysed the CSR disclosures of the 1181 companies, of which 39 were state-owned, using 43 indicators across 6 key aspects.

- Governance
- Policy
- Financials
- Spend as per Schedule VII
- Spend channels
- Spend locations

Report Boundaries

- This analysis is restricted to the BSE listed companies that fell under the purview of the CSR legislation
- 2014-2015 annual reports published by companies in public domain were used for the analysis

Confederation of Indian Industry

CII-ITC Centre of Excellence for Sustainable Development

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes. CII is a non-government, not-for-profit, industry-led and industry-managed organisation, playing a proactive role in India's development process.

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