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SPENDING IN SOCIAL SECTORS: PUBLIC FINANCE AND CORPORATE SOCIAL RESPONSIBILITY IN INDIA

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ABSTRACT: The introduction of Corporate Social Responsibility (CSR) in India in a statute is projected as a path-breaking initiative in the process of inclusive growth. As authentic data is likely to be available only during October-December, 2015, we have a quick look on the trends and volumes of Government expenditure in similar social sectors, and the size of the resources that might be available for such efforts under CSR, by a conservative estimation using published figures, in an effort to de-mystify the concept, its reach and the real purpose it could serve.

KEYWORDS: Corporate Social Responsibility, Government Spending, Sustainability Sectors.

INTRODUCTION

With the increased global focus on achieving sustainable development, the concept of Corporate Social Responsibility (CSR), emerges as the voluntary commitment of the business towards the attainment of the sustainability objectives for the creation of economic, social, environmental and human well being (Moscardo et al, 2013). Under the sustainability synthesis, the World Commission on Environment and Development, explained CSR, "by maximizing synergies and minimizing trade-offs between economic, social, and environmental stakeholder interests, businesses are expected to voluntarily contribute to the equally universal guiding vision known as sustainable development, i.e. development that meets the needs of current generations without compromising those of future generations". Corporate Social Responsibility (CSR) as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (European Commission, 2011). To them, corporate social responsibility concerns actions by companies over and above their legal obligations towards society and the environment. Certain regulatory measures create an environment more conducive to enterprises voluntarily meeting their social responsibility.

CSR management practices are often considered as strategic or instrumental responses to the corporate environment, in particular to the expectations and pressures of corporate stakeholders which differ between world regions and/or countries (Mitchell, 1998). Thus, the clear meaning and definition of CSR remains debatable amongst the academicians and the business researchers, as well. The World Business Council for Sustainable Development (2000), in its publication "Corporate Social Responsibility: Making Good Business Sense" has set the concept in perspective. It has concluded that a coherent CSR strategy, based on integrity, sound values and a long-term approach, offers clear business benefits to companies and a positive contribution to the well-being of society and that it, provides the opportunity to demonstrate the human face of business. It also calls upon companies, in implementing their CSR strategies, to "recognize and respect local and cultural differences, whilst maintaining high and consistent global standards and policies; and finally, being responsive to local differences means taking specific initiatives".

Jeucken (2004), points out that the role of CSR in the real world encompasses (i) ethical behaviour, (ii) economic development, (iii) improving quality of life of (a) workforce, (b) the local community, and (c) the society at large. Social Responsibility is an integral part of the wealth creation process, which if managed properly should enhance the competitiveness of the business and maximize the wealth of the society. Nixon Omoro et al. (2014) conclude that it is "the community component that is highly visible to most people and this gives companies the much sought enviable public image. Companies are involved in various acts such as sports, environment conservation, health, education, training leadership and governance. CSR is not just a goodwill gesture by organizations but it's a prerequisite for good corporate leadership and governance as well as sustained operation and profitability. It's a corporate competitive marketing strategy for many organizations."

A close inspection into the common elements of the above conceptualizations of the CSR suggests that, CSR goes beyond ethics and governance and suggests that businesses can make a significant positive contribution to sustainability through voluntary and proactive approaches to social and environmental issues. Under the sustainability synthesis, the profit of the business is sustained when it is associated with the social, human and environmental wellbeing (Moscardo et al, 2013). Thus, the most important feature of CSR is for businesses to distinguish the responsibilities of stakeholders exterior to shareholders with the increasing recognition of the triple-bottom line: People, Planet and Profit.

CSR IN INDIA: A PARADIGM SHIFT

In India, CSR was hitherto considered as a corporate response to societal demands, and in that sense a voluntary activity. This spirit was reflected in the guidelines issued by the Ministry of Corporate Affairs in 2009. It was expected that as the Government is leading the gigantic national development initiative, the corporate sector in India would walk step in step with the Government to discharge their responsibilities towards national development. Subsequently, the Ministry up scaled the commitment levels to include Social and Environmental concerns as part of responsibilities of companies. These guidelines, popularly known as National Voluntary Guidelines (NVGs), still continued to be voluntary (Ministry of Corporate Affairs, 2011). However, the Securities and Exchange Board of India (SEBI) mandated in 2012 the inclusion of Business Responsibility Reports ("BR reports") as part of the Annual Reports for listed entities. These were regarding the disclosures only, and neither any obligation on spending money nor on adoption of any particular practices were made mandatory by the SEBI. These were soft-means to influence the corporate sector to adopt the set of principles laid down in the NVGs. It may be mentioned that in the NVGs, CSR was considered as only one part of business responsibility: "Accordingly, the Guidelines use the terms 'Responsible Business' instead of Corporate Social Responsibility (CSR) as the term 'Responsible Business' encompasses the limited scope and understanding of the term CSR" (Ministry of Corporate Affairs, Government of India, 2001).

With the enactment of Companies Act 2013, India became the first country to have placed Corporate Social Responsibility in the statute. Section 135 of the Companies Act, 2013 requires companies having a net worth of Rs. 500 Crore or more, or turnover of Rs. 1,000 Crore or more, or having a net profit of Rs. 5 Crore or more to constitute a CSR Committee, to formulate a CSR Policy and spend at least 2% of the average net profits earned during the three preceding years on CSR activities.

Schedule VII to the Companies Act, 2013 gives a list of areas, which is to be liberally interpreted, in which CSR activities may be undertaken. The Companies (CSR Policy) Rules, 2014 were also notified, and the Section 135, together with the Schedule and the Rules, came into force since 1st April, 2014. Thus, 2014-15 was the first year of implementation of statutory CSR in India.

The focus under the new regulations is on the execution of CSR projects. The organizations can otherwise make contributions to the Prime Minister's national relief fund or specific Funds set up by the Government, including the Swachh Bharat Kosh and the Clean Ganga Fund. Projects with the intended to benefit only the employees and their families; or activities undertaken in the normal course of business would not be counted towards CSR. The company should undertake the activities itself or through an implementing agency with three years' standing and with a clear arrangement for monitoring and evaluation.

PROBLEM DEFINITION

With the implementation of statutory CSR under the prescribed provisions in schedule VII of the Indian Companies Act, 2013, India has become the first world country to mandate a minimum spend of 2% of the net profit by the corporations towards the CSR initiatives. However, with the given Indian complexities of multiple economic and social challenges, the future success of the mandated CSR model remains questionable.

The question is, "Can government-mandated CSR be a social development path for a nation in which over 900 million have a mobile connection but only 600 million (36% of the population) has access to a clean toilet?" (Prasad, 2014) While the current CSR spending by the top 100 Indian companies is estimated at £0.6bn per annum, the Indian Institute of Corporate

Affairs anticipates that about 6,000 Indian companies will be required to undertake CSR projects in order to comply with the new guidelines, with many companies undertaking these initiatives for the first time. Some estimates indicate that the CSR spends in India could triple to £1.8bn a year (PWC, 2013).

OBJECTIVES

- To evaluate CSR generated inclusive growth prospects by making a quantitative comparison between the scheduled government spending on sustainability sectors and the projected CSR spending.
- To recommend the right path for the CSR spending in order to ensure the attainment of the objectives of inclusive growth.

CSR SPENDING

CLARIFICATIONS AND PUBLIC PERCEPTION

The essence of the new Act and the Rules is that the money remains in the hands of the Company, which has to spend the said amount for executing activities/ projects as approved by the Board of the company itself. The money forms no part of public fund. The only requirement is that they should be transparent, and make the mandatory disclosures in their Board's Report due after the close of the financial year.

At the time of publication of this research article, the companies will be filing their annual accounts for the financial year 2014-15, the first year of the new provisions. Authentic information about CSR policies of companies covered by Section 135(1) of the Companies Act, 2013, data on money allocated by them across projects, actual expenditure should be available in October-December, 2015 as has been indicated by the Ministry of Coporate Affairs in response to several parliament questions on the subject.

In this paper a thumb rule has been applied to arrive at some indicative figures of CSR expenditure for the year 2014-15. It may be noted that profits earned by the companies during the three years 2011-12, 2012-13, and 2013-14 form the basis for determining the CSR liability for the year 2014-15. In absence of profit numbers of all the eligible companies, the revenue receipts of the union government under the head "corporation tax" has been taken as the basis in this exercise (Receipts Budget, 2013-14, 2014-15). The corporation tax (basic) rate is 30% for Indian companies, and 40% for foreign companies. Surcharges and Cess are imposed after corporation tax, which we are not considering in this Paper.

The following algebraic formulations have been used, in arriving at an upper bound for CSR liability of the corporate sector for the years 2014-15 and 2015-16. In what follows, "current year" is taken as time 0.

T_n stands for the corporation tax collected in the year n (If the actual tax collection figures are not available, we take the Revised Estimates or Budget Estimates, whichever is the latest figure available for that year). Needless to mention, corporation tax does not include the surcharge and education cess thereon.

I_n stands for the net profits before tax earned by profit-making Indian companies in the year n.

F_n stands for the net profits before tax earned by profit-making foreign companies having place of business in India in the year n.

Obviously, being sums of positive numbers, $I_n > 0$ and $F_n > 0$, for any given year n.

We propose to derive upper limits on $I_n + F_n$, as we do not have direct estimates of either of them.

The tax collected in the year n is $T_n = 0.3I_n + 0.4F_n$ (1)

Consider $(I_n + F_n) < (\{0.3II_n + 0.3F_n\}|0.3) + (0.1F_n|0.3) = (T_n/0.3)$ (2)

So, $T_n/0.3$ is, thus, an upper bound on $I_n + F_n$, the total profits earned by all profit-making Indian and Foreign Companies in India in the year n.

The CSR liability is to be computed with respect to profits before tax earned by the companies during the past three years. Further, not all companies are required to perform CSR activities. Ignoring these two factors for a while, we are looking at the figure:

$[I_{-3} + F_{-3} + I_{-2} + F_{-2} + I_{-1} + F_{-1}] / 3 \times (2/100)$ (3)

We proceed to derive an upper bound on the amount that can at all be required to be allocated by companies under CSR as per Section 135 of the Companies Act, 2013. From (2), the quantity at (3) is less than

$$[(T_{-3} + T_{-2} + T_{-1})/0.3]/3 \times (2/100) = (T_{-3} + T_{-2} + T_{-1})/4.5 \quad (4)$$

In other words, the CSR liability of all the companies for the current year would be no more than $(T_{-3}+T_{-2} + T_{-1})/4.5$.

It may be noted that the 'average net profit' is to be computed with reference to Section 198 of the Act, and not as per the usual definition of 'profit before tax'. The sum to be arrived at under Section 198 is less than that arrived at under the usual calculations of 'profit before tax'. Proceeding from the figures of taxes received (or the latest available figure, i.e., revised estimates or budget estimates, in case actual collection is not known for a given year) by the Government, we derive an upper bound for the sum total of all profit before tax of all profit-making companies.

Again, under the CSR Rules, certain types of profits/income (e.g. dividends received from other companies in India covered under Section 135 of the Companies Act, 2013), even though taxable under corporation tax etc., are not to be counted towards determining liability under CSR. Thus, the upper bound derived by us, is considerably larger than the CSR liability of all companies for the current year.

The upper bounds on CSR liability of companies for 2014-15 and 2015-16, taking the revised estimates for 2013-14 and budget estimates for 2014-15 of tax collection, are Rs. 21,505 Crore and Rs. 23,881 Crore, respectively.

Table 1 (Figures in Rs. Crore)

Sl. No.	Particulars	2011-12 (Actual)	2012-13 (Actual)	2013-14 (RE)	2014-15 (BE)	2015-16
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	Corporation tax	298529	315290	353899	405434	-
2.	Total profit before tax of all companies is less than :	995097	1050967	1179663	1351447	-
3.	2% of all PBT is less than :	19902	21019	23593	27029	-
4.	$T_{-3}+T_{-2} + T_{-1}$				967718	1074623
5.	Upper bound on CSR liability of all companies [= $(T_{-3}+T_{-2} + T_{-1})/45$]	-	-	-	21505	23881

GOVERNMENT SPENDING ON THE SOCIAL SECTOR

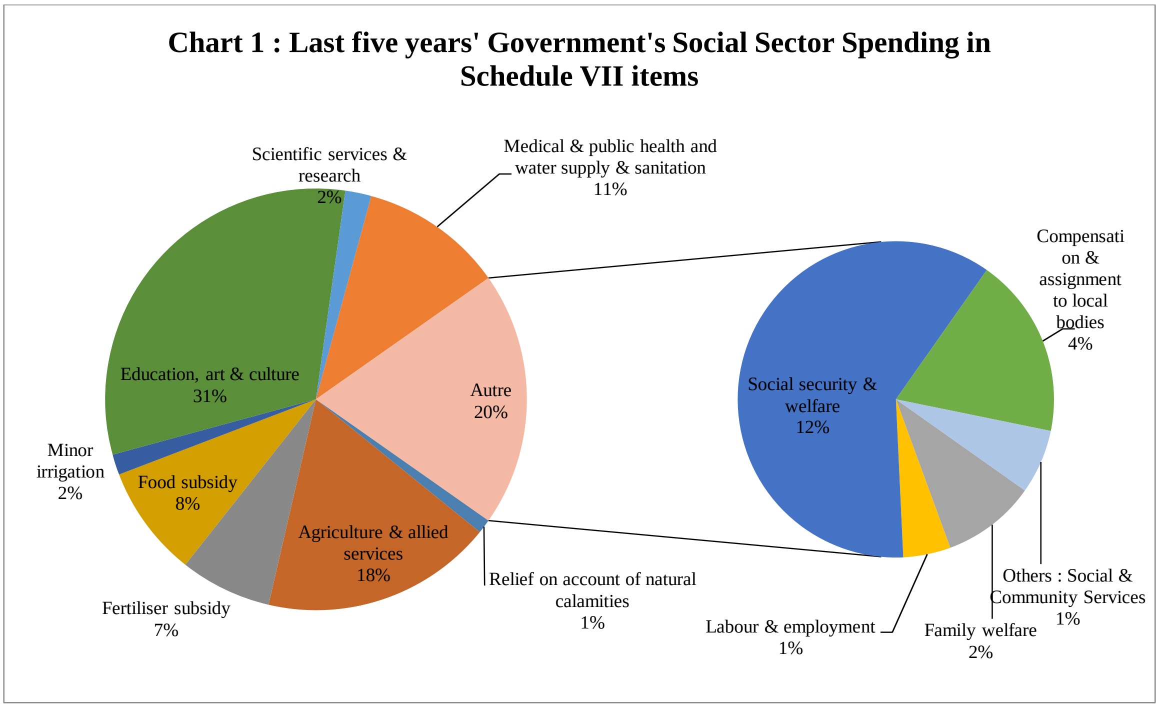
Part IV of the Constitution of India lays down the Directive Principles of State Policy, which are fundamental in the governance of the country. The governments at the central, state and local levels have social sector priorities and have specific areas depending on the division of subjects in Schedules VII, XI and XII to the Constitution. While most of the entries in Schedule XI to the Constitution are directly relatable to the items listed under the Schedule VII of the Companies Act, 2013, the items in the other two schedules to the Constitution are to be classified according to the intended impact for economic development, sovereign functions and social sector development. It will be appreciated that it is most often difficult to distinguish expenditure meant for economic development from those intended for social sector development. However, we have taken a broad-based and rough classification for arriving at certain estimates of Government's expenditure on social sector items, listed in Schedule VII of the Companies Act, 2013.

The expenditure of the Government in the past few years in the areas/fields relatable to eleven items in Schedule VII, and the corresponding figures of GDP at current market prices are given **Table 2** below (Ministry of Finance, 2015).

Table 2. Combined Expenditure of Centre and States (Rs. Thousand crores)

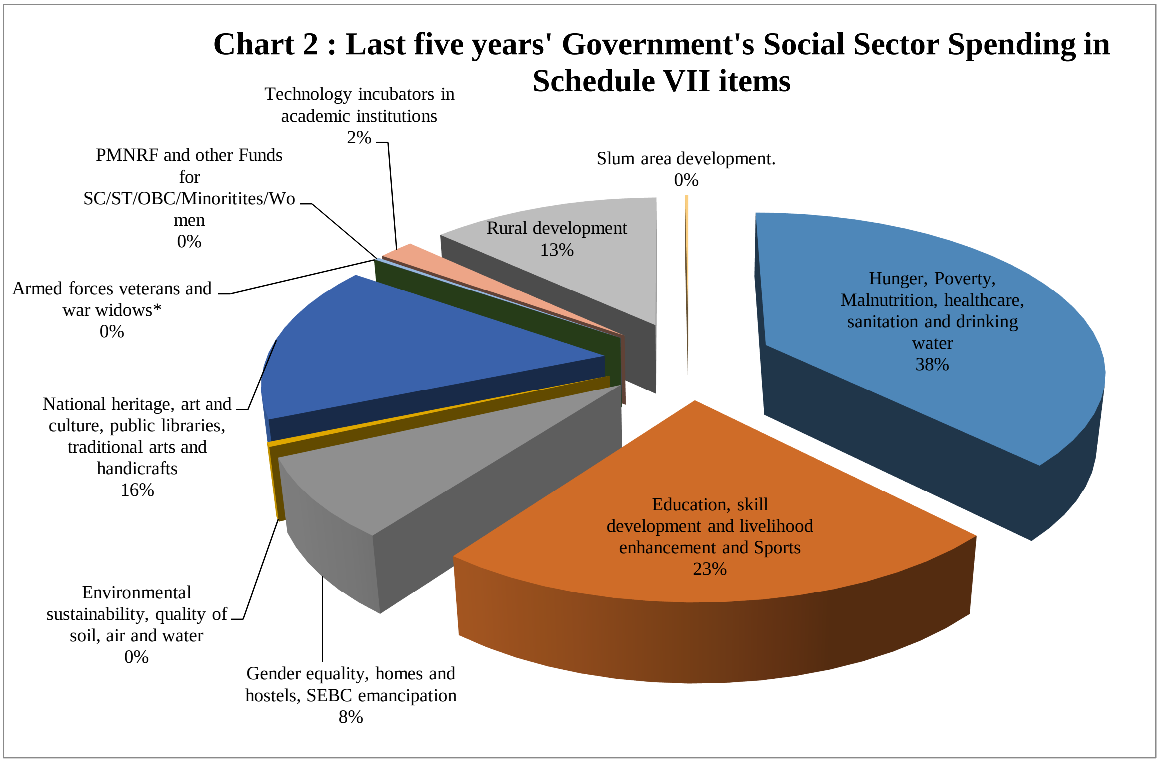
Item of Combined Government Expenditure	Entry in Sch. VII	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Relief on account of natural calamities (P+NP)	i, iv, viii, x	2.02	1.93	2.16	2.07	2.48	3.72	4.85	3.95	4.37	5.10
Agriculture & allied services	i, x	21.64	22.87	26.28	33.08	36.32	35.14	39.38	40.17	45.74	51.28
Fertilizer subsidy	I	6.24	5.91	7.32	7.81	8.96	9.49	8.09	7.79	8.52	10.99
Food subsidy	I	5.72	6.42	7.91	9.01	9.95	12.55	17.90	24.79	25.91	24.48
Minor irrigation	I	2.48	2.81	2.81	3.08	2.86	2.89	3.10	3.00	3.55	4.74
Education, art & culture	ii, v	32.35	37.15	42.31	52.70	63.17	63.76	67.88	71.12	76.16	85.72
Scientific services & research	Ix	2.28	2.61	3.03	3.44	3.83	4.24	4.97	5.48	6.10	7.56
Medical & public health and water supply & sanitation	I	12.45	14.29	16.87	20.58	22.70	24.36	25.25	26.50	29.25	33.77
Family welfare	Iii	1.83	1.83	2.13	2.22	2.67	2.83	3.18	2.92	3.67	3.93
Labour& employment	Ii	1.24	1.37	1.60	1.79	2.08	2.08	2.00	1.97	2.22	2.49
Social security & welfare	ii, iii	8.88	9.68	10.74	12.39	13.44	15.01	15.17	14.79	17.19	20.25
Compensation & assignment to local bodies	X	1.36	1.74	2.95	3.38	4.54	4.71	4.64	6.05	6.83	8.05
Others : Social & Community Services	i - v, x, xi	0.92	1.12	1.17	1.58	1.37	1.15	1.75	2.17	2.59	2.83
Government's Social Sector Spending in Schedule VII items		**99.39**	**109.75**	**127.28**	**153.14**	**174.37**	**181.92**	**198.17**	**210.71**	**232.12**	**261.20**
Total Government Expenditure, incl. net lending		287.50	319.85	367.76	442.82	513.96	544.83	604.76	656.44	745.83	821.07
GSSS Sch VII as proportion of Government Expenditure		34.57%	34.31%	34.61%	34.58%	33.93%	33.39%	32.77%	32.10%	31.12%	31.81%
GSSS Sch VII as proportion of GDP (CMP)		8.10%	7.73%	8.09%	8.49%	8.62%	8.35%	8.41%	8.31%	8.17%	8.06%
Total Government Expenditure as proportion of GDP		23.44%	22.54%	23.39%	24.56%	25.40%	25.02%	25.67%	25.88%	26.25%	25.32%
GDP current market prices		1226.72	1419.28	1572.39	1803.38	2023.13	2177.41	2355.85	2536.33	2841.50	3242.21
Relief on account of natural calamities (P+NP)		i, iv, viii, x	7.98	7.09	5.95	7.34	7.97	7.48	13.89	11.03	10.22
Agriculture & allied services		i, x	58.43	70.97	85.36	120.58	127.09	144.64	150.91	188.66	212.83
Fertilizer subsidy		I	19.67	26.22	32.49	76.60	61.26	62.30	70.79	65.97	65.97
Food subsidy		I	24.24	25.13	32.71	46.29	62.12	67.63	76.92	90.75	99.85
Minor irrigation		I	5.34	8.47	6.70	7.63	10.09	12.13	13.05	17.04	20.35
Education, art & culture		ii, v	98.18	117.31	126.53	160.28	201.15	248.79	283.23	342.16	384.38
Scientific services & research		ix	8.34	9.18	10.39	13.05	15.80	17.81	17.81	18.15	23.80
Medical & public health and water supply & sanitation		I	39.62	45.80	51.75	61.06	75.67	86.51	95.07	116.31	136.81
Family welfare		Iii	5.86	7.26	9.01	11.10	13.37	15.53	17.45	18.46	22.37
Labour& employment		Ii	2.92	4.38	3.85	4.63	5.49	6.53	7.65	11.49	12.99
Social security & welfare		ii, iii	27.10	30.95	49.16	68.31	83.79	99.53	100.30	123.70	141.04
Compensation & assignment to local bodies		X	9.91	13.94	16.72	18.70	20.71	25.69	32.04	40.31	48.29
Others : Social & Community Services		i - v, x, xi	3.72	4.50	5.20	6.80	7.24	9.40	9.24	14.57	18.98
Government's Social Sector Spending in Schedule VII items			**311.33**	**371.21**	**435.82**	**602.38**	**691.76**	**803.96**	**888.35**	**1058.62**	**1197.87**
Total Government Expenditure, incl. net lending			929.21	1084.22	1239.23	1507.11	1810.38	2106.04	2347.83	2728.41	3191.66
GSSS Sch VII as proportion of Government Expenditure			33.50%	34.24%	35.17%	39.97%	38.21%	38.17%	37.84%	38.80%	37.53%
GSSS Sch VII as proportion of GDP (CMP)			8.43%	8.64%	8.74%	10.70%	10.68%	10.33%	9.86%	10.47%	10.55%
Total Government Expenditure as proportion of GDP			25.16%	25.25%	24.85%	26.77%	27.95%	27.06%	26.06%	26.98%	28.11%
GDP current market prices			3693.37	4294.71	4987.09	5630.06	6477.83	7784.11	9009.72	10113.28	11355.07

The relative shares of various heads of Government's social sector spending on items relatable to entries in Schedule VII of the Companies Act, 2013 during the past five years on these items is given in **Chart 1**.



It is of interest to note that the figure for Government's Social Sector Spending in Schedule VII items during 2013-14 stood at close to Rs. 11.97 lakh crore, while the total profits earned by all companies, Indian and foreign, during 2013-14, was no more than Rs. 11.79 lakh crore. Obviously, even if all companies were to allocate 2% of their net profits before tax for CSR, their CSR expenditure would not even be of the order of 2% of what the Government is spending on such and similar items.

As a quick estimation, we have roughly classified Government's social sector spending on items relatable to entries in Schedule VII of the Companies Act, 2013 for expenditure on CSR projects. This classification is subject to the fringe areas being included (such as administrative/ litigation expenses etc.) or excluded (such as schools under the Armed Forces and Railway colleges, benefits for ex-servicemen, war widows etc.), the Government spend on such areas (other than the PMNRF) has risen. The inter-se distribution of such Government expenditure during the past five years on these items is given in **Chart 2**. It may be noted that for the analysis, we have equally distributed the expenditure under heads in Column 1 to the CSR activities in column 2 of **Table 2**.



WHY CSR AND WHITHER CSR

Contrary to popular expectations, the above discussion leads us to a revelation: CSR has neither the heroic nor the panacea role, nor is it a gap-filling idea, given that the companies are not going to add anything more than 2% of what is being spent by Government in these areas already. The foregoing reveals that the role of the concept of CSR is actually something greater than the sum. What CSR is required to do is to perform tasks of great strategic utility.

We are, then intrigued by one question: Why has Parliament included Corporate Social Responsibility in mandatory pithy language, without directly imposing penalties for violation, that too in the Companies Act, which is not primarily a social or beneficial legislation? It has taken some amount of effort to understand this, in the face of the fact that the resource it opens up is less than 2% of what it has authorized the government to spend on such themes, projects and activities. It is clear that CSR initiatives of private sector are not be seen only in terms of their financial contributions on social sector.

From the sum-total of the discussion here, we would like to surmise that Parliament has desired that the companies:

(i) Should look after the interests of, and engage in dialogue with, all stakeholders, not just their shareholders, while making their strategies for investment, procurement, operations and marketing and managing their value chain;

(ii) Should take questions of transparency, accountability, ethical business, economic development and improvement of lives, as a holistic endeavor, and to touch upon each aspect as part of a coherent strategy, debunking the notion that CSR is charity;

(iii) Should integrate the concerns of responsible business (relating to specific sections of the society, environmental issues and their business concerns) into the way they organise their business, their work-culture, decision-making processes; and

(iv) Should create organizational structures embedding CSR that keeps track of the needs of the local community, whose pressing needs they could meet by innovation and by developing cost-effective local area-specific solutions.

In other words, Parliament wishes CSR to become a way of life in corporate existence, to integrate creation of wealth and improve the living conditions in the society, and it is probably best achieved as part of corporate governance. More importantly, the law requires that this effort has to come from the heart and soul, and not to comply with a provision carrying a thunder-bolt of authority, or under compulsion.

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