Five years of mandated structured philanthropy in India – Thoughts and Learnings

Vidya Shah, CEO, EdelGive Foundation

India made a significant stride towards a system of structured philanthropy, with the introduction of Section 135 of the Companies Act 2013, mandating a 2% share of profits (of qualifying companies) to be put towards CSR. This amendment commissioned on April 1st, 2014 was institutionalized as an attempt to engage the corporate world with the country's development agenda and supplement the government's efforts of delivering benefits on ground.

An overall increase in spending

As the CSR mandates completed five years of its existence, it has had significant impact on corporate giving. The CRISIL CSR Yearbook 2019, a report showcasing the CSR spending of Indian companies has shown that the cumulative spending of the last four years (up-till the last quarter of 2018) has topped INR 50,000 crore (including INR 34,000 crore by listed companies and nearly INR 19,000 crore by the unlisted ones). The report also shows that spending by listed companies has risen 12% on-year in fiscal 2018 to INR 10,000 crore – the first time it has reached this mark.

Education & skill development were two domains which have received maximum investments under the act, amounting to 35% of total CSR spend. Healthcare & sanitation came in second, with 24%. Among others, rural development, empowerment, and benefits for armed force veterans also saw growing investments. Sadly, this is not surprising as both these sectors provide a mechanism of evaluation which can showcase quantitative or physical impact as compared to a project on slum development for example, which will account for several regulations and is a lengthy process towards showcasing results.

Source: The CRISIL CSR Yearbook 2019

Structured Philanthropy

Besides the numbers, the need for a structured format for conducting CSR is essential as it ensures that more companies, meeting the profit criteria contribute to social progress.

This can be extremely beneficial for industries that have large manufacturing facilities and as a result of the same, interact with the local populations at an increasing pace. For such companies, a social commitment to the community where companies operate from, can help maintain smooth industrial relations.

Specialized Job-Creation

Additionally, with the mandate opening up, career opportunities for those in the social sector have also increased with the sector slowly evolving as one of the primary career destinations. It has moved beyond the traditional roles of volunteering or field jobs, into specialised roles catering to the challenges, limitations and essentials of the field.

Making CSR impactful

Even with the above positive changes, the quality and impact of spending still remain a challenge for corporate India. Answering the important questions such as, "Is our contribution actually creating impact?'; 'Are we partnering with the right organizations?' and "How can we create more value to our beneficiary against our spending?"

At EdelGive we have looked closely at answering these very questions. The evolution of EdelGive was guided by an early but not clearly articulated understanding of stakeholder capitalism as opposed to shareholder capitalism where the focus is only on creating value for the shareholder. Stakeholder capitalism involves building the ability to manage multiple bottom lines beyond the bottom line related to profits; such as those related to customer centricity, employee welfare, government and regulator interactions and most importantly the value added to society by creating jobs, making efficient investments and directing CSR budgets, strategically and thoughtfully.

It is not wrong to say however that the new development of the Companies Act which restricts spending on expenditure costs (5% of total CSR spending), will create a road-block to companies from enhancing their in-house capabilities. At EdelGive we have tried to bridge this gap with increasing our focus on co-funding. We are able to find partners and collaborations that will enable us to create a wider pool of investments and relieve the burden of some of those additional expenses incurred.

Focus on Monitoring and Evaluation

From a NGO view point, the companies act has also affected the way in which NGOs are reporting and documenting their journeys. Given the mandates focus on documentation, companies want to engage with credible organizations, who will be able to monitor these figures effectively. So, as due-diligence mechanisms increase at the corporate end, organizational development and capacity building will increase for NGOs. The role of third-party evaluations has also grown because of this. There is increasingly a need for evaluations at all stages of a CSR program – from choosing the NGO to work with; to setting up goals and targets; to documenting how these goals and targets have been achieved.

CSR towards SDGs

In 2017 however, the rules of the game changed. The Companies (Amendment) Act, 2017, changed the eligibility criteria to be based on financials of the 'immediately preceding financial year' rather than the earlier stipulation of 'any three preceding financial years'. Estimates from the CRISIL report shows that this can shrink the giving universe in years to come, in terms of both number of companies and their total spend. This is worrisome when we look at it from the point of view of achieving our ambitious Sustainable Development Goals by 2030.

As an extension of the (Millennium Development Goals) MDGs, the SDGs have widely included the corporate sector to bring in innovation and a business management approach towards achieving these goals. Thus the potential for private sector participation will be very high. In fact, Schedule VII of the Act, enables companies to spend on a sector liked directly to SDGs. By restricting the eligibility criteria, there could be a shortfall and a limitation in the number of participating companies involved in CSR spending.

What we cannot ignore in this equation is the role of private funding towards CSR. Indian ultra-rich and corporations need to step up further to bridge this gap.

There is also a lot more potential to work together and focus our energies on co-funding projects, innovations in capacity building, creating coalitions and collaborations and creating a connected social sector in India. I am certain this will ensure a more effective philanthropic approach and will enable more players to join in and work towards social goals.

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