

Welfare Effects of Sustainability Regulations



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Employment, Labour and Welfare in the
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Regulations on Corporate Social Behaviour

- Governments around the world are zooming in on social responsibility of corporates.
- This includes mandatory disclosures
 - Climate-impact disclosures
 - CSR Disclosure
- Or even more hardline mandatory expenses on corporate social responsibility (CSR)

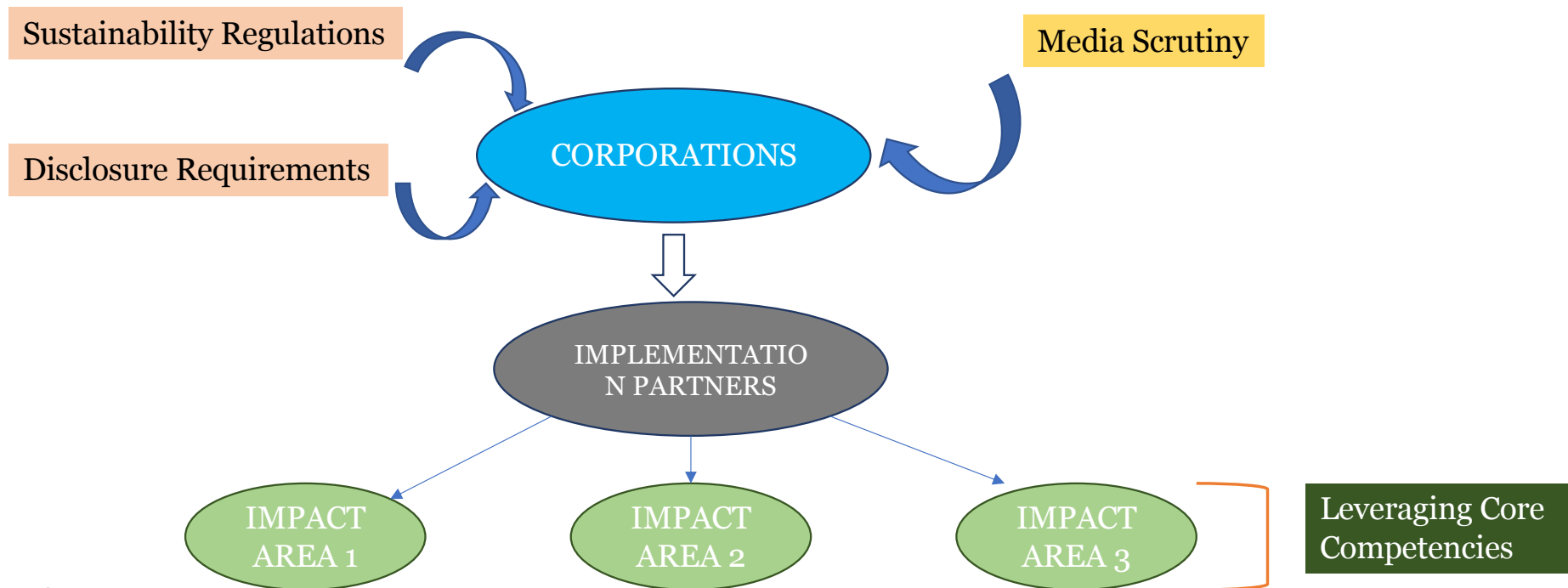
Examples

- China has a mandatory CSR disclosure regulation since 2006
- UK has a mandatory GHG emission disclosure regulation since 2008
- India introduced a mandatory CSR expenses regulation in 2013
- The Security and Exchange Commission in the USA has been pushing for climate change disclosures for US listed firms
- The European Commission is considering possible actions to create an EU level sustainable company law and corporate governance framework.

Social Impacts of Such Policies

- The effect of sustainability regulations on investment, operational and financing activities of companies is unclear.
 - Jouvenot and Krueger , 2019; Lin, 2010, 2020; Manchiraju and Rajgopal (2017)
- Some evidence that corporations engage in “tick-boxing” exercise.
- Effect of these limitations is difficult to evaluate for lack of transparent and comparable data.

How does this relate to Social Welfare?



Mandatory Regulations and Social Welfare

- How can sustainability laws affect social welfare?
- Faced with pressures to disclose social impacts of business, corporations find ways to comply.
- They can (and do) partner with implementation agencies (NGOs) on specific social projects allowing them to deliver on their social targets.
- For companies this means that sustainability agenda no longer remains charitable activities but becomes an investment decision like in any other strategic program.

Zooming in on the Indian CSR Law (2013)

Indian CSR Law is the first mandatory CSR expense regulation in the world.

All companies above certain thresholds of size and profitability to spend 2 percent of the pre-tax profit on corporate social responsibility (CSR)

Does not define the concept of CSR but highlights specific activities through which the mandated amount should be spent

Companies can spend the mandated CSR amount directly or hire intermediaries such as the NGOs.



Areas of Impact

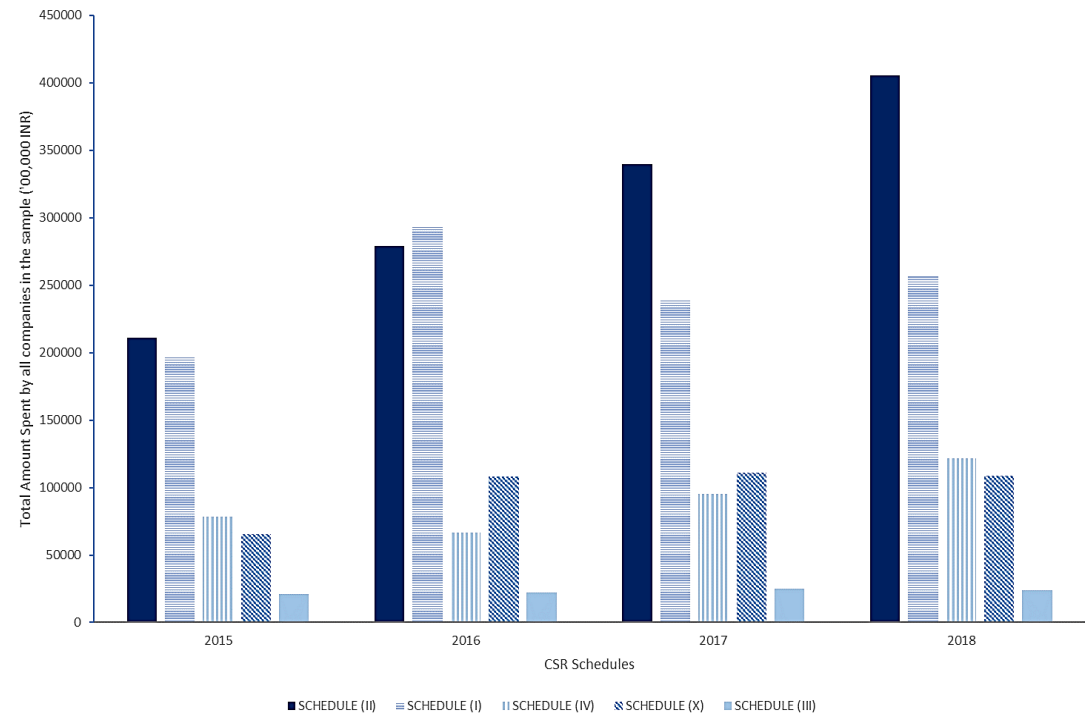
- (i) Eradicate hunger, poverty, and malnutrition;
- (ii) Promote education, special education, and employment enhancing vocation skills;
- (iii) Promote gender equality and empowering women;
- (iv) Ensuring environmental sustainability and ecological balance;
- (v) Rural development projects;
- (vi) Slum area development

Mapping CSR Expenses to Social Needs

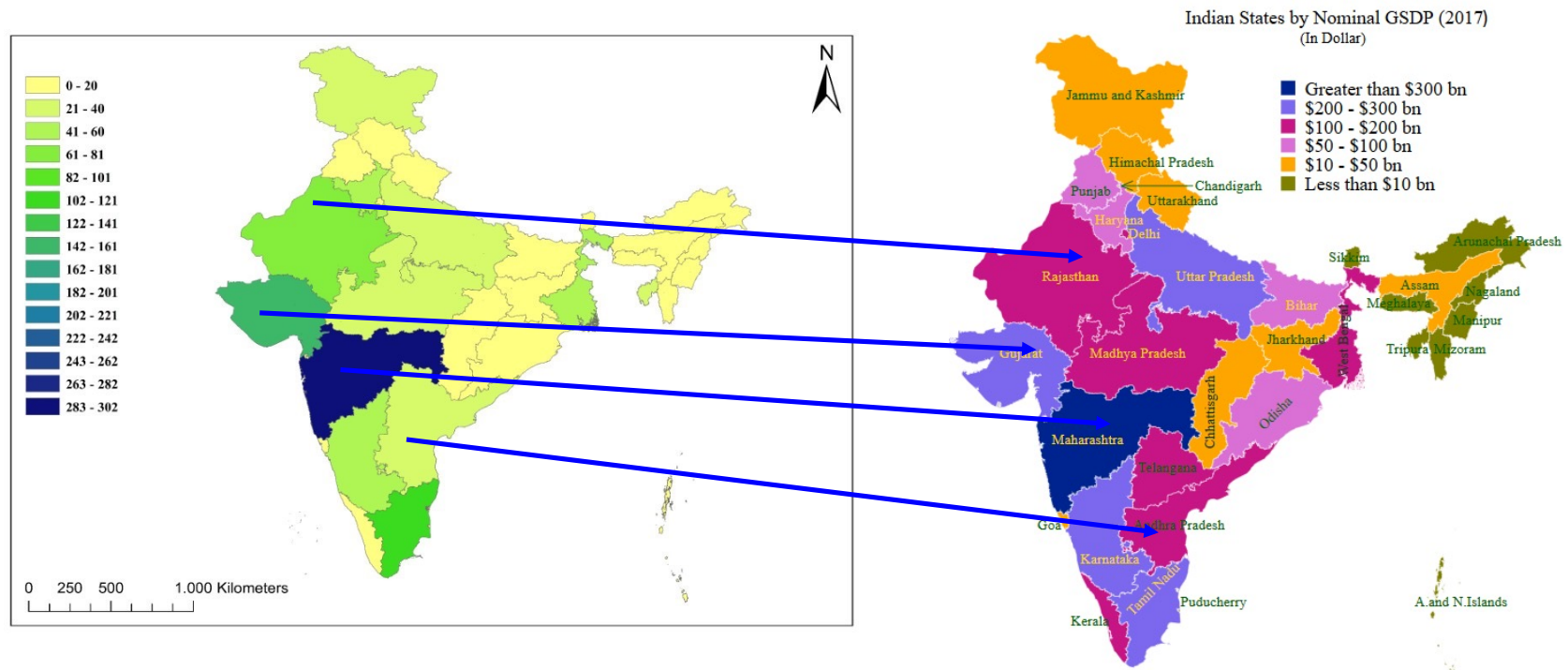
- How much money is spent on welfare projects?
- A large fraction of the CSR expenses are invested in social projects related to poverty alleviation, employment skills and environmental sustainability.
- How does these investments map to the welfare needs?
- The number of CSR projects has a strong positive correlation with the state GDPs:
 - Wealthier states receive more CSR projects.

Spread of CSR Projects across Impact Areas

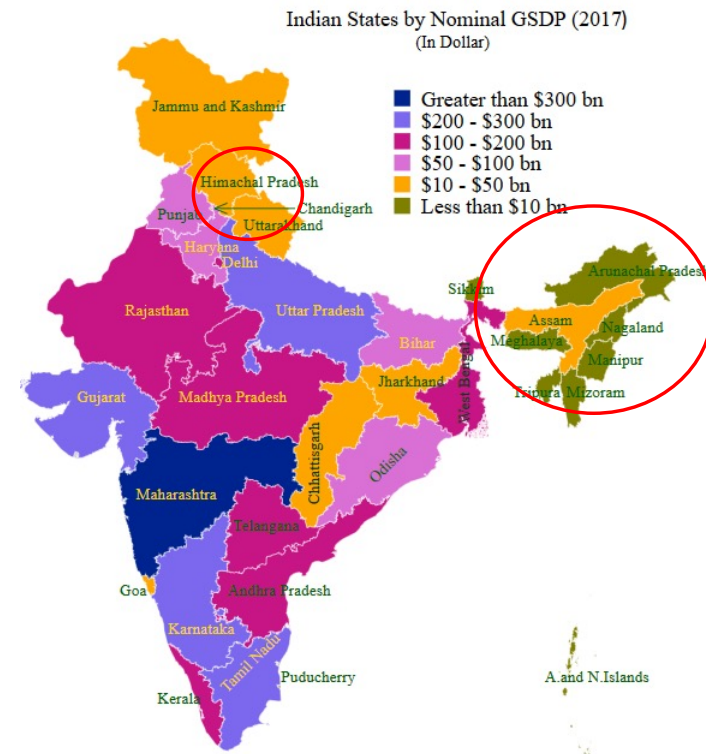
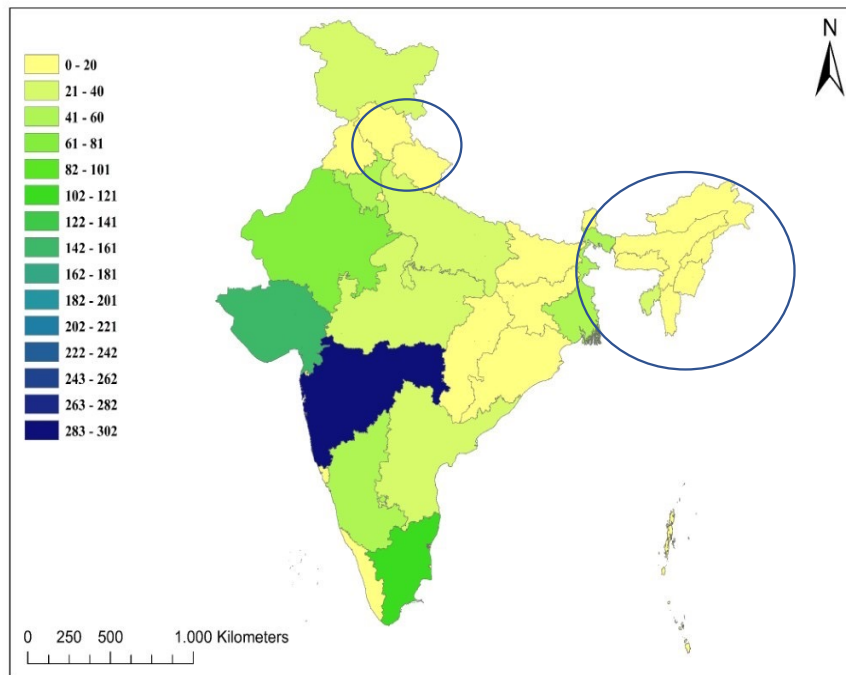
- Schedule I: Eradication of Hunger, Poverty, Malnutrition; Promoting Health Care, Preventive Health Care and Sanitation.
- Schedule II: Promoting Education, including special education and vocational skills.
- Schedule III: Promoting Gender Equality, empowering women, and women employment.
- Schedule IV: Ensuring environmental sustainability and ecological balance.



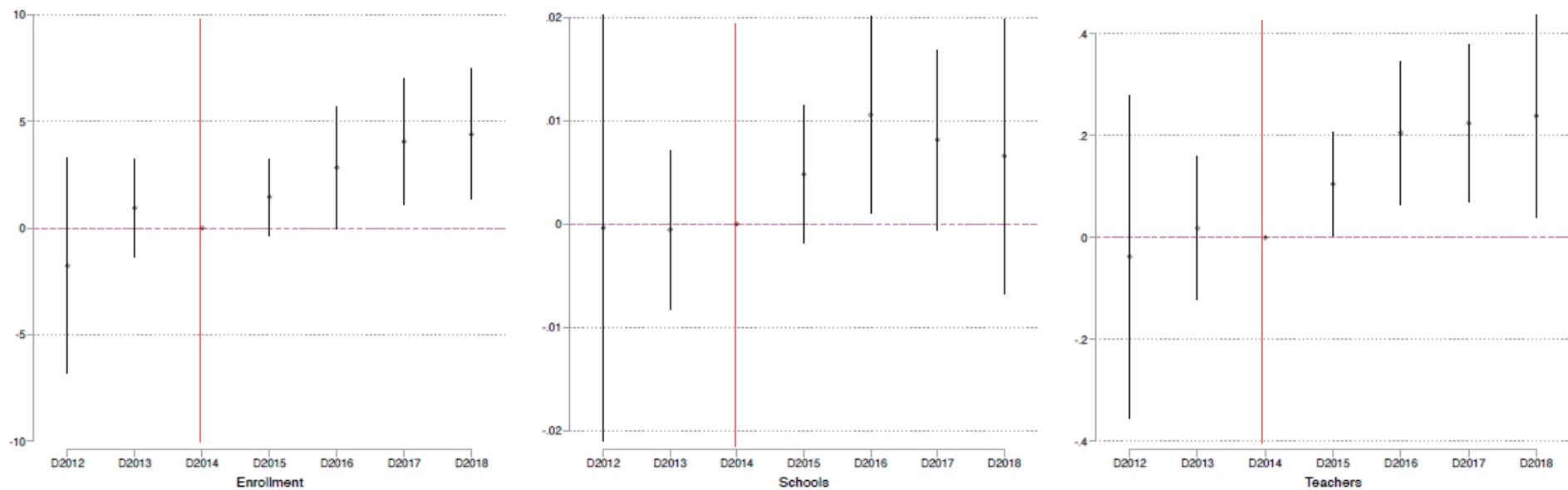
Geographic Spread



Geographic Spread (2)



Impact of these Investments - Education



Example 1

- Reckitt Benckiser: a British multinational consumer goods company also listed in India. It is a producer of **health, hygiene and nutrition products (Dettol, Harpic, Lysol etc.)**.

In 2019, **1 in 4 schools** around the world had no hygiene service, meaning they either had no hand washing facility or no water.



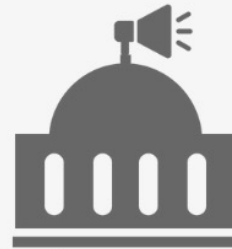
Despite the importance of hand washing, **only 12% of schools in India** have access to soaps for hand washing.

1 Sanitation Champions



This hosted an E-learning based training program for govt. school teachers & principals on school sanitation best practices & established student bodies to create peer relations and leadership for sanitation & hygiene

2 Government Advocacy



Promoted strong government advocacy, with involvement of DEOs, MEOs in performance reviews and integration of sanitation and hygiene with flagship government programs.



1 Lakh
Students Reached



100%
Teachers trained across schools



1500
Schools adopting handwashing as a regular practice



149
Schools with an improved Swachh Vidyalaya ranking, rated 5 stars

Example 2

- India Protective Alliance: **Hindustan Unilever, RBL Bank and Bill & Melinda Gates Foundation**
- **Pooled Resource:** \$11 million across 59 funders and 52 implementation partners
- **Impact:** 3 million beneficiaries across underserved communities, vulnerable populations, and frontline Covid warriors.



Who are the Social Partners?

- The company can implement these CSR activities on its own, through its non-profit foundation or through independently registered non-profit organisations that have a record of at least three years in similar activities.
- Match-making portals group the NGOs across different sectors such as education, sanitation, women's welfare, water, livelihood, and children and also seek to provide a qualitative evaluation of the NGOs.
- NGO evaluation portals and the pooling of resources by SMEs could help to streamline the CSR investments, and questions will continue to be asked about the government's role in mandating such investments.

Corporate Governance Implications

- There are significant costs of selecting and implementing CSR projects, either directly by the companies or through implementation agencies.
- There are potential costs related to the search and evaluation of viable CSR projects, identification of implementation agencies, the phased rollout that many projects require, and the process for legal approval.
- Companies are mitigating these costs by appointing directors with background in sustainability. These people have the required skills to evaluate the CSR strategies and estimate the cost of compliance to the CSR law.

Evidence

- Indian companies that hired directors with CSR expertise had higher compliance with the law than companies that didn't hire a director with CSR expertise (Homroy, Li and Selmane, 2021).



Lessons from India's CSR Regulation

- Sustainability laws disrupt traditional business models
- These laws push companies to evaluate the societal impacts of their activities
- Like any legal mandates, companies attempt to reduce compliance costs.
- But it can also lead to collaboration and engagement with non-profit sector to create ground-level impact.
- Corporate governance is also maturing to meet these emergent needs.

Concluding Remarks

- There are some evidence that CSR investments (through impact investing or otherwise) is creating measurable social value
 - Primary school enrolments in rural India are up
 - Truancy is down
 - Female employment and female-led micro businesses have increased
- There is also some evidence that all these social benefits are concentrated in three most developed states in India
 - And an almost near absence of such projects in the most deprived districts.



THANK YOU
Grazie per l'attenzione