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A stylized world map in shades of green, with various icons representing different aspects of society and the environment. The icons include a factory with smokestacks, a car, several skyscrapers, a house, wind turbines, and solar panels. The map is centered on the Atlantic Ocean.

# Social Investing and Corporate Social Responsibility

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# CSR Law in India

- India is the first country in the world to regulate the actual spending amount on CSR vide Section 135 of the Companies Act 2013.
- The legislation applies to all companies operating in India, whether public, private, or foreign-owned.
- Section 135 applies only to companies that meet or exceed at least one of the three threshold criteria of assets, market value and profits in the immediately preceding fiscal year.
- The companies will have to spend a minimum of two per cent of their average pre-tax profits on CSR.
- Section 135 does not define the concept of CSR but highlights specific activities through which the mandated amount should be spent

# How does this relate to Social Investing?

- Companies are required to spend the CSR-budget in their local area
- With a focus on generating local area employment and social welfare.
- The companies can invest the CSR budget in social enterprises
  - At least the companies that are looking to engage meaningfully with these activities.
- Potentially the mandatory CSR spending by companies can have significant impact on social welfare through this channel.
- There is no profits-social welfare trade-off.



INDIA



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With a major chunk of CSR funding having gone towards the PM-CARES Fund, there are few resources left with corporate organisations to fund new initiatives

101 India | August 05, 2020 11:08:45 IST



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# How does this relate to Impact Investing?

- Impact investments, focus on specific social and environmental issues through models that are result-oriented, while helping the implementing enterprise to profit and become self-sustainable.
- There is a pre-defined rate of return agreed upon, conditional on the outcomes.
- Additional funds through CSR investments means assured funds for NGO operations over a specified period allowing them to deliver on their social targets.
- For companies this means that CSR no longer remains charity, but becomes an investment decision like in any other strategic program.

# How does this relate to Impact Investing?

- Blending impact investing into the social sector, companies can more effectively to support concrete and sustainable development.
- Companies are allowed to partner with implementation agencies.
- This allows corporates to amplify the resource pool of CSR investments while delivering quantifiable, evidence based and measurable impact.

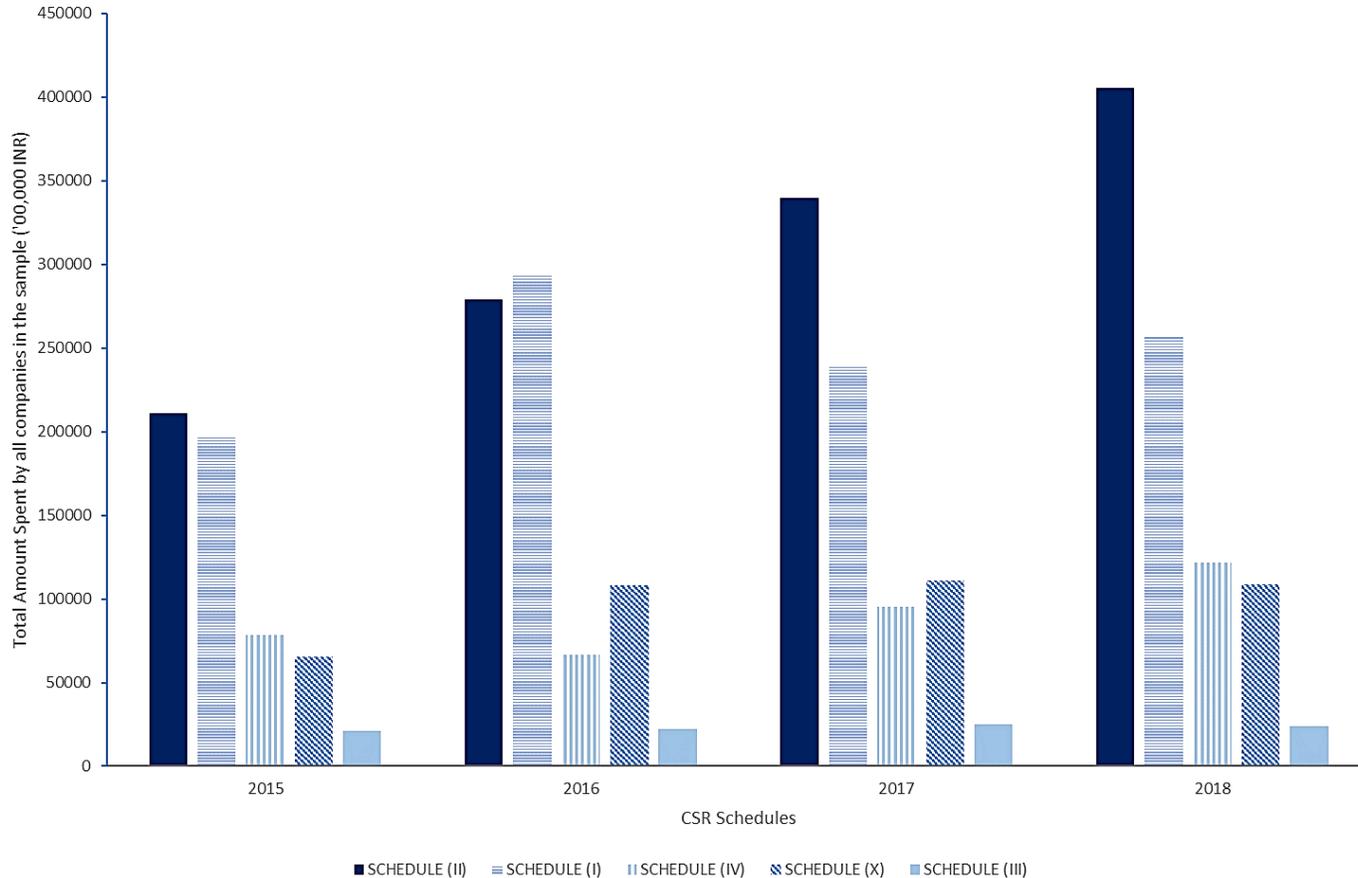
# Areas of Impact

- Section 135 considers expenses in some broadly defined categories (which are called Schedules) as CSR activities:
  - (i) eradicate hunger, poverty, and malnutrition
  - (ii) promote education, special education, and employment enhancing vocation skills
  - (iii) promote gender equality, empowering women, and women employment.
  - (iv) ensuring environmental sustainability and ecological balance
  - (v) rural and slum-area development projects

# 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.

# What are the companies spending on?



## Legend of the Schedules:

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.

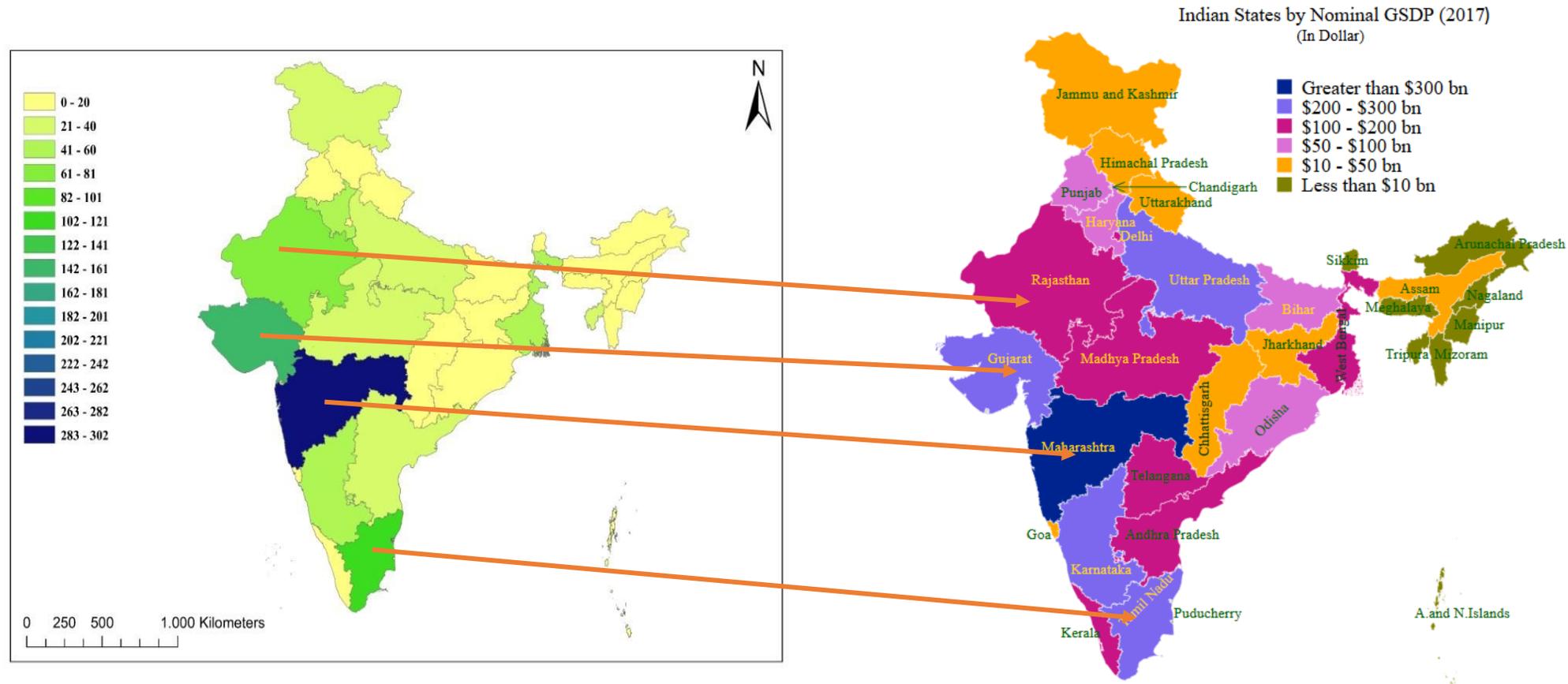
Schedule V: Protection of national heritage, art and culture.

Schedule VI: Measures for the benefits of armed forces veterans.

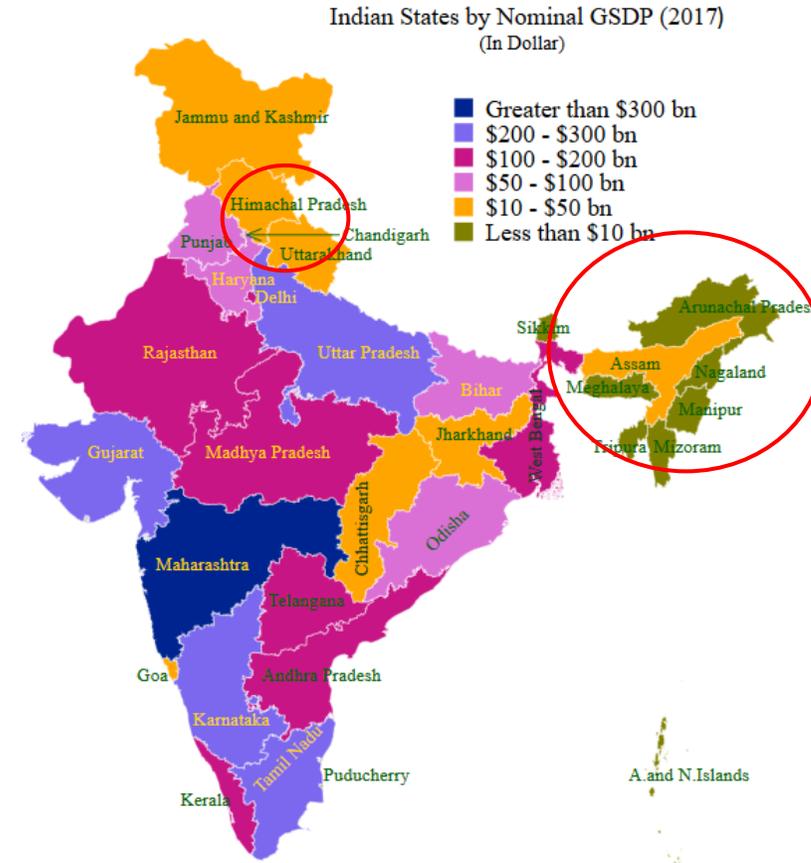
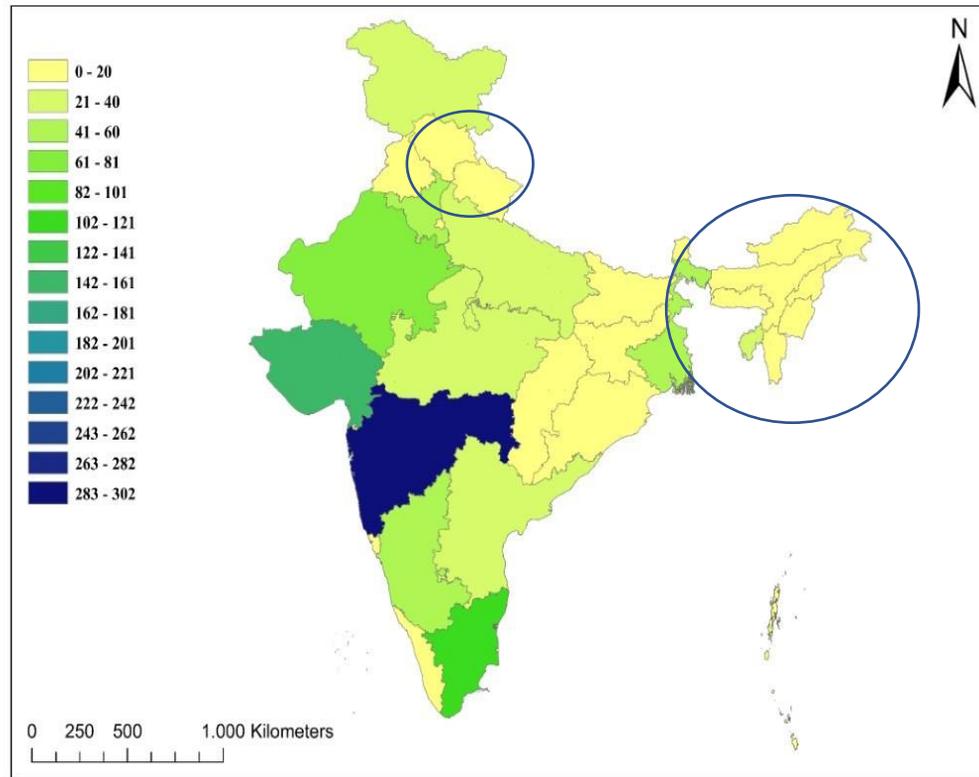
Schedule VII: Training to promote rural sports, Olympic and Paralympic sports.

Schedule VIII: Contributions to Prime Minister's Relief Fund.

# How does these spending correlate with State GDPs?



# How does these spending correlate with State GDPs?



# How does corporations fund these projects?

- Companies are increasingly interested in financial products like Development Investment Bonds (DIB) and Green Bonds to co-fund their CSR commitments and social projects.
- Examples are issuing DIBs to “adopt” a rural agricultural village and invest in mechanised farming.
- Returns related to agricultural output targets



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Anshul Joshi • ETEnergyWorld • February 03, 2020, 14:39 IST



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# Social Outcomes

- What are the effects of these legal framework for impact investing?
- It is hard to imagine that corporations will not seek to get any financial rewards from these activities.
  - Not surprisingly, we see companies implementing CSR projects in wealthier states.
- A first-order question is **how does these investments affect real outcomes?**
- The second order question **how does these investments affect regional disparity** in development?

# Evidence

- So far is quite mixed but these are still early days
- 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.

# In Summary

- What should we make of the CSR law in terms of active welfare and impact financing?
- The CSR law forces companies to seek new ways to engage with their social responsibilities.
  - Approximately £2.63bn is the combined spending of Indian companies on CSR projects in 2018.
- This corpus of money can release much-needed funds for social development in an emerging economy such as India.

# In Summary (2)

- At the same time, there is a need for data-driven investing focusing on areas with more urgent social needs.
- There is also a requirement for a more robust monitoring framework for the implementation agencies.
- These measures can enhance the effectiveness of CSR funds through impact investing.

A stylized green globe with various city and environmental icons on its surface, including buildings, trees, a car, a factory, wind turbines, and solar panels.

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YOUR TIME