

Regulation-induced CSR

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Motivation and background

- India's Companies Act, 2013: A firm satisfying the size or profit thresholds is required to spend 2% of its net profit on CSR.
- “Inculcate a sense to involvement and responsibility in the corporate sector for social development by utilising not just their funds, but also their capabilities and management skills”.
- Comply-or-explain feature. The 2019 amendment made the CSR rules more stringent.
- Mandatory disclosure in the prescribed format
- Prescribed activities: health, education, rural development etc
- A board committee is responsible for formulating CSR policies and monitoring its implementation.

Can regulation-induced CSR have perceptible impact on the society?

- Firms choose to explain instead of to comply.
- Misbehavior and tunneling is prevalent (Bertrand et al., 2002).
- Unethical practise and fraud in implementation agencies.
- The money might be spent on projects that do not create much impact (Dharmapala and Khanna, 2018).
- Crowd out other similar activities by the government, non-profit sector, or individuals (Bekkers and Wiepking, 2011; List, 2011).

Preview of results

- In 2019, over 60% of companies spent the full prescribed CSR amount. The total actual CSR amount is similar to the total prescribed CSR amount.
- INR1 million CSR spending (equivalent to USD15,000 approximately) leads to 49 more students, 0.1 more school, and 2 more teachers.
- It also leads to improvements in school facilities, such as access to drinking water, toilets, computers, and books.
- The effect is driven by private schools.

Empirical strategy

$$\delta School\ outcome_{i,t} = \alpha + \beta_1 CSR_{i,t} + \beta_2 CSR_{i,t-1} + \mu_{s,t,n} + \epsilon_{i,t}$$

Where:

- i indexes districts, t indexes years, s indexes states, and n indexes nightlight quintiles measured in 2012
- $\delta School\ outcome$ is the changes in school outcome scaled by the number of schools in 2012
- $CSR_{i,t}$ is the amount of CSR in education projects in a district-year scaled by the number of schools in 2012 (million rupee)
- $\mu_{s,t,n}$ indicates *State* \times *Year* \times *Nightlight quintile* FE

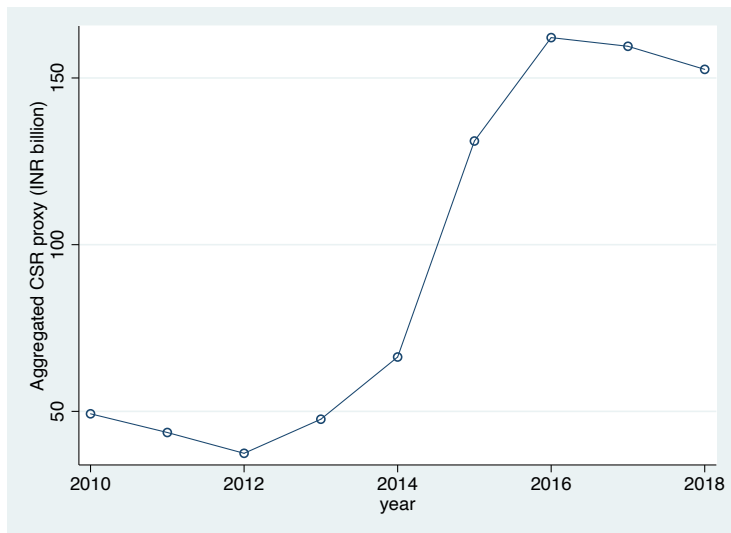
- PRIME: Project-level CSR data

Sr. No.	CSR project or Activity Identified	Sector in which the project is covered (Clause number of Schedule VII to the Companies Act, 2013, as amended)	Projects or Programmes: 1) Local Area or Other 2) Specify the State and district where projects or programmes were undertaken	Amount Outlay (Budget) Project or Programme-wise (₹ in crore)	Amount spent on the Projects or Programmes: Sub Heads 1) Direct Expenditure on Projects or Programmes 2) Overheads (₹ in crore)	Cumulative Expenditure upto the reporting period (₹ in crore)	Amount Spent Direct or through Implementing Agency (IA)
EDUCATION							
14	Vocational Skilling Initiative	Cl (ii) Promoting Education	As per Note 4	2.00	0.97	10.68	IA (1)
15	Dhirubhai Ambani Scholarship Programme	Cl (ii) Promoting Education	As per Note 5	4.00	3.62	20.48	IA (1)
16	Jio Institute – Institution of Eminence*	Cl (ii) Promoting Education	Maharashtra – Mumbai, Raigad	231.00	228.96	1,295.55	IA (1) / IA (2)
17	Partnership with Non-Government Organisations	Cl (ii) Promoting Education	As per Note 6	13.00	11.72	149.82	IA (1)
18	Other CSR Initiatives – RF Schools and at manufacturing locations	Cl (ii) Promoting Education	Daman & Diu – Silvassa; Gujarat – Surat, Jamnagar; Maharashtra – Mumbai, Raigad	4.00	2.62	2.62	IA (1)
19	CSR Initiatives at manufacturing locations	Cl (ii) Promoting Education	As per Note 2	6.00	5.93	122.50	Direct
20	Completed Projects of Earlier Years	Cl (ii) Promoting Education	PAN INDIA	-	-	17.30	Direct

Source: Reliance Industries CSR report 2018-19

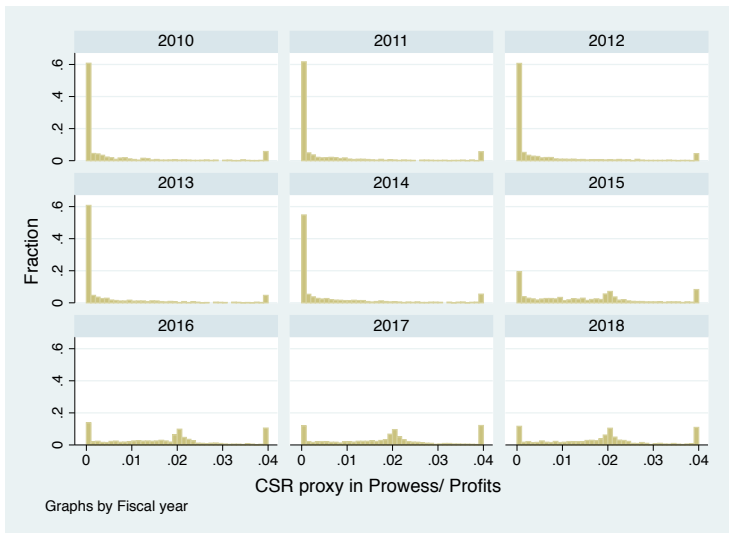
- District Information System for Education (DISE), an annual census of primary, upper primary, and high schools in India.
 - ▶ School-level data
 - ▶ Enrolment, teachers, and school facilities
- Prowess: Financial data
- Nightlights: Beyer et al. (2018)
- Aggregated the data to a district-year level panel

Aggregated CSR proxy

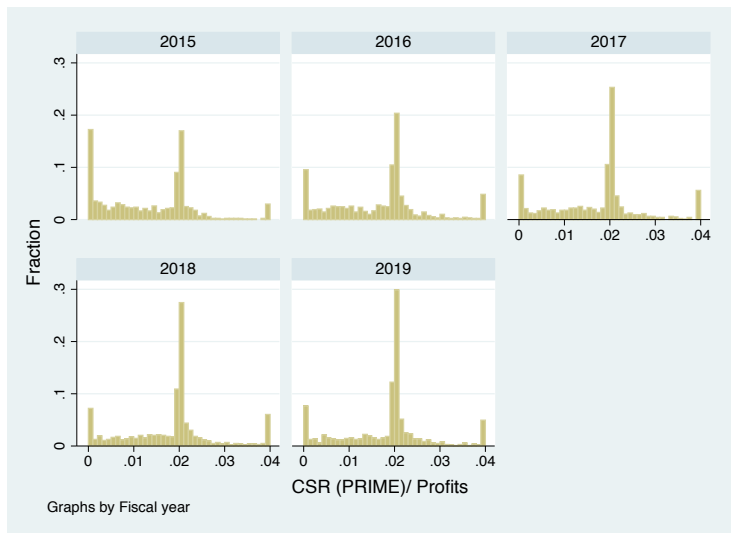


- CSR proxy = Donations + Social and community expenditure + Environment related expenditure

Compliance - CSR proxy



Compliance - CSR



- There are a small number of firms near the thresholds, and thus we find no clear evidence of manipulation.

Locations

	Quintiles				
(INR million)	1	2	3	4	5
Panel A: Nightlights					
CSR (total)	1.5108	5.0937	5.5286	10.1813	24.9208
CSR	0.0010	0.0022	0.0019	0.0038	0.0106
Panel B: Literacy					
CSR (total)	4.6647	5.8373	9.5697	12.5266	14.5426
CSR	0.0015	0.0021	0.0037	0.0055	0.0066
Panel C: % of urban population					
CSR (total)	2.0473	4.7853	6.8837	11.2444	22.5299
CSR	0.0009	0.0019	0.0025	0.0047	0.0096
Panel D: % of villages that have roads					
CSR (total)	7.1795	5.4687	5.7417	12.6373	10.7331
CSR	0.0023	0.0020	0.0020	0.0053	0.0062

Impact of CSR spending on schools

Dept. var	Δ Enrolment (1)	Δ Schools (2)	Δ Teachers (3)	Δ Enrolment (log) (4)	Δ Schools (log) (5)	Δ Teachers (log) (6)
CSR	48.71** (2.176)	0.125** (2.254)	2.083* (1.749)	0.301** (2.666)	0.113** (2.213)	0.180 (1.533)
CSR (lag)	20.43 (0.755)	0.0704 (0.784)	0.317 (0.240)	0.0377 (0.288)	0.0503 (0.632)	-0.144 (-1.002)
Observations	3,414	3,414	3,414	3,414	3,414	3,414
R-squared	0.605	0.546	0.676	0.553	0.554	0.641
State- year-ntl FE	Yes	Yes	Yes	Yes	Yes	Yes
Cluster	State	State	State	State	State	State

Impact of CSR spending on government and private schools

Dependent variable	ΔEnrolment			ΔSchools			ΔTeachers		
	Govt (1)	Unaided pvt (2)	Aided pvt (3)	Govt (4)	Unaided pvt (5)	Aided pvt (6)	Govt (7)	Unaided pvt (8)	Aided pvt (9)
CSR	-9.958 (-0.696)	49.76** (2.279)	-6.133 (-0.916)	-0.035 (-0.637)	0.157* (1.990)	-0.019 (-0.832)	-0.025 (-0.058)	2.702** (2.276)	-0.209 (-0.927)
CSR (lag)	5.751 (0.326)	20.28 (0.938)	4.140 (0.497)	0.0478 (1.082)	0.0355 (0.462)	0.0193 (0.748)	0.220 (0.782)	0.203 (0.196)	0.0519 (0.198)
Obs	3,414	3,414	3,414	3,414	3,414	3,414	3,414	3,414	3,414
R ²	0.725	0.452	0.455	0.610	0.459	0.621	0.651	0.564	0.735
State- year-ntl FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Cluster	State	State	State	State	State	State	State	State	State

CSR spending and economic activities

	Δ Nightlights(log) (1)	Nightlights(log) (2)
CSR	-0.491 (-1.234)	-0.854 (-1.600)
CSR (lag)	-0.186 (-0.592)	-1.157 (-1.543)
Observations	3,109	3,716
R-squared	0.704	0.992
District FE	No	Yes
State-year-nightlights FE	Yes	Yes
Cluster	state	state

Impact of CSR spending on grade repetition

Dependent variable	Δ Repeaters (1)	Δ Repeaters (female) (2)	Δ Repeaters (male) (3)
CSR	-0.600 (-0.261)	-0.313 (-0.289)	-0.225 (-0.181)
CSR (lag)	-0.394 (-0.158)	-0.426 (-0.334)	-0.0971 (-0.0743)
Observations	3,414	3,414	3,414
R-squared	0.411	0.464	0.378
State-year-nightlight FE	Yes	Yes	Yes
Cluster	State	State	State

Impact of CSR spending on other school outcomes

Dependent variable	Δ Enrolment (female) (1)	Δ Enrolment (male) (2)	Δ Toilets (female) (3)	Δ Toilets (male) (4)	Δ Boundary walls (5)	Δ Water (6)	Δ Computers (7)	Δ Books (8)
CSR	21.60* (2.036)	26.77** (2.285)	1.524*** (3.267)	1.465*** (2.989)	1.593 (1.695)	0.560* (1.964)	3.370*** (3.507)	300.3*** (4.770)
CSR (lag)	9.731 (0.809)	10.37 (0.697)	0.338 (0.539)	0.499 (0.717)	0.143 (0.160)	-0.186 (-0.397)	0.685 (0.580)	98.80 (0.755)
Obs	3,414	3,414	3,414	3,414	3,414	3,414	3,414	3,414
R ²	0.610	0.588	0.649	0.672	0.703	0.680	0.625	0.642
State-year-ntl FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Cluster	State	State	State	State	State	State	State	State

Conclusion

- Since 2014-15 fiscal year, the Indian government required companies that met the size or profit thresholds to spend 2% of their profits in CSR activities. The rule adopted a comply-or-explain framework.
- We ask two questions in this unique setting: (1) Can the regulator induce companies to spend in CSR? (2) Can CSR activities lead to a positive impact on the society?
- The percentage of fully complied firms increases from 37% in 2015 to over 60% in 2019.
- We document a significantly positive impact on the primary and upper primary schools.
- CSR spending disproportionately flowed to more developed areas.