DIU Development Intelligence Unit

Investing in Tomorrow: Need for realigning CSR spends with status of development in districts

Extract

India's Corporate Social Responsibility (CSR) framework, mandated under Section 135 of the Companies Act 2013, requires companies to allocate a portion of their profits toward social development. However, in India most CSR fund allocation follows the physical presence of industrial/mining operations and the location of corporate offices, and are thus geographically skewed, favoring industrialized states with higher GSDP such as Maharashtra, Tamil Nadu, Karnataka, Andhra Pradesh, Delhi and Gujarat (accounting for 60% of CSR spending), while little money finds its way to the lesser developed states which contain the bulk of India's identified backward districts. A 2019 study by the Indian Institute of Corporate Affairs (IICA) found that 55% of CSR funds go to human development and social welfare, while critical areas like environmental sustainability receive minimal attention. Further, the phrase “local area preference” in the Act has been misinterpreted as mandatory rather than discretionary, with most corporates with a manufacturing/mining base preferring to spend CSR budgets in locations within the periphery of their business operations, thus contributing to this geographical disparity. Despite CSR being a statutory obligation for over five years, 70% of companies still lack a structured strategy for implementation, raising concerns about the CSR fund allocation and its lack of convergence with India's commitment towards meeting SDG targets by 2030.

This study aims to provide a comprehensive assessment of the mismatch in geographical targeting of CSR funds across a pan-India canvas, looking at state of rural quality of life vs flow of money into rural areas of each district. This quality of life for the rural citizenry is defined through a Rural Quality of Life (RQOL) Index, which is a weighted composite index that has been developed as a measure that uses administrative (public intend) data and encompasses 69 indicators across nine key thematic pillars, viz. Agriculture, Economic Ability and Employment, Education, Gender, Governance, Health and Nutrition, Infrastructure and Amenities, Social Security, and Sustainability & Climate Resilience. On the other hand, we have looked at district-specific CSR fund allocations over the last 5 years across several broad thematic areas where the bulk of the allocation is targeting rural areas. The evaluation rubric is that in every state, CSR fund allocations should be inverse to the state of development on the ground, with higher allocations to marginalized districts and lower in districts of relatively high development. However, the analysis reveals a stark mismatch across the bulk of India's districts, suggesting that corporate CSR decisions are influenced by factors that are more personal, resulting in inefficient and unequitable fund deployment.

The findings underscore the need for a more strategic and evidence-based approach to CSR planning. By identifying regions that require urgent intervention, this paper provides a data-driven framework for the Ministry of Corporate Affairs to intervene and enact guidelines or even legislate to optimize CSR investments to ensure appropriate geographical and sectoral targeting.

The study advocates for a shift from compliance-driven CSR strategies to long-term, impact-focused initiatives that align with national development goals.

Backdrop

Section 135 of the Companies Act 2013 mandates that companies meeting specific criteria must establish a Corporate Social Responsibility (CSR) committee and spend a certain percentage of their net profit on CSR activities. Section 135 applies to companies that have a net worth of Rs. 500 crore or more, or a turnover of Rs. 1,000 crore or more, or a net profit of Rs. 5 crore or more during the immediately preceding financial year.

Apart from the establishment of a Corporate Social Responsibility (CSR) committee consisting of three or more directors, the Act also mandates that eligible companies must spend at least 2% of their average net profit of the preceding three financial years on CSR activities.
Schedule VII of the Act outlines the activities that may be included in a company's CSR policy, which includes activities related to eradicating hunger, poverty, malnutrition, promoting education, gender equality, environmental sustainability, and more.

India's CSR Conundrum

There are many issues that hinder the effectiveness of CSR investments in India, including a significant imbalance in geographical distribution, a lack of impact assessment, and a focus on certain sectors over others. There are also concerns about transparency, duplication of efforts with government schemes, and a lack of community participation in project design.

Let us look at each one of these issues one by one.

Geographical Imbalance:

In FY 2022-23, CSR expenditure in India reached ₹29,989.92 crore, registering a 12.8% growth over the previous year—a sign of recovery after pandemic-induced disruptions. However, this growth masks a deep structural imbalance in the geographical distribution of CSR funds.

CSR allocations tend to follow the geographical footprint of donor companies, i.e., where their headquarters or manufacturing/mining units are located. Consequently, industrialized states like Maharashtra, Karnataka, Gujarat, Tamil Nadu, Andhra Pradesh, Telangana, and Delhi have historically captured a disproportionately large share of CSR funds.

For instance, Maharashtra alone received over ₹2,250 crore in CSR funds in FY 2021-22, accounting for nearly 15% of the total. In contrast, low-income or aspirational districts in Jharkhand, Chhattisgarh, Bihar, Odisha, Madhya Pradesh, and the Northeastern states—regions with the greatest development deficits—remain underfunded. Ironically, these six states account for over 60% of India's Aspirational Districts (per NITI Aayog) but receive less than 20% of the total CSR pool.

This geographic misalignment dilutes the redistributive potential of CSR and fails to address the needs of India's most underserved populations.

Sector-Specific Focus:

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Lack of Impact Assessment:

Despite mandatory disclosures, few CSR programs in India undergo rigorous impact evaluation. The result is a lack of clarity on whether the outcomes align with stated goals, the sustainability of the benefits post-intervention, and whether similar outcomes could have been achieved with lesser cost or better design.

The absence of such evaluations not only hampers learning and course correction but also reduces accountability to beneficiaries and shareholders. Several corporates still rely on output indicators (number of people trained, number of toilets built) rather than impact metrics (e.g., long-term employment, reduction in open defecation). Consequently, funding decisions may continue based on legacy projects or board preferences, rather than data-driven evidence.

Duplication of Efforts:

CSR projects often mirror existing government schemes. For example:

- Mid-day meals, sanitation drives, basic skill development programs, or school infrastructure initiatives.
- In several districts, multiple corporates have funded similar classroom renovation or health camp models, without coordination with district authorities or other funders.

This overlap leads to inefficient resource use, especially in areas where the government is already active, while neglecting 'last-mile' gaps like supply chain bottlenecks, maintenance, monitoring, or underserved populations (e.g., tribal and single-woman-headed households).

Strategic Planning and Innovation:

Many CSR interventions continue to be designed top-down, with corporate CSR arms or external agencies rolling out template programs without a nuanced understanding of local needs, aspirations, or systemic gaps.

In the absence of community consultations or scientific deprivation assessments, CSR can become a symbolic or branding exercise. For instance, choosing to build a smart classroom or an Anganwadi without addressing the underlying issues of dropout rates, absenteeism, teacher vacancies, or poor nutrition.

Innovative models such as multi-year, place-based investments, public-private convergence, or outcome-based financing are still rare. This results in short-termism, fragmented programming, and missed chances for deeper, integrated development impacts.

Our research Hypothesis

In an ideal situation, if CSR spends should be looking at convergence with SGD goals and contribute towards the nation SDG commitments on one hand and help pave the pathway towards a Viksit Bharat by 2047, then geographies with low development profiles should attract the largest share of CSR funding and those areas that are already highly developed should attract the least, thus addressing the issue of geographical imbalance in development. Schematically, this should look like this:

		Quality of Life profile		
		Low	Moderate	High
CSR spending (per capita)	High	Most desirable	Somewhat mismatched	Least desirable
	Moderate	Somewhat mismatched	Most desirable	Somewhat mismatched
	Low	Least desirable	Somewhat mismatched	Most desirable

While it is well-documented that six states accounted for 40% of total CSR spending in India between 2018-19 and 2022-23, what remains less explored is the intra-state distribution of these funds—specifically, how CSR allocations vary across districts within each state. It is unclear whether these investments align with developmental needs and principles of equitable resource distribution, or whether they deviate from them. Our working hypothesis is that in most states, instances of convergence between CSR investments and district-level deprivation are likely to be the exception rather than the norm, with divergence being the more prevalent pattern.

In order to address this hypothesis, the first order of business was to create a composite index that ranks districts on the basis of quality of life of their rural residents. The second order of business is to compare this RQoL status with the quantum of CSR funding that has gone into a district. The following section elaborates.

The Rural Quality of Life Index

Background

In order for us to establish this hypothesis, the first and foremost task is to establish a system of ranking of districts within each administrative geography (in this case a state or a UT). For this, we have used a proprietary DIU product called the Rural Quality of Life Index. Quality of life for the rural citizenry is defined by a weighted composite index that has been developed as a measure that uses administrative data from 13 different public sources[1] and encompasses 72 indicators across nine key pillars, viz. Agriculture, Economic Ability and Employment, Education, Gender, Governance, Health and Nutrition, Infrastructure and Amenities, Social Security, and Sustainability & Climate Resilience. This analysis was performed for 707 rural districts in the country.

People need many things to live fulfilling lives. Having sustenance and food security, freedom and personal safety, belonging to a community, having access to health and maintaining a livelihood all contribute to the quality of human life. By focussing on quality of life, the intention is to take a broad and holistic view of every state's development status over space. We believe gaining a quality of life perspective will help our leaders develop policies that reflect the aspirations of their constituents.

For decades income has been the prime indicator of the kind of quality of life people enjoy and has become a dominant measure of well-being. However, recent thinking and related evidence suggest that there is more to quality of life than income alone.

[1]Mission Antyodaya, 2023, Rural Ease of Living Survey, 2021, Agricensus, 2015-16, CGWB, 2020, Election Commission of India, ICRISAT & LU-LC, 2019-20, Ministry of Panchayati Raj e-gram swaraj, MGNREGA, 2020-21, MSDE, 2020-21, NCRB, 2020, NFHS - V, RBI, 2020-21, UDISE, 2019-20, DST (IIT-Mandi, IIT-Guwahati, IISc-Bangalore), 2019-20.

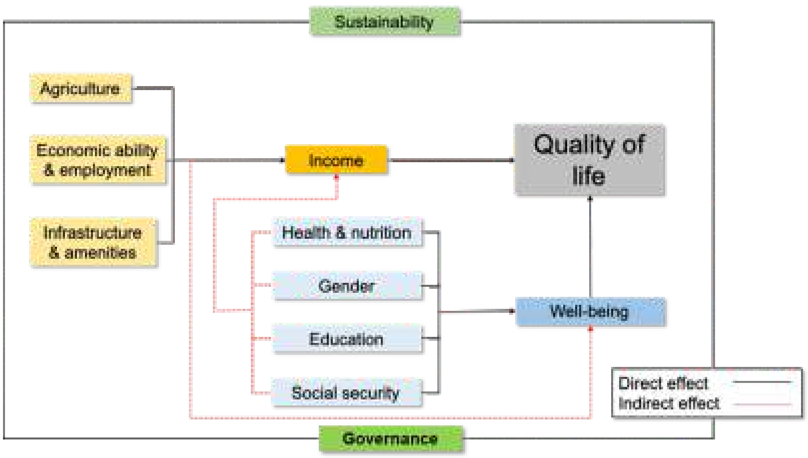
Health, education, livelihoods, political freedom, participation in civil society, housing, sustainability, governance, and the status of women (among others)[2] are all important components of a person's quality of life. These factors and indicators are bound to income in a complex network of a two-way relationship. Therefore, a multi-indicator measure offers a more holistic view and has now become a dominant approach in understanding communities.

This composite index serves as a non-partisan ranking exercise at the district and block level based on the quality of life of rural citizens. The goal is to equip and enable policymakers with relevant and rapid objective data using both primary and administrative data to support evidence-based planning and decision-making.

Types of indicators to be used

Many development indices (including the Multidimensional Poverty Index of NITI Aayog) contain outcome indicators like illiteracy among women or status of anaemia among pregnant women. However, there is a classical liberal view that equalising outcomes actually diminishes quality of life. In response to this, policy makers in India are shifting focus from policies that encourage social welfare to action intended to combat social exclusion. Indicators are therefore needed for likely future outcomes, i.e., input indicators that would lead to a given or desired outcome.

From a different perspective, choice of indicators can be categorised into two sets: cumulative indicators, which help focus public attention on a set of issues, and managerial indicators, which help target inputs and measure outcomes. In simple terms, the former must aim for public resonance while the latter must be robust. The use of communicative indicators (like UNDP's HDI) is meant to send signals to government, business, civil society and the general public (for instance our indicators on malnutrition, or the status of groundwater reserves). Our index, which consists of a large number of input indicators especially focussed on infrastructure and access to welfare schemes and services, are skewed in favour of managerial indicators (which is necessary in a planning tool) while the index as a whole is a communicative tool.



[2] Oecdbetterlifeindix.org

These links and their effects on Rural QOL represent important policy tools for decision makers. Standard cost-benefit-analysis takes only the direct impact of policy into account. But also understanding indirect links may lead to different policy interventions, as policy makers could attempt to take advantage of multiplier effects through relatively small but targeted investments.

It may be noted that for this analysis, the relative score of each rural district within a state or UT is based on the relative position of that district relative to all the districts in that particular state/UT. Thus, the State scale helps identify districts performing better or worse than other districts of the same state. As such, every state/UT will follow its own RQOL scale wherein only districts contained within each can be compared to each other and not with districts outside of the state/UP.

For each State/UT, we have divided the scores achieved by districts into tertiles, viz, High, Moderate, and Low.
Details of how the Index was constructed is available as a public document and dashboard and can be accessed through:
https://rqol.developmentintelligenceunit.in/.

CSR spending

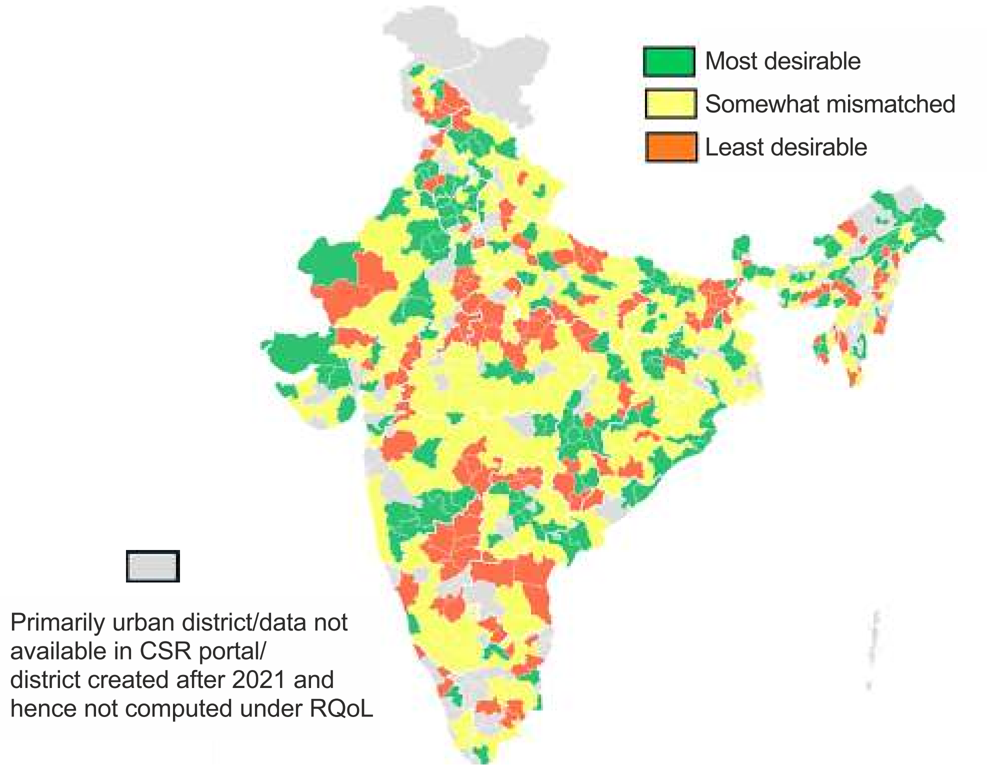
Along with a tertile (3 categories) view of RQOL ranking of districts across states, we have also looked at district-specific CSR fund allocations over the last 5 years. Even though the National CSR portal does not give separate accounts of CSR spends by urban and rural areas, it does give detailed accounts of spending across broad development sectors. Given that on the one hand we have the Quality of Life amongst rural residents, we made the following two assumptions to ensure we also look at CSR spends across rural areas as well:

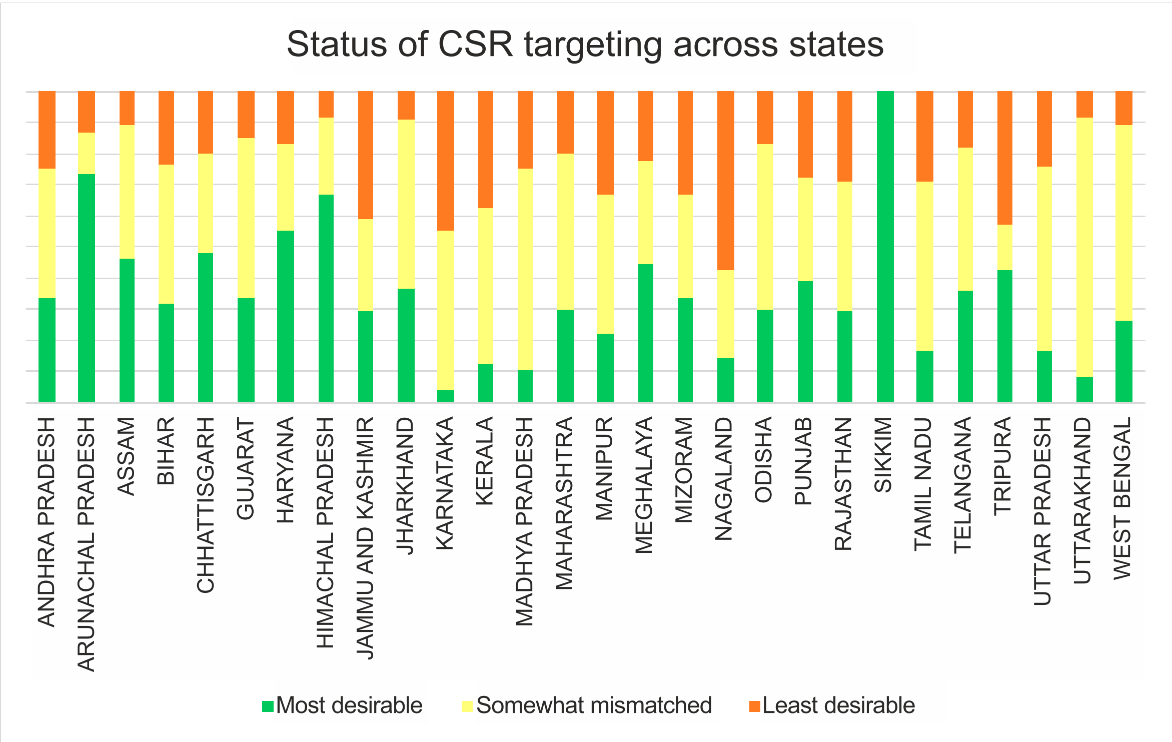
A) Consider only those districts that have more than 50 percent of the resident population living in census defined rural areas as per 2011 census; and

B) From the National CSR portal, extract CSR spending data on Health Care, Agro Forestry, Poverty, Eradicating Hunger, Malnutrition, Sanitation, Education, Environmental Sustainability, Livelihood Enhancement Projects, Conservation of Natural Resources, Safe Drinking Water, and Rural Development Projects, all of which should have a significant rural focus.

For each of the 606 qualified districts, we then computed the average per capita CSR spending for five years, viz. 2018-19 to 2022-23 across the above development sectors. This was also then categorized into three categories, viz, High, Moderate, and Low.

To reiterate, the evaluation rubric being that CSR fund allocations should be inverse to the state of development on the ground, with higher allocations to marginalized geographies and lower in areas of relatively high development. However, the analysis reveals a considerable mismatch across the bulk of India's districts, suggesting that corporate CSR decisions are influenced by factors that are more personal and following business considerations, resulting in inefficient and unequitable fund deployment.





At an all-India level, 23% of the districts recorded a complete mismatch between development status on the ground and the quantum of CSR funding per capita (i.e. high development with high investment, and low development with low investment), while the bulk of the districts (47%), register a certain degree of mismatch. Only 30% of the eligible districts for which data is available register a desirable or correct level of targeting, i.e. high development with low investment and low development with high investment.

We believe that the analysis presented in this paper should have two desirable outcomes, viz.

1. It should demonstrate to the Ministry of Consumer Affairs that some form of guidance in the shape of directives need to be introduced as a supplement to the Act so that we can ensure the significant volumes of CSR spending can be channelized to deliver impact that align itself to our national SDG commitments. In FY23, India Inc's corporate social responsibility (CSR) spending reached ₹29,986.92 crore.

2. State governments can use these findings to guide CSR funding to sectors in distress as well as underserved geographies. The Rural Quality of Life Index being a public resource, it can act as a guidance tool to help focus spending.

Disaggregated analysis at the district level

As a test case, we looked at Balrampur district in the state of Uttar Pradesh. This district has a total rural population of 25.58 lakhs, and the five-year total CSR spent gone into the district was just over 6 Crores making the average CSR spending of only Rs.23.49 over 5 years. This puts Balrampur at the 'Low' category in CSR spends.

At the same time, the RQOL score of Balrampur places it at the 'Low' category quality of life category as well, making this an ideal case of total mismatch between development status and CSR funding.

The RQOL dashboard allows us the opportunity to undertake sectoral level analysis as well. For instance, the relative position of Balrampur against its state level peers on a pentile (five) way distribution gives us the following:

Pillar	Balrampur's rank in UP	Pentile position out of 5 (higher the better)
Agriculture	73 out of 75	1
Economic Ability & Employment	72 out of 75	1
Education	75 out of 75	1
Gender	74 out of 75	1
Governance	61 out of 75	2
Health & Nutrition	61 out of 75	2
Infrastructure	34 out of 75	3
Social Security	63 out of 75	3
Sustainability & Climate Resilience	41 out of 75	4

The above table indicates that the sectors that really need investments, both by the state but also supplemented with CSR funding, are agriculture, economic ability and environment, education, gender, governance and health and nutrition.

Enhanced CSR funding can certainly explore avenues towards skilling and livelihood projects targeting SHGs, agriculture diversification and value chains, education infrastructure and scholarships, and maternal and child health along with primary healthcare services.

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