Private pocketbooks for public goods: Policy delegation through mandated CSR

Simran Singh

October 17, 2025

Motivation

Special report | Functioning anarchy

India's difficult business environment is improving

The changes are allowing Indian firms to become more dynamic

Motivation

Special report | Functioning anarchy

India's difficult business environment is improving

Azadi Ka Amrit Mahotsav

India Records USD 81.04 Billion FDI Inflow in FY 2024–25

FDI inflow grows by 14%; Services Sector leads with 19% share

Posted On: 27 MAY 2025 6:46PM by PIB Delhi

Motivation

Special report | Functioning anarchy

India's difficult business environment is improving

India Records USD 81.04 Billion FDI Inflow in FY 2024–25

FDI inflow grov

China files WTO complaint over India EV, battery subsidies

By Reuters

October 15, 2025 4:22 AM EDT · Updated October 15, 2025

Motivation

- Despite immense efforts to foster a pro-business environment, the Indian government enacted what is effectively a corporate social responsibility tax on firms in 2013

  $\rightarrow$ Why?

  - One possibility: to delegate social policy implementation to firms
  - But delegation only works if firms act in alignment with the objectives of the state

Preview

- **Research Question**: How do firms strategically respond to state policy delegation through corporate social responsibility (CSR)?
  - **Substitute**: Spends differently than the state
  - **Complement**: Spends similarly to the state
- **Data**: ∼500,000 CSR projects by mandated firms, 2016-23 in India
- **Findings**:
  - Firms more likely to locate CSR where they have existing footprint
  - Large domestic firms act as complements to the central government
  - Foreign and domestic firms substitute for states' social spending

→ **Implication**: Delegation to firms can augment the state's public good provision efforts, but introduces a principal-agent challenge

Theory: Defining delegation

- States face many obstacles in enacting their preferred social policies
- Delegating to firms can mitigate some of these challenges
  - Capacity constraints
    $\rightarrow$ Increases available resources
  - Political risks for controversial agenda items
    $\rightarrow$ Reduces the extent to which the state can be attributable
  - Ineffectiveness
    $\rightarrow$ Leverages private sector innovation and efficiency oriented practices
- One delegation strategy is encouraging or mandating CSR

Theory: Firm strategic responses to CSR delegation (1/2)

- Mandated firms decide *where* to do CSR, and *what* to spend it on
  $\rightarrow$ introduces a principal-agent problem
- Firms optimize for their own utility based on evaluation of three types of potential benefits:
  - Instrumental gains (Fu et al., 2021)
  - Reputational gains (Arevalo & Aravind, 2017)
  - Gains from compliance
    - Foreign firms may gain more from compliance (Vernon, 1971; Kobrin, 1987; Jensen, 2008; Mooij, 2018; Kim & Milner, 2019)

Theory: Firm strategic responses to CSR delegation (2/2)

- Mandated firms can respond to delegation in two ways:
  - **Complementarity**: Firms support ongoing government efforts by adding their own funding, but pursuing the same priorities
  - **Substitution**: Firms support distinct priorities than the government, tackling different challenges that the state cannot or does not

Context and Data

- Indian CSR mandate requires large firms to spend 2% of their average net profits on specified social development activities
  - USD 3.9 billion in FY 23-24 (0.8% of federal budget)
- CSR Data from Ministry of Corporate Affairs
  - $\sim$500,000 projects across 47,000 companies, 2016-2023
  - Coded projects across 8 social policy categories
  - Ownership classified using Global Ultimate Owner (Orbis)
- Annual state and federal spending dataset created from RBI reports
- Capital expenditures and other financial data from CMIE

Firm presence predicts CSR location

	Prob. of New CSR Project in District	
	Simple	By Ownership
N Capex Projects in District	0.04^{***}	0.04^{***}
	(0.00)	(0.00)
Foreign Owned		0.00
		(0.00)
N Capex $\times$ Foreign Owned		0.06^{***}
		(0.01)
Year $\times$ FE	Yes	Yes
District FE	Yes	Yes
Num. obs.	90278695	90278695

$^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$. Standard errors clustered at district level.

As domestics spend more, complement central spending

	Prop. of CSR Spending in Central/Sector		
	All	Foreign	Domestic
Proportion allocated (Central)	-0.097	-0.010	-0.119
	(0.085)	(0.084)	(0.086)
Proportion allocated $\times$ Total CSR Spent	0.016^{**}	0.000	0.022^{***}
	(0.004)	(0.008)	(0.004)
Firm $\times$ Year FE	Yes	Yes	Yes
Sector FE	Yes	Yes	Yes
Num. obs.	924876	186912	737964
R^2	0.280	0.325	0.270
Adj. R^2	0.190	0.241	0.179

$^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$. Standard errors clustered at year level.

Foreign and domestic firms substitute for state spending

	Prop. of CSR Spending in State/Sector		
	All	Foreign	Domestic
Proportion allocated (State)	-0.110^{***}	-0.175^{*}	-0.093^{**}
	(0.033)	(0.085)	(0.035)
Proportion $\times$ Total Expenditures	0.036	0.036	0.035
	(0.037)	(0.031)	(0.044)
Firm $\times$ State $\times$ Year FE	Yes	Yes	Yes
Sector FE	Yes	Yes	Yes
Num. obs.	85527	16492	69031
R^2	0.223	0.239	0.220
Adj. R^2	-0.263	-0.260	-0.264

$^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$. Standard errors clustered at state level.

Implications

- States may have unexamined levers at their disposal to manage distributional consequences of economic openness (Frieden & Rogowski, 1996; Keohane & Nye, 2003; Mosley, 2005; Rodrik, 2011)
- But, delegation creates a principal-agent problem
  - CSR-capex link suggests that firms are biased in their provision of public goods geographically
  - Conferring firms with discretion in *how* they comply with delegation may generate other distributional challenges

Thank you!

simranmsingh.com

simran.singh@columbia.edu

Appendix

CSR approved activities (as of latest amendments)

Item	Activity
(i)	Eradicating **hunger, poverty and malnutrition**; promoting **health care (including preventive health) and sanitation** (including contribution to the Swachh Bharat Kosh); and making available safe drinking water.
(ii)	Promoting **education, including special education and employment-enhancing vocational skills** (especially among children, women, elderly, and persons with disabilities), and livelihood enhancement projects.
(iii)	Promoting **gender equality; empowering women; setting up homes and hostels for women and orphans**; setting up old age homes, day care centres and such other facilities for senior citizens; and measures for reducing inequalities faced by socially and economically backward groups.
(iv)	Ensuring **environmental sustainability**, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources, and maintaining quality of soil, air and water (including contribution to the Clean Ganga Fund).
(v)	Protection of **national heritage, art and culture**—including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts.
(vi)	Measures for the benefit of **armed forces veterans**, war widows and their dependents; Central Armed Police Forces (CAPF) and Central Para Military Forces (CPMF) veterans and their dependents (including widows).
(vii)	Training to promote rural **sports**, nationally recognised sports, paralympic sports, and Olympic sports.
(viii)	Contribution to the **Prime Minister's National Relief Fund or PM CARES Fund, or any other fund set up by the central government** for socio-economic development and relief and welfare of the Scheduled Castes, Scheduled Tribes, other backward classes, minorities and women.
(ix)	(a) Contributions to **incubators or R&D projects** in science, technology, engineering and medicine funded by Central/State Government, PSU or any agency thereof; (b) Contributions to public-funded universities; IITs; National Laboratories and autonomous bodies (DAE, DBT, DST, Dept. of Pharmaceuticals, AYUSH, MeitY, DRDO, ICAR, ICMR, CSIR, etc.) engaged in research in STEM aimed at promoting the Sustainable Development Goals (SDGs).
(x)	**Rural development** projects.
(xi)	**Slum area** development (any area declared as such by the Central/State Government or other competent authority under applicable law).
(xii)	**Disaster management**, including relief, rehabilitation and reconstruction activities.