

CORPORATE SOCIAL RESPONSIBILITY (CSR)



WHAT IS CSR??

While there is no universal definition of corporate social responsibility, it generally refers to **transparent business practices** that are based on ethical values, compliance with legal requirements, and respect for people, communities, and the environment. Thus, beyond making profits, companies are responsible for the totality of their impact on people and the planet. “People” constitute the company’s stakeholders: its employees, customers, business partners, investors, suppliers and vendors, the government, and the community. Increasingly, stakeholders expect that companies should be more environmentally and socially responsible in conducting their business. In the business community, CSR is alternatively referred to as “**corporate citizenship**,” which essentially means that a company should be a “good neighbour” within its host community.

LEGAL PROVISIONS:

The Provisions relating to CSR are covered under Section 135 of the Companies Act, 2013 which shall come into force from **1st April, 2014**. The said Section reads as follows:

- 135. (1)** Every company having **net worth of INR 500 crore or more, or turnover of INR 1000 crore or more** or a **net profit of INR 5 crore or more** during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.
- (2)** The **Board's report** under sub-section (3) of section 134 shall **disclose the composition of the Corporate Social Responsibility Committee.**

LEGAL PROVISIONS (continue)

(3) The Corporate Social Responsibility Committee shall,—

- (a) formulate and recommend** to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;
- (b) recommend the amount of expenditure** to be incurred on the activities referred to in clause (a); and
- (c) monitor the Corporate Social Responsibility Policy** of the company from time to time.

(4) The Board of every company referred to in sub-section (1) shall,—

- (a) after taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose contents of such Policy in its report** and also place it on the company's website, if any, in such manner as may be prescribed; and

LEGAL PROVISIONS (continue)

- (b) ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.
- (5) The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, **at least 2 % of the average net profits** of the company made during the **Three immediately preceding financial years**, in pursuance of its Corporate Social Responsibility Policy:

Provided that the company shall **give preference to the local area** and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities:

Provided further that if the **company fails to spend** such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify **the reasons for not spending the amount**.

Activities which may be included by companies in their Corporate Social Responsibility Policies as per Schedule VII of Companies Act, 2013, as amended by MCA vide its Notification dated 27th February, 2014

Activities relating to:

1. Eradicating hunger, poverty and malnutrition, promoting preventive health care* and sanitation and making available safe drinking water.
**(promoting health care including preventive health care)*
2. Promoting education and employment skills especially among children, women, elderly and differently abled and livelihood enhancement projects.
3. Promoting gender equality, empowering women, setting up homes and hostels for women and orphans and old age homes and such other facilities and measures for reducing inequalities faced by socially and economically backward groups.

Activities relating to:

4. Ensuring Environmental Sustainability, ecological balance, protection of flora and fauna, animal welfare, agro forestry, conservation of natural resources and maintaining quality of soil, air, and water.
5. Protection of National heritage, art, culture including restoration of buildings and sites of historical importance and works of arts, setting up public libraries, promotion and development of traditional arts and handicrafts.
6. Measures for the Benefits of Armed Forces veterans, war widows and their dependents.
7. Training to promote rural sports, nationally recognised sports, paralympic sports and Olympic sports.

Activities relating to:

- 8. Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government** for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women.
- 9. Contribution or funds provided to technology incubators** located within academic institutions which are **approved by the Central Government.**
- 10. Rural Development projects.**
- 11. Slum Area Development (MCA Notification dated 6th August 2014)**
'Slum Area' shall mean any area declared as such by the Central Government or any State Government or any other competent authority under any law for the time being in force.

Clarifications with regard to provisions of CSR

(MCA Circular No. 21 dated 18th June 2014)

1. The statutory provision and provisions of CSR Rules, 2014, is to ensure that while activities undertaken in pursuance of the CSR policy must be relatable to Schedule VII of the Act, the entries in the said Schedule VII must be **interpreted liberally** so as to capture the essence of the subjects enumerated in the said Schedule. The items enlisted in the amended Schedule VII of the Act, are broad-based and are intended to cover a wide range of activities.
2. **One-off events such as marathons/ awards/ charitable contribution/ advertisement/ sponsorships of TV programmes etc. would not be qualified as part of CSR expenditure.**

3. Expenses incurred by companies for the fulfillment of any Act/ Statute of regulations (such as Labour Laws, Land Acquisition Act etc.) would not count as CSR expenditure under the Companies Act, 2013.
4. Salaries paid by the companies to regular CSR staff as well as to volunteers of the companies (in proportion to company's time/hours spent specifically on CSR) can be factored into CSR project cost as part of the CSR expenditure. ***(Omitted vide MCA General Circular No. 36 dated 17th September 2014)***
5. Expenditure incurred by Foreign Holding Company for CSR activities in India will qualify as CSR spend of the Indian subsidiary if, the CSR expenditures are routed through Indian subsidiaries and if the Indian subsidiary is required to do so as per section 135 of the Act.

6. 'Registered Trust' would include Trusts registered under Income Tax Act 1956, for those States where registration of Trust is not mandatory.
7. Contribution to Corpus of a Trust/ society/ section 8 companies etc. will qualify as CSR expenditure if:-
 - (a) The Trust/ society/ section 8 companies etc. is created exclusively for undertaking CSR activities **or**
 - (b) Where the corpus is created exclusively for a purpose directly relatable to a subject covered in Schedule VII of the Act.

(MCA Notification dated 12th September 2014)

- **Rule 4(6) of the Companies (Corporate Social Responsibility Policy) Rules, 2014**
- Companies may build CSR capacities of their own personnel as well as those of their Implementing agencies through Institutions with established track records of at least three financial years but such expenditure **including expenditure on administrative overheads*** shall not exceed 5% of total CSR expenditure of the company in one financial year.

** Added vide MCA Notification dated 12th September 2014*

THE COMPANIES (CORPORATE SOCIAL RESPONSIBILITY POLICY) RULES, 2014

- “The Rules” has been notified vide MCA Notification dated **27th February 2014**.
- The Major Highlights of the Rules are as follow which shall come into force w.e.f **1st April, 2014**.

A. Definition of CSR is inclusive definition which includes but is not limited to:

- (i) Projects or programs relating to activities specified in **Schedule VII** of the Companies Act, 2013.
- (ii) Projects or programs relating to activities undertaken by the Board of Directors of a Company (Board) in pursuance of recommendations of the **CSR Committee of the Board** as per declared **CSR Policy** of the Company subject to the condition that such policy will cover subjects enumerated in **Schedule VII** of the Companies Act, 2013.

B. **“Net profit”** means the net profit of a company & as per its financial statement prepared in accordance with the applicable provisions of the Act , **but shall not include** the following namely :

- i) **any profit arising from any overseas branch** or branches of the company, whether operated as a separate company or otherwise and
- ii) **any dividend received from other companies in India**, which are covered under and complying with the provisions of section 135 of the Act:

Provided that net profit in respect of a financial year for which the relevant financial statements were prepared & accordance with the provisions of the Companies Act 1956 shall not be required to be re-calculated in accordance with the provisions of the Act:

Provided further that in case of a foreign company covered under these rules, net profit means the net profit of such company as per profit and loss account prepared in terms of clause (a) of sub-section (1) of section 381 read with section 198 of the Act (Indian business only)

C. APPLICABILITY OF CSR TO FOLLOWING COMPANIES:

- (i) Holding-Subsidiary Company and Foreign Company:** Such Companies and branch office or project office in India established by the Foreign Company which fulfills the criteria of CSR as aforesaid mentioned shall be required to comply with Section 135 of the Act and these Rules.
- (ii) Every Company which ceases** to comply with the criteria of CSR as aforesaid mentioned for **3 consecutive financial years** shall not be required to constitute a CSR Committee and shall not be required to comply with the provision of Section 135 of the Companies Act,2013 till such time it meets the criteria specified in sub-section (1) of section 135.

D. CSR POLICY:

1. Each Company shall **frame its CSR Policy and display it on its website.**

2. CSR Policy of the Company shall include the following :

(i) All the activities mentioned in **Schedule VII** of the Companies Act, 2013 which a Company plans to undertake for CSR projects or Programs specifying modalities of **execution and implementation** of the same.

(ii) **Monitoring Process** of such projects and programs.

Provided that the CSR activities does not include the activities undertaken in pursuance of **normal course of business** of a company.

3. The CSR Policy of the Company shall specify that the surplus arising out of the CSR projects or activities shall not form part of the Business profit of the Company.

E. CSR EXPENDITURE :

1. CSR Activities approved by the Board of Directors and Committee shall **include all expenditure** such as contribution to corpus, or on projects or on program relating to CSR activities.

2. CSR Expenditure shall **not include** any expenditure which is not in conformity with the activities mentioned in Schedule VII of the Companies Act, 2013.

F. WHICH ACTIVITIES TO BE CONSIDERED AS CSR ACTIVITIES ?

Following are the activities to be considered as CSR Activities:

1. Company shall undertake its CSR activities as per its CSR policy or as projects or programs as decided by the Company.
2. Company may also conduct/implement its CSR programmes approved by the CSR Committees through **registered Trusts, Societies, or companies with Charitable objects operating in India**, which may not set up by the company itself provided such organizations have an established track record of at least **three years** in carrying on activities in related areas. The Company/ Holding / Sub Co / asso Co may undertake such CSR activities through Registered Trust or Society or Section 8 Company established by them (for which 3 years track record not required).
3. **Companies may collaborate or pool resources with other companies** to undertake CSR activities and any expenditure incurred on such collaborative efforts would qualify for computing the CSR spending.

4. Companies may build CSR capacities of **their own personnel** as well as those of their Implementing agencies through Institutions with established track records of at least 3 financial years but **such expenditure shall not exceed 5% of total CSR expenditure** of the Company in one financial year.

FOLLOWING ARE THE ACTIVITIES NOT TO BE CONSIDERED AS CSR ACTIVITIES:

1. CSR Projects or activities **which benefit only employees** and their families shall not be considered as CSR Activities.
2. Any **contribution to the Political Party** shall not be considered as CSR Activities.
3. Any CSR activities undertaken **outside India.**

G. CSR REPORTING:

- 1. Board's Report** of a Company pertaining to a financial year commencing on or after 1st April, 2014 shall include an annual report on CSR containing particulars specified in Annexure to the Rules.
- 2. Every Foreign Company** shall along with balance sheet and profit & loss account in every calendar year shall contain an annual report on CSR as specified in Annexure to the Rules.

H. DISPLAY OF CSR ACTIVITIES ON WEBSITE:

The Board of Directors of the Company shall, after taking into account the recommendations of CSR Committee, approve the CSR policy for the Company and disclose contents of such policy in its report and the same shall be **displayed on the company's website**, if any, as per the particulars specified in the Annexure.

I. BENEFITS OF CSR:-

- Strengthened Brand Positioning.
- Enhanced corporate image.
- Increased ability to attract, motivate, and retain employees.
- Increased sales and market share.
- Increased appeal to investors and financial analysts.

Applicability of CSR to Companies having
Net worth > 500 Crores INR
Turnover > 1000 Crores INR
Net profit > 5 Crores INR

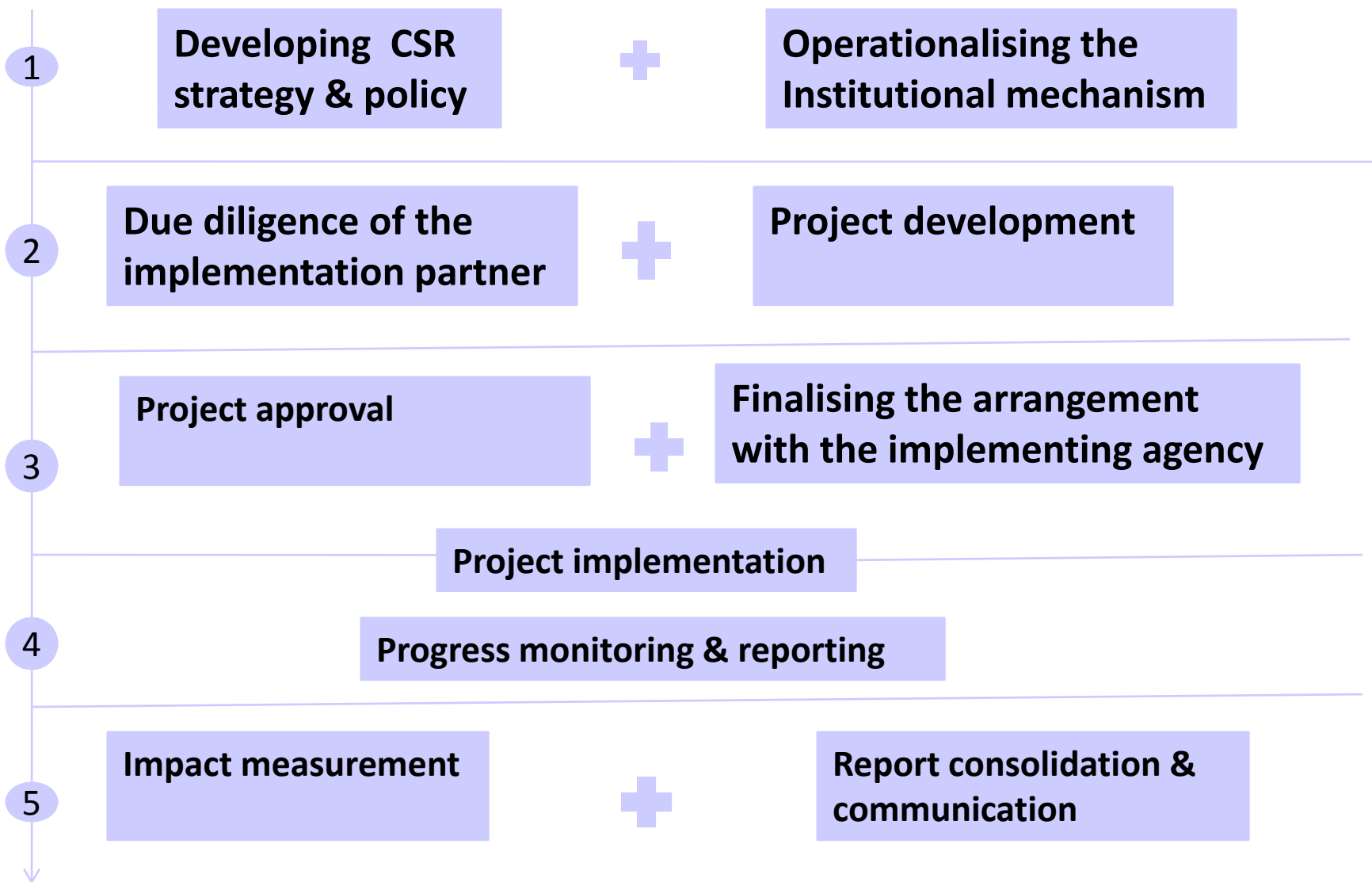
Role of the Board

- Form a CSR committee
- Approve the CSR policy
- Ensure implementation of the activities under CSR
- Ensure 2% spend
- Disclose reason for not spending the amount (If applicable)

CSR committee

- 3 or more directors with at least 1 Independent Director for public company
- Formulate & Recommend CSR policy to the Board
- Recommend activities and the amount of expenditure to be incurred
- Monitor the CSR policy from time to time

CSR PROCESS: -



L. DISCLOSURE IN BOARD REPORT (as per prescribed Rules) :

1. A brief outline of the Company's CSR policy, including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR policy and projects or programs.
2. The Composition of the CSR Committee.
3. **Average net profit** of the company for **last 3 financial years**
4. Prescribed CSR Expenditure (**2 % of the Average net profit** of the company for **last 3 financial years**).

5. Details of CSR spent during the financial year such as:
 - a. Name of CSR project/ activity
 - b. Sector in which project is covered
 - c. Name of Dist. & state where project implemented
 - d. Project wise budgeted expenditure
 - e. Project wise expd. with break up of Direct expd. and overhead
 - f. Cumulative expd. upto date of Board Report
 - g. Project carried by the Company or through Implementing Agency
(Give details of implementing Agency)
6. The Company shall provide the **reasons for not spending the amount** i.e. two per cent average net profit of the last three financial years in its Board report.

7. A responsibility statement of the CSR Committee that the **implementation and monitoring of CSR Policy**, is in compliance with objectives and Policy of the company.

CONCLUSION:

This is welcome note and hope will go a long way to repaying to the society where the Company has business operation to discharge its social responsibility....

