

Corporate Social Responsibility (CSR)

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Background to CSR

- Government has been mulling over CSR and ways and means of making this a way of corporate life
- Globally, there are no legal mandates for CSR spends
- India has pioneered this through a provision in Companies Act, 2013 („the Act“)

What is CSR?

“Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large”

However, CSR has not been defined anywhere under the Act.

Applicability of CSR

- Section 135 of the Act deals with CSR
- Applicable to all companies having:
 1. Net worth \geq Rs. 500 Crore, or
 2. Turnover \geq Rs. 1000 Crore, or
 3. Net Profit \geq Rs. 5 Crore

during any of the preceding three financial years

Role of BOD / CSR Committee

Role of BOD:

- Constitute CSR Committee of the Board
- Approval of CSR Policy

- Disclosure in Board Report
- Ensure that CSR activities are undertaken by the Company

Role of CSR Committee:

- Formulate and recommended a CSR Policy to the Board
- Recommended the amount of expenditure to be incurred on the CSR Activities
- Monitoring CSR Policy of the Company from time to time

Constitution of CSR Committee

CSR Committee shall consist of:

- in case of listed public company at least 3 directors, out of which at least 1 director should be independent director
- in case of an unlisted public company which is not required to appoint an independent director, at least 3 directors
- in case of a private company having only two directors, such directors
- in case of foreign company, at least 2 persons of which 1 person shall be as specified under Section 380 (1)(d) of the Act and another person shall be nominated by the foreign company.

Contents of CSR Policy

CSR Policy should include:

- At least one of the activities as specified in Schedule VII to the Act, as amended
- CSR projects or programs which the Company plans to undertake
- Modalities of execution of such project or programs
- Implementation schedule of such project or programs
- Monitoring process of such projects or programs

Amount & Mode of Spending

Amount of spending

- The Company shall spend, in every financial year, at least 2% of the average net profits made during the immediately preceding three financial years

Mode of Spending

- List of programs and activities specified in Schedule VII of the Act, as amended
- Preference to the local area where it operates
- Programs and activities should be undertaken in India only
- Programs and activities should not be exclusively for employees & their families

Medium of Spending

- Self
- Through a registered trust or a registered society or a company established under Section 8 of the Act by the Company, either singly or along with its Holding or Subsidiary or Associate Company, or along with any other Company or Holding or Subsidiary or Associate Company of such other Company or otherwise
- Through a registered trust or a registered society or a Section 8 company not established by the Company, either singly or along with its Holding or Subsidiary or Associate Company, or along with any other Company or Holding or Subsidiary or Associate Company of such other Company, provided it shall have an established track record of 3 years in undertaking similar programs or activities.
- Collaboration or pool resources with other companies

CSR activities specified in Schedule VII, as amended

- Eradicating extreme hunger, poverty and malnutrition, promoting preventive health care and sanitation including contribution to the Swach Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water
- Promoting education, including special education and employment enhancing vocational skills especially among children, women, elderly and the differently abled and livelihood enhancement projects
- Promoting gender equality, empowering women, setting up of 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
- 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 including contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of river Ganga
- 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
- Measures for the benefit of the armed forces veterans, war widows and their dependents
- Training to promote rural sports, nationally recognized sports, Paralympic sports and Olympic sports.
- Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women
- Contribution or funds provided to technology incubators located within academic institutions which are approved by the Central Government

- Rural development projects
- Slum area development.

Disclosure

The Board's Report shall disclose:

Composition of the CSR Committee

Contents of CSR policy

Reason for not spending the specified amount on CSR activities

Further, the Board shall also disclose the CSR Policy and its contents on the Company's website, if any.

Exemption from Applicability

If the Company does not satisfy any of the criteria for 3 consecutive years, the Company is exempt from complying with the CSR provisions. Accordingly, the Company shall not be required to:

- Constitute a CSR Committee; and
- Disclose CSR Committee in the Board's Report; and
- Spend 2% on CSR activities

till such time it meets the applicability criteria.