CHAPTER 3
REGULATORY PROVISIONS PERTAINING TO CORPORATE SOCIAL RESPONSIBILITY (CSR)

Introduction to Chapter 3:

In this Chapter the researcher attempts to study the various guidelines and legal provisions on Corporate Social Responsibility (CSR). The guidelines put forward by Department of Public Enterprises (DPE), Ministry of Corporate Affairs (MCA) and Securities and Exchange Board of India (SEBI) to regulate the CSR activities in India with reference to Central Public-Sector Enterprises (CPSEs) and the corporate world, have been examined accordingly. Further, the researcher has also made a brief study pertaining to the various provisions and guidelines on CSR which are being followed internationally.

In this chapter the researcher has discussed about the various regulatory provisions on CSR from both national and international perspectives. In the first part of the chapter the researcher has highlighted the legal framework of CSR in India which includes the guidelines on CSR by DPE, other provisions on CSR regulating CPSEs in India which includes The National Voluntary Guidelines on Environmental and Economic Responsibilities of Business 2009 and 2011, The SEBI Guidelines on CSR, MCA Guidelines on CSR, The Companies (CSR Policy) Rules, 2014 and The Guidance Note on Accounting for Expenditures on CSR Activities by ICAI, 2015. In the second part of the chapter the researcher have discussed about the various International Principles and Guidelines on CSR such as the Global Reporting Initiative (GRI), UNGC, ISO 26000, SA 8000 Standard, ILO Declaration, AA 1000, SROI Network and Global Compact Self-Assessment.
3.1 CPSEs and CSR Guidelines:

The compulsion in CSR practices by the companies falling under the legal framework widens the scope of economic, social and ecological upliftment in the country. Corporate Social Responsibility is no longer just a philanthropic activity for the companies but has now become a mandatory practice by statute of Indian Government. This makes India the first of its kind to make CSR a compulsory activity in the corporate world.

Government of India through its various guidelines on CSR, issued time to time has put forward the concept of CSR in India on a larger platform benefitting the society at large. Thus, providing an aid for Nation’s development in which CPSEs play a detrimental role being one of the major contributors for country’s advancement.

CSR is the concept that an enterprise is accountable for its impact on all relevant stakeholders. It is the continuing commitment by business to behave fairly and responsibly 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 (Commission of the European Communities, 2003). In India CSR has originally been a philanthropic activity. It was an activity that was performed but not deliberated until the Government of India enacted legal compliances on CSR activities under stipulated terms. The Companies Act, 2013 originated the idea of CSR to the foremost and is therefore promoting greater transparency and disclosure, through it’s “disclose or explain” mandate. Thus, making India first of its kind to have legal provisions on CSR on a mandatory basis. However, in many of the countries of the world CSR is still a voluntary exercise left to the discretion of the Corporate Houses.
In India CPSEs play a vital role in economic infrastructure and thereby perform numerous CSR activities for its stakeholders. Central Public Sector Enterprises (CPSEs) are those companies in which the direct holding of the Central Government or other CPSEs is 51% or more. In India CPSEs play a crucial role in the social and economic growth. It has significant contribution to the country’s economy by filling the gaps in the industrial sector, generating employment and balanced regional development. While there were only 5 CPSEs with a total investment of Rs.29 crores at the time of the First Five Year plan, there were as many as 248 CPSEs (excluding 7 Insurance Companies) with a total investment of Rs.6,66,848 crores as on 31st March, 2011. As on 31.3.2016 there were 320 CPSEs wherein, out of which 76 enterprises were yet to commence commercial operation. Remaining 244 were operating enterprises (covering 181 scheduled CPSEs & 52 CPSEs has been considered provisional). As per Department of Public Enterprises at present there are 8 Maharatnas, 17 Navaratnas, 59 Miniratna Category I and 15 Miniratna Category II. The list of CPSEs in India includes BHEL, GAIL, IOCL, OIL, REC, NEEPCO, SAIL, etc. CPSEs in India has a great role to play in economic and social transformation and a significantly performs several socially responsible activities.

In India, the concept of CSR is governed by Clause 135 of the Companies Act, 2013 which was passed by both Houses of the Parliament. This Legislation was signed by the President of India on 29th August, 2013 and is applicable from April, 2014. The Companies Act, 2013 of India has replaced the Companies Act, 1956. Subsequent to the passage of the Act, the MCA notified the Rules with respect to CSR on February 27, 2014. The Rules framed under section 135 of the Act, came into force from April 1, 2014. Apart from the Act, MCA issued (February 2014) Companies (CSR policy)
Rules, 2014 and DPE issued (October 2014) guidelines on CSR and Sustainability. India is the first country to require that some firms spend a stipulated percentage of their profits on socially responsible activities (as designated by law), or explain why they do not.

The first attempt by the Government of India to bring out the CSR issue on the table was the issuance of CSR Voluntary Guidelines in 2009 by the Ministry of Corporate Affairs (MCA, 2009). It is in the Voluntary Guidelines of 2009 that the core elements of a CSR policy was spelt out that included care for all stakeholders, ethical functioning, respect for workers’ rights and welfare, respect for human rights, respect for the environment and activities to promote social and inclusive development. The guidelines of 2009 were followed in 2011 by the National Voluntary Guidelines of social, environmental and economic responsibilities of business also issued by the MCA (MCA, 2011).

The transition from a voluntary CSR regime to a regulated regime came when the Securities Exchange Board of India (SEBI) required the top listed 100 companies, as part of Clause 55 of the Listing Agreement to mandatorily disclose their CSR activities in the Business Responsibility Reports (BR Reports) accompanying the Annual Reports. Section 135 made CSR spending as well as reporting mandatory for the first time in India and brought the CSR activities of Indian corporates under the purview of corporates under the purview of corporate law. With the enactment of the Section 135 of the Companies Act 2013, observed by the MCA, India became the first country to include provisions on CSR in Company Law and make CSR expenditure mandatory for corporates based on pre-scientific criteria.
3.2 CSR in India – The Legal Framework: Guidelines on CSR by Department of Public Enterprises:

The Legal framework of CSR in India includes the following Guidelines and Provisions:

Department of Public Enterprise (DPE) Guidelines on Corporate Social Responsibility and Sustainability (Government of India, Ministry of Heavy Industries & Public Enterprises)

The Department of Public Enterprises is the nodal department for all the Central Public Sector Enterprises (CPSEs) and formulates policy pertaining to CPSEs. It lays down, in particular, policy guidelines on performance improvement and evaluation, autonomy and financial delegation and personnel management in CPSEs. It furthermore collects and maintains information in the form of a Public Enterprises Survey on several areas in respect of CPSEs.

The Committee on Public Undertakings (COPU) in 1992 examined the issue relating to social obligation of CPSEs and observed that ‘being part of the state’ every Public Sector Enterprise (PSE) has a moral responsibility to play an active role in the enterprise. Based on the recommendation of the COPU, the DPE issued general guidelines on CSR in November, 1994. DPE issued a new set of guidelines on CSR in April, 2010 which required the running plan under CSR to be integrated with social and environmental concerns related to respective CPSEs. The Department of Public Enterprises (DPE) had issued guidelines on Corporate Social Responsibility (CSR) for CPSEs in April, 2010, which have been issued formally to the Ministries/Departments for compliance in the Central Public-Sector Enterprises (CPSEs) under their administrative control.
The table below highlights the various guidelines formulated time to time by DPE on CSR and Sustainability:

**Table 3.1: DPE Guidelines on CSR and its Related Fields**

<table>
<thead>
<tr>
<th>Sl No.</th>
<th>Guidelines on CSR and its related areas</th>
<th>Guideline No.</th>
<th>Date &amp; Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Social Obligations of Central Public Sector Enterprises (Superseded by new guidelines on CSR issued on 9&lt;sup&gt;th&lt;/sup&gt; April, 2010)</td>
<td>DPE OM.No.2(1)/94-GM</td>
<td>29&lt;sup&gt;th&lt;/sup&gt; November, 1994</td>
</tr>
<tr>
<td>2.</td>
<td>Guidelines on Corporate Social Responsibility for Central Public Sector Enterprises</td>
<td>DPE OM No.15(3)/2007-DPE(GM)-GL-99</td>
<td>9&lt;sup&gt;th&lt;/sup&gt; April, 2010</td>
</tr>
<tr>
<td>6.</td>
<td>Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises</td>
<td>DPE OM No.15(7)/2012-DPE(GM) – GL-104</td>
<td>12&lt;sup&gt;th&lt;/sup&gt; April, 2013</td>
</tr>
<tr>
<td>7.</td>
<td>Relief and Rehabilitation activities in the flood affected area of Uttarakhand under new CSR &amp; Sustainability Guidelines</td>
<td>DPE OM No.15(9)/2013-DPE(GM)</td>
<td>24&lt;sup&gt;th&lt;/sup&gt; June, 2013</td>
</tr>
<tr>
<td>8.</td>
<td>Relief and Rehabilitation activities in the flood affected area of Uttarakhand under new CSR &amp; Sustainability Guidelines</td>
<td>DPE OM No.15(9)/2013-DPE(GM)</td>
<td>19&lt;sup&gt;th&lt;/sup&gt; September, 2013</td>
</tr>
<tr>
<td>9.</td>
<td>Relief and Rehabilitation activities in the cyclone affected areas of states of Andhra Pradesh, Odisha and Bihar under the new CSR &amp; Sustainability Guidelines</td>
<td>DPE OM No.15(9)/2013-DPE(GM)</td>
<td>28&lt;sup&gt;th&lt;/sup&gt; October, 2013</td>
</tr>
</tbody>
</table>
It is discernable from the aforesaid table that CSR is a statutory obligation of the corporate entities. Further, the field of CSR have become dynamic and is being expanded time to time. So, far thirteen fields have been covered with their respective guidelines by the Department of Public Enterprises for the CPSEs. The first guideline on CSR being issued by DPE on 29th of November, 1994 and the last one being issued on 20th November, 2014 as before the enactment of the Companies Act, 2013 and the provisions therein on CSR.

- Social obligations of Central Public Sector Enterprises (dated the 29th November, 1994):

  In this guideline the issue relating to Social obligations of CPSEs has been examined in the context of the recommendations made by the Committee on Public Undertakings (1993-94) in its 24th Report on ‘Social Responsibilities and Public Accountability of Public Undertakings’.
Guidelines on “Corporate Social Responsibility for Central Public Sector Enterprises” (dated 9th April, 2010):

This guideline was first proper draft on CSR in India, which superseded the guidelines issued by DPE dated 29th April, 1994. These guidelines were issued by the Department of Public Enterprises and MCA, with the approval of the Ministry of Heavy Industries and Public Enterprises.

As per the guideline the CSR budget would be mandatorily created through a Board Resolution as a percentage of Net Profit in the following manner:

Table 3.2: DPE Financial Slab for CPSEs April, 2010

<table>
<thead>
<tr>
<th>SL No.</th>
<th>Types of CPSEs</th>
<th>Expenditure range for CSR in a Financial year (% of Profit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>Less than Rs.100 Crore</td>
<td>(3%) – (5%)</td>
</tr>
<tr>
<td>(ii)</td>
<td>Rs.100 Crore to Rs.500 Crore</td>
<td>(2%) - (3%) (subject to a minimum of 3 Crore)</td>
</tr>
<tr>
<td>(iii)</td>
<td>500 Crore and above</td>
<td>(0.5)- (2%)</td>
</tr>
</tbody>
</table>

Source: www.dpe.nic.in

From the above table it can be exhibited that as per the Guidelines on CSR by DPE for April, 2010, the expenditure range for CSR in a Financial year (% of Profit) ranged from (3%) – (5%) for CPSEs with Net Profit of less than Rs.100 Crore, (2%) – (3%) for CPSEs with Net Profit of Rs.100 Crore to Rs.500 Crore and (0.5%) – (2%) for CPSEs with Net Profit of Rs.500 Crore and above.

However, loss-making companies were not mandated to earmark specific funding for CSR activities. The guideline further, with some clarifications on its applicability and implementation suggested the possible 27 broad areas of activities under CSR. Some of which included –

(i) Drinking water facility; Health and family Welfare

(ii) Education; electricity facility
(iii) Pollution Control; Sanitation and Public Health
(iv) Imparting Vocational Training
(v) Adoption of villages, etc.

- Guidelines on “CSR for Central Public Sector Enterprises” (dated 4th February, 2011):

  This guideline was issued to circulate the clarifications on CSR by the CPSEs. Such that any contribution (which is not project based) towards any of the areas of activities mentioned in the annexure attached with the CSR Guidelines would also count as a CSR activity. This would be subject to the condition that the total amount for all such contributions during the full financial year should not exceed 5% of the CSR budget of the organizations. It further clarified that all contributions to the National Corporate Social Responsibility Hub (NCSR Hub) located within the TISS, Mumbai would also be considered as CSR expenditure within the ambit of the CSR Guidelines.

- Guidelines on “Corporate Social Responsibility for Central Public Sector Enterprises” (dated 21st June, 2011):

This guideline was a further refinement of the Guideline on CSR for CPSEs, dated 4th Feb, 2011 which mentioned that the expenditures incurred by the CPSEs in the form of fee charged participation in the CSR training Programmes/Workshops for sponsorship of such Workshops/Programmes organized by TISS, etc. would also be included under the CSR budget of CPSEs.

- Guidelines on “Corporate Social Responsibility for Central Public Sector Enterprises”, issued by Department of Public Enterprises (dated 1st Nov, 2011):
This guideline highlighted the manner by which CSR activities were to be undertaken in Chhattisgarh and the rest of India by the CPSEs. It advised the CPSEs to maximize their allocations, release and utilization of funds for the CSR activities within the existing slabs and further mentioned on the initiatives of State Governments, District Administration as well as Central Government Departments/Agencies Self Help Groups, etc. to be synergized with the initiatives taken by the CPSEs. The guideline also emphasized on the “Health Family Welfare” activity listed in Annexure and recommended on setting up of dispensaries in remote locations to provide out-reach services, with referral services being provided by the existing Hospitals.

- Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises (dated 12th April, 2013, w.e.f. 1st April, 2013):

The revised guideline urged the CPSEs to act in a socially responsible manner benefitting both business and society. It also mentioned about the Financial Component which stated that the CPSEs shall with the approval of Board of Directors should make a budgetary allocation for CSR and sustainability activities/projects for the year, which would be based on the profitability of the company and would be determined by the Profit After tax (PAT) of the company in the previous year as shown below –

Table 3.3: DPE Financial Slab for CPSEs April, 2013

<table>
<thead>
<tr>
<th>SL No.</th>
<th>Profit After Tax of CPSE in the Previous Year</th>
<th>Budgetary Allocation for CSR and Sustainability activities(as % of PAT in Previous year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>Less than Rs.100 Crore</td>
<td>(3%) – (5 %)</td>
</tr>
<tr>
<td>(ii)</td>
<td>Rs.100 Crore to Rs.500 Crore</td>
<td>(2%) - (3%)</td>
</tr>
<tr>
<td>(iii)</td>
<td>Rs.500 Crore and above</td>
<td>(1%) - (2%)</td>
</tr>
</tbody>
</table>

Source: www.dpe.nic.in
The above table reveals that as per the Guidelines on CSR by DPE for April, 2013, the expenditure range for CSR in a Financial year (% of Profit) ranged from (3%) – (5%) for CPSEs with Net Profit of less than Rs.100 Crore, (2%) – (3%) for CPSEs with Net Profit of Rs.100 Crore to Rs.500 Crore and (1%) – (2%) for CPSEs with Net Profit of Rs.500 Crore and above.

The guideline further highlighted that the budget allocated for CSR and Sustainability activities/projects planned for each financial year should be possibly spent within that year. However, if the budget of a year remains unutilized, the same would not lapse and as per the arrangements made under the revised guidelines unutilized funds would be utilized. The guideline also mentioned on selecting one Backward district identified by the Planning Commission, Government of India for its Backward Region Grant Fund (BRGF) Scheme.

- Relief and Rehabilitation activities in the Flood affected area of Uttarakhand under new CSR and Sustainability Guidelines (dated 24th June, 2013):

The guideline mentioned about the relief and rehabilitation projects undertaken in Uttarakhand during 2013-2014 by CPSEs to be treated as the projects in the backward region. It also mentioned about the contribution made by the CPSEs towards Prime Minister’s/Chief Minister’s Relief Fund and/or National Disaster Management Authority would count as valid CSR sustainability activities.

- Relief and Rehabilitation activities in the Flood affected area of Uttarakhand under New CSR and Sustainability Guidelines (dated 19th Sept, 2013):
This guideline was made in the context that some of the donations/contributions made by the CPSEs to Prime Minister’s National Relief Fund (PMNRF) had been returned and that the ‘contributions with government/budgetary support or from PSU balance Sheets’ would not be accepted.

- Relief and Rehabilitation activities in the cyclone affected areas of States of Andhra Pradesh, Odisha and Bihar under new CSR & Sustainability Guidelines (dated 28th October, 2013):

  This guideline stated the relief and rehabilitation projects undertaken by CPSEs in cyclone affected areas of the above mentioned states during 2013-2014 would be treated as the projects in the backward regions. It further mentioned that the contribution made by the CPSEs towards Prime Minister’s/Chief Minister’s Relief Fund and/or National Disaster Management Authority would count as valid CSR and Sustainability activities.

- Status of ongoing CSR activities/projects of CPSEs which were initiated under their CSR Policy before the CSR Rules framed by Ministry of Corporate Affairs (MCA) come into force (dated 2nd July, 2014):

  This guideline clarified on the long term projects undertaken by CPSEs in pursuance of DPE Guidelines on CSR & Sustainability, which were effective in 2013-14, would be considered valid under the new CSR Rules framed under the Companies Act, 2013 and can be covered under any of the items in Schedule VII of the Companies Act.
• Contribution towards Prime Minister’s National Relief Fund (dated 19th September, 2014):

This guideline mentioned the contributions towards Prime Minister’s National Relief Fund (PMNRF) by the CPSEs can be made through voluntary contributions by individuals and institutions. It also mentioned that PSUs at their discretion can collect and remit any voluntary contribution of their employees to PMNRF. However, contributions out of budgetary resources, profits or from the balance sheets of PSUs would not be accepted.

• Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises (dated 21st October, 2014, w.e.f. 01.04.2014):

This guideline mentioned that the CSR provisions of the Companies Act 2013, Schedule VII of the Act and the CSR Rules are inviolable. The Department of Public Enterprises (DPE) in addition to the CSR provisions of the Act and the CSR Rules, had formulated Guidelines on CSR and Sustainability applicable to CPSEs. The guiding principles of the Guidelines were applicable to all CPSEs. It was further mentioned that CPSEs which are statutory corporations should comply with the provisions of the Act, CSR Rules and the Guidelines. These guidelines would supersede the guidelines/circulars/instructions issued earlier by DPE on the subject of CSR and Sustainability.

• Contribution towards Swachh Bharat Kosh, Clean Ganga Fund and Prime Minister’s National Relief Fund under DPE Guidelines on Corporate Social Responsibility (CSR) and Sustainability (dated 20th November, 2014):
This guideline mentioned that contributions to Swachh Bharat Kosh set up by the Central Government for promotion of sanitation and to Clean Ganga Fund set up by the Central Government for the rejuvenation of River Ganga shall be considered as expenditure under CSR. It was further clarified that contributions towards Prime Minister’s National Relief Fund (PMNRF) out of budgetary resources, profits or from Balance Sheets of PSEs would not be accepted. However, voluntary contributions by individuals and institutions would be accepted.

- **Other Provisions on CSR regulating CPSEs:**

**The National Voluntary Guidelines on Environmental and Economic Responsibilities of Business, 2009 and 2011:**

Voluntary CSR guidelines created a common standard for the companies to improve their CSR efforts, especially with regard to sustainability. In this regard, the National Voluntary Guidelines (NVGs) on Social, Environmental and Economic Responsibilities of Business, had been laid down by the Ministry of Corporate Affairs, in December 2009 and further revised in 2011.

National Voluntary Guidelines (NVGs) were applicable to all business irrespective of size, sector or location. These guidelines were designed with the aim of assisting enterprises to become responsible entities much before the CSR Act (Companies Act, 2013) come into force. In fact various propositions from NVG have been taken into consideration for structuring the Companies Act.

The Nine Principles of National Voluntary Guidelines are –
Table 3.4: National Voluntary Guidelines

<table>
<thead>
<tr>
<th>Principles</th>
<th>Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 1</td>
<td>Businesses should conduct and govern themselves with ethics, transparency and accountability</td>
</tr>
<tr>
<td>Principle 2</td>
<td>Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle.</td>
</tr>
<tr>
<td>Principle 3</td>
<td>Business should promote the wellbeing of all employees.</td>
</tr>
<tr>
<td>Principle 4</td>
<td>Business should respect the interests of and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalized.</td>
</tr>
<tr>
<td>Principle 5</td>
<td>Businesses should promote and respect human rights.</td>
</tr>
<tr>
<td>Principle 6</td>
<td>Business should respect, protect and make efforts to restore the environment</td>
</tr>
<tr>
<td>Principle 7</td>
<td>Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner.</td>
</tr>
<tr>
<td>Principle 8</td>
<td>Businesses should support inclusive growth and equitable development</td>
</tr>
<tr>
<td>Principle 9</td>
<td>Businesses should engage with and provide value to their customers and consumers in a responsible manner.</td>
</tr>
</tbody>
</table>

Source: www.mca.gov.in

The above table summarizes the various principles envisaged under the Ministry of Corporate Affairs to guide on the National Voluntary Guidelines in the year 2009 and 2011.
Securities and Exchange Board of India (SEBI) Guidelines on Corporate Social Responsibility 2012 and 2015:

The Securities and Exchange Board of India was established on April 12, 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992. The SEBI is the regulator for the securities market in India. It was established in the year 1988 and was given statutory powers on 30 January 1992 through the SEBI Act, 1992. The basic function of SEBI is to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith.

The Securities and Exchange Board of India (SEBI) on its circular dated 13 August, 2012 has mandated the inclusion of a “Business Responsibility Report (BRR)” as part of Company’s Annual Report for top 100 listed entities based on market capitalization at the Bombay Stock Exchange Limited (BSE) and the National Stock Exchange of India Limited (NSE) as on March 31, 2012.

The reporting framework is based on the ‘National Voluntary Guidelines on Social, Environment and Economic Responsibilities of Business (NVGs) released by the Ministry of Corporate Affairs, Government of India, in July 2011 which contains 9 principles and core elements for each of the 9 principles.

SEBI further introduced new guidelines, Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements)(Amendment) Regulations, 2016 which is the refinement of the SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015 and had come into force from April, 2016 and the reporting for the companies required to report under the revised regulation had commenced from the Financial Year 2016-2017. This regulation highlights the changes
amended in the Reporting statements of Business Responsibilities performed by various listed companies.

SEBI earlier mandated BRR requirements based on market capitalization of top 100 companies listed in their annual reports as per its circular dated August 13, 2012. However, in the latest SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2016, it extended the applicability of BRR to top 500 listed entities based on market capitalization as on March 31st every year.

The guidelines further emphasized that the BRR would describe the initiatives taken by the respective companies from an environmental, social and governmental perspectives, in the format as specified by the Board from time to time. This can be accessible on the websites of the companies providing website link for the same in their annual reports as a green initiative.

**Ministry of Corporate Affairs (MCA) Guidelines on Corporate Social Responsibility:**

The Ministry is primarily concerned with administration of the Companies Act 2013, the Companies Act 1956, the Limited Liability Partnership Act, 2008 & other allied Acts and rules & regulations framed there-under mainly for regulating the functioning of the corporate sector in accordance with law.

The Ministry is also responsible for administering the Competition Act, 2002 to prevent practices having adverse effect on competition, to promote and sustain competition in markets, to protect the interests of consumers through the commission set up under the Act. Besides, it exercises supervision over the three professional bodies, namely, Institute of Chartered Accountants of India (ICAI), Institute of Company Secretaries of India (ICSI) and the Institute of Cost Accountants of India
(ICAI) which are constituted under three separate Acts of the Parliament for proper and orderly growth of the professions concerned. The Ministry also has the responsibility of carrying out the functions of the Central Government relating to administration of Partnership Act, 1932, the Companies (Donations to National Funds) Act, 1951 and Societies Registration Act, 1980.

The Companies (Corporate Social Responsibility Policy) Rules, 2014:

The Companies (CSR Rules), 2014 came into existence on 27\textsuperscript{th} February, 2014. It complies with the draft rules presented by the Ministry of Corporate Affairs in the Companies Act, 2013 (Under Clause 135). As per the Act “Corporate Social Responsibility (CSR)” means and includes but is not limited to -

(i) Projects or Programs relating to activities specified in Schedule VII to the Act; or

(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 Act

The “CSR Policy” relates to the activities to be undertaken by the Company as specified in Schedule VII to the Act and the expenditure thereon, excluding activities undertaken in pursuance of normal course of business of a company.

According to the Act every company having

(i) A net worth of rupees 500 crore or more; or

(ii) A turnover of rupees 1000 crore or more; or

(iii) A net profit of rupees 5 crore or more
during any financial year shall constitute a Corporate Social Responsibility Committee and is compelled to shed 2 per cent of its net profits on CSR activities.

Some of the important provisions of the Act are highlighted below in brief –

Constitution of the CSR Committee: The CSR Committee of every company as per the provisions shall constitute of

(i) Three or more directors;

(ii) Out of which one director shall be an independent director.

The Committee shall be responsible for formulating a CSR Policy indicating the broad areas specified as per Schedule VII of the Act and recommend the same to the Company Board. The Committee shall also recommend the activities and the amount of expenditure to be incurred and time to time monitoring of the same.

The Board of every company should further ensure that the company spends, in every financial year, at least 2 per cent of its average net profits made during the three immediately preceding financial years w.e.f. from 1st April, 2014. The provision emphasizes on the respective companies to give preference to the local area and the areas around which it operates for spending the amount earmarked for CSR activities.

Further, it also makes a provision for the Boards of the companies to specify the reasons for not spending the amount and if it fails to spend such amount as specified, the companies shall be penalized if it contravenes with the provisions without any valid evidence.

Broad Areas of CSR Activities: The broad areas on which CSR expenses can be incurred by a company for carrying on CSR activities (project form) as per Schedule VII includes the following –
(i) Eradicating hunger, poverty and malnutrition, promoting health care, sanitation and safe drinking water.

(ii) Promotion of education, special education and vocational skills

(iii) Gender equality, women empowerment, senior citizens and economically backward groups.

(iv) Protection of National Heritage, art and culture.

(v) Benefits to armed forces, veterans and war widows.

(vi) Ensuring environmental sustainability, ecological balance, wildlife and natural resources conservation.

(vii) Technology incubators within academic institutions

(viii) Rural sports, Paralympic and Olympic sports.

(ix) PM National Relief Fund and any other funds set up by the Central Government for socio economic development and welfare of SC/ST/OBC.

(x) Rural Development Projects

(xi) Slum Development

**Guidance Note on Accounting for Expenditure on Corporate Social Responsibility Activities by Institute of Chartered Accountants of India (Set up by an Act of Parliament), New Delhi, May 15, 2015:**

In order to provide guidance on certain accounting issues relating to the expenditure on CSR activities, the Institute of Chartered Accountants of India (ICAI) on May 2015 issued a guidance note on accounting for expenditure on the CSR activities (guidance note). It provides guidance on the recognition, measurement, presentation and disclosure of expenditure on activities relating to CSR activities. It does not deal with the identification of activities that constitute CSR activities.
The ICAI had earlier issued the ‘Frequently Asked Questions on the provisions of the CSR under Section 135 of the Companies Act, 2013 and Rules there on’ (FAQs) as an interim measure. On issuance of this guidance note, the FAQ related to areas covered by the guidance note stand withdrawn.

The guidance notes issued by the ICAI comprises guidance on -

(i) Accounting of the CSR expenditure in the financial statements.

(ii) Recognition of income earned from CSR projects/Programmes or during the course of conduct of the CSR activities.

(iii) Accounting for shortfall/excess spend and creation of provision in case of short spent

(iv) Presentation and disclosure in the financial statements

The guidance notes issued by ICAI is a step to bring uniformity and greater transparency in accounting for expenditures of CSR practices across the companies in India.

Corporate Social Responsibility (CSR) has become an integral part of every CPSE in India. The CPSEs has significantly contributed in the social and economic development of the country. The various CSR initiatives undertaken by the CPSEs in various disciplines such as education, healthcare, rural development, livelihoods, etc. is making a notable impact in the social upliftment of the country as a whole. Further to increase the CSR expenditure of the companies especially the CPSEs (being instrumental in the development of the nation), The Government of India is time and again re-framing the regulatory provisions and the slabs therein, with more clarity and uniformity with regard to the CSR activities which is of prime importance for the nationwide growth and development.
3.3 International Principles and Guidelines on CSR:

Corporate Social Responsibility has become a buzzword in companies all over the world. In order to ensure fairness and flexibility countries through its various bodies has adopted several guidelines to exhibit transparency through non-financial reporting/disclosures, with the objective to bring social, economic and balanced regional growth. In countries like Sweden, Norway, the Netherlands, Denmark, France, Australia, United Kingdom, Germany, Italy, Sweden, USA and China, either government regulations or stock exchange regulations or both require corporates to disclose their CSR activities through sustainability reporting. Thus, they are mandated to report on the amount spent on CSR activities in order to bring more transparency and uniformity in their business activities. Some of the Global Principles and Guidelines on CSR are discussed below in brief –

- **Global Reporting Initiative (GRI) (issued in 1999, but development is ongoing)**:

The Global Reporting Initiative standards are the first global standards for sustainability reporting. The GRI is a long-term, multi-stakeholder, international process whose mission is to develop and disseminate globally applicable Sustainability Guidelines. These guidelines are for voluntary use by organizations for reporting on the economic, environmental and social dimensions of their activities, products and services. It is a non-financial reporting framework supported by norms for business conduct but does not provide recommendations on business conduct. GRI is an international independent standards organization that helps businesses, governments and other organizations to understand and communicate their impacts on issues such as climate change, human rights and corruption under various standards and disclosures.
The aim of the Guidelines is to assist reporting organizations and their stakeholders to clarify and understand contributions of the reporting organizations to sustainable development.

GRI was founded in Boston, USA in 1997 with its roots in the US non-profit organization the Coalition for Environmentally Responsible Economies (CERES) and the Tellus Institute. Also, includes NGOs, corporations, consultancies, accounting firms, business associations, academicians and others. The United Nations Environment Programme (UNEP) was also involved in the establishment of GRI. The first version of the Guidelines of GRI was published in June, 2000. Since then the GRI reporting framework has undergone series of changes from G3 Guidelines to G4 Guidelines. In October 2016, GRI launched the first global standards for sustainability reporting was developed by the Global Sustainability Standards Board (GSSB), the GRI Standards enable all organizations to report publicly on their economic, environmental and social impacts and show their contribution towards sustainable development. The GRI Standards are also trusted for reference by the policy makers and regulators, to have a modular structure to keep information up-to-date and relevant. The GRI Standards are the latest evolution of GRI’s reporting disclosures, and features an improved format and new modular structure over the GRI G4 Guidelines on which they are actually based. The G4 Guidelines, which are currently the world’s most widely-used sustainability reporting disclosures, will be replaced by the new GRI Standards w.e.f. July 2018.

- **The OECD Multinational Enterprises (MNE) Guidelines (revised 2000):**

  The Organization for European Economic Cooperation (OEEC) was created after World War II to manage American and Canadian aid for Europe’s reconstruction. In 1961, the OEEC became the Organization for Economic Cooperation and
Development (OECD). Organization for Economic Co-operation and Development (OECD) Guidelines for MNE also referred to as OECD Guidelines were adopted in 1976. These are non-binding recommendations addressed by governments to multinational enterprises. The OECD guidelines provide voluntary principles and standards for business conduct in areas such as:

(i) Information disclosure
(ii) Respect for labour standards
(iii) Contribution to sustainable development
(iv) Respect for human rights
(v) Supply chain responsibility
(vi) Consumer interests
(vii) Science and technology
(viii) Competition
(ix) Taxation
(x) Environment
(xi) Bribery and Corruption
(xii) Whistleblower Protection

This has been set out in the ten “Chapters” of the OECD Guidelines. These Guidelines are voluntary principles and standards for conducting responsible business consistent with laws applicable and are applicable to all sectors of business and covers companies operating in or from OECD member states worldwide. The Guidelines aim to ensure that the operations of these enterprises are in harmony with government policies, to strengthen the basis of mutual confidence between enterprises and the societies in which they operate, to help improve the foreign investment climate and to
enhance the contribution to sustainable development made by Multinational Enterprises. These Guidelines are subscribed to by all the OECD members and many other countries have also adhered to the guidelines. The list of the countries include –

Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States. Also, emerging economies like the People’s Republic of China, India and Brazil are working closely with the OECD MNE Guidelines.

- **United Nations Global Compact (issued in 1999):**

  The United Nation Global Compact was announced at the World Economic Forum in Davos, Switzerland in January 1999 and was formally launched on September 2000. It is the world’s largest corporate citizenship initiative with the following objectives –

  (i) Mainstream the ten principles in business activities around the world.
  
  (ii) Catalyze actions in support of broader UN goals.

  The UNGC was announced by then UN Secretary-General Kofi Annan in an address to the World Economic Forum on January 31, 1999 and was officially launched at UN Headquarters in New York on July 26, 2000. There are Ten Principles recommended by the UNGC. The Principles are highlighted below –

  **Human Rights:**

  (i) Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
(ii) Principle 2: Make sure that they are not complicit in human rights abuses.

Labour:

(iii) Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

(iv) Principle 4: The elimination of all forms of forced and compulsory labour;

(v) Principle 5: The effective abolition of child labour; and

(vi) Principles 6: The elimination of discrimination in respect of employment and occupation.

Environment:

(vii) Principle 7: Businesses should support a precautionary approach to environmental challenges;

(viii) Principle 8: Undertake initiatives to promote greater environmental responsibility; and


Anti-Corruption:

(x) Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

ISO 26000 Guidance Standard on Social Responsibility:

International Organization on Standardization (ISO) is a non-governmental body formed with the members of the National Standard Bodies around the world. It gives world class specifications of products, services and good practice. In order to
ensure quality, safety and efficiency. It is the largest developer of Voluntary International Standards. Since 1947 the body has published more than 19,500 standards internationally. Thus, impacting everyone and everywhere. The ISO 9000 series deals with quality management, ISO 14000 series is on environmental management, ISO 22000 series is on food safety management and many others are in the list.

The ISO 26000 provides guidance on how businesses and organizations can operate in a socially responsible manner. It means acting in an ethical and transparent way that contributes to the health and welfare of society. In terms of ISO 26000, the 7 core subjects that socially responsible organizations should address in their policies are:

(i) Organizational governance
(ii) Human rights
(iii) Labour practices
(iv) Environment
(v) Fair operating practices
(vi) Consumer issues
(vii) Community involvement and development

This ensures a holistic approach to the concept of social responsibility and sustainable development.

- **Social Accountability 8000 (SA 8000 standard) (issued in 1998):**

SA 8000 is a voluntary, factory based monitoring and certification standard for assessing labour conditions in global manufacturing operations. It is sponsored by the standard Social Accountability International (a U.S. based NGO). It is based on ILO, UN and National Law Conventions. It has been modeled after the quality and
environmental auditing processes developed through the ISO in its ISO 9000 and ISO 14000 standards. SA 8000 relies on certified monitors to verify factory compliances with the standard. This standard ensures the protection of human rights of workers. The nine basic elements of this standard include –

(i) Child labour
(ii) Forced and compulsory labour
(iii) Health and safety
(iv) Freedom of association and the right to collective bargaining
(v) Discrimination
(vi) Disciplinary practices
(vii) Working hours
(viii) Remuneration
(ix) Management systems

- **ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy:**

  This declaration was first adopted in 1977 by the ILO’s governing body and was revised in the year 2000. This voluntary declaration offers guidance to MNE, governments and employer and worker organizations in areas such as employment, training, conditions of work and life and industrial relations. This is the only ILO text that is also addressed to enterprises and industrial relations. Its focus is on core labour standards such as –

  (i) Freedom of association and the right to collective bargaining (prohibition of discrimination, bonded and forced labour)
(ii) Industrial relations (no trade union restrictions, regular discussions between management and labour, and the provision of a forum to lodge complaints in case of labour standard violation)

(iii) Employment opportunities (creation of job security, improved living and working conditions and ensuring that wages are on par with those of other enterprises in the same country).

- **AA1000:**

  Accountability standards (Institute of Social and Ethical Accountability: Accountability’s AA1000 series of standards) – The AA1000 are a set of principles designed for improving the sustainability performance of organizations. This series enables organizations to become accountable, responsible and sustainable. They are applicable to organizations in any sector, including the public sector and civil society, of any size and in any region. The AA1000 series comprises of –

  (i) The AA1000 accountability principles (AP)

  (ii) The AA1000 assurance standard (AS)

  (iii) The AA1000 stakeholder engagement (SE) standard

- **The SROI Network:**

  The SROI Network is a framework based on social generally accepted accounting principles (SGAAP) that can be used to help manage and understand the social, economic and environmental outcomes created by an organization or a person. In order to increase the social value or impact of a task, SROI helps in understanding, managing and communicating the social value that a particular task creates in a clear and consistent way with customers, beneficiaries and funders. It also helps in managing risks and identifying opportunities and raise finances.
Global Compact Self-Assessment Tool:

This is an easy-to-use guide designed for use by companies of all sizes and across sectors committed to uphold the social and environmental standards within their respective operations. The tool consists of 45 questions with a set of three to nine indicators for each question. It consists of a ‘management section’ and four other sections, including human rights, labour, environment and anti-corruption that related to the principles of the UN Global Compact. The tool is in line with the UN Guiding Principles on Business and Human Rights. For a small company, this tool acts as a measure of the company’s performance in all areas of the UNGC. For a large organization, this tool helps to continuously improve existing policies and systems, engage subsidiaries, suppliers or other stakeholders and improves internal and external reporting.

Summary of Chapter 3:

Corporate Social Responsibility (CSR) is a very important phenomenon in the global context. It has its concept rooted back to the early 1950s. It was mostly a philanthropic activity and no guidelines or provisions were embedded to its concept then. Thereby, making it more of a voluntary contribution to the society. However, with the passage of time the need of it is felt globally. Henceforth, various nations have come forward with various guidelines and provisions for its smooth and transparent follow up with more clarity. CSR reporting has now become a mandatory aspect of many nations. Further, steps are being taken time to time by the policy makers to initiate such provisions to streamline the process on the global front benefitting not only the organizations but the society as a whole.
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