

Corporate Social Responsibility is not a new concept in India. The Ministry of Corporate Affairs, Government of India has notified the Section 135 of the Companies Act, 2013 along with Companies (Corporate Social Responsibility Policy) Rules, 2014 and other notifications related thereto which makes it mandatory (with effect from 1st April, 2014). It is applicable to certain companies who fulfill the criteria as mentioned under Sub Section 1 of Section 135 to comply with the provisions relevant to Corporate Social Responsibility.

As mentioned by United Nations Industrial Development Organization (UNIDO), CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives (“Triple Bottom-Line- Approach”), while at the same time addressing the expectations of shareholders and stakeholders.

## What is CSR?

The term “Corporate Social Responsibility (CSR)” can be referred as corporate initiative to assess and take responsibility for the company’s effects on the environment and impact on social welfare. The term generally applies to companies efforts that go beyond what may be required by regulators or environmental protection groups.

Corporate social responsibility may also be referred to as “corporate citizenship” and can involve incurring short-term costs that do not provide an immediate financial benefit to the company, but instead promote positive social and environmental change.

Moreover, while proposing the Corporate Social Responsibility Rules under Section 135 of the Companies Act, 2013, the Chairman of the CSR Committee mentioned the Guiding Principle as follows:

“CSR is the process by which an organization thinks about and evolves its relationships with stakeholders for the common good, and demonstrates its commitment in this regard by adoption of appropriate business processes and strategies. Thus CSR is not charity or mere donations. CSR is a way of conducting business, by which corporate entities visibly contribute to the social good. Socially responsible companies do not limit themselves to using resources to engage in activities that increase only their profits. They use CSR to integrate economic, environmental and social objectives with the company’s operations and growth.”

## **For whom it's applicable?**

The companies on whom the provisions of the CSR shall be applicable are contained in Sub Section 1 of Section 135 of the Companies Act, 2013. As per the said section, the companies having Net worth of Rs. 500 crore or more; or Turnover of Rs. 1000 crore or more; or Net Profit of Rs. 5 crore or more during any financial year shall be required to constitute a Corporate Social Responsibility Committee of the Board "hereinafter CSR Committee" with effect from 1st April, 2014.

The provision requires every company having such prescribed Net worth or Turnover or Net Profit shall be covered within the ambit of CSR provisions. The section has used the word "companies" which connotes a wider meaning and include the foreign companies having branch or project offices in India.

## **What is do when CSR is applicable?**

Once a company is covered under the ambit of the CSR, it shall be required to comply with the provisions of the CSR. The companies covered under the Sub section 1 of Section 135 shall be required to do the following activities:

1. As provided under Section 135(1) itself, the companies shall be required to Constitute Corporate Social Responsibility Committee of the Board "hereinafter CSR Committee". The CSR Committee shall be comprised of 3 or more directors, out of which at least one director shall be an independent director.
2. The Board's report shall disclose the compositions of the CSR Committee.
3. All such companies shall spend, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy. It has been clarified that the average net profits shall be calculated in accordance with the provisions of Section 198 of the Companies Act, 2013. Also, proviso to the Rule provide 3(1) of the CSR Rules that the net worth, turnover or net profit of a foreign company of the Act shall be computed in accordance with balance sheet and profit and loss account of such company prepared in accordance with the provisions of clause (a) of sub-section (1) of section 381 and section 198 of the Companies Act, 2013.

## **Reporting for CSR**

Rule 8 of the CSR Rules provides that the companies, upon which the CSR Rules are applicable on or after 1st April, 2014 shall be required to incorporate in its Board's report an annual report on CSR containing the following particulars:

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;

The composition of the CSR Committee;

Average net profit of the company for last three financial years;

Prescribed CSR Expenditure (2% of the amount of the net profit for the last 3 financial years);

Details of CSR Spent during the financial year;

In case the company has failed to spend the 2% of the average net profit of the last three financial year, reasons thereof;

## **Role of CSR Committee**

The CSR Committee constituted in pursuance of Section 135 of the Companies Act, 2013 shall be required to carry out the following activities: 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.