

## **CORPORATE SOCIAL RESPONSIBILITY**

### **❖ Background**

The 2013 Act has introduced several provisions which would change the way Indian Corporates do business and one such provision is Spending on Corporate Social Responsibility (CSR) Activities which has largely been voluntary contribution, by corporate has now been included in Law.

We bring out the Key Provisions, analyses and challenges relating to compliance of these provisions for companies to consider.

### **❖ Applicability and Constitution of CSR Committee**

Section 135 of the 2013 Act states that every company 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 constitute a Corporate Social Responsibility Committee of the Board
- 
- The committee would comprise of three or more directors, out of which at least one director shall be an independent director
  - The mandate of the said CSR committee shall be:
    - to 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;
    - to recommend the amount of expenditure to be incurred on the activities referred to above;
    - to monitor the Corporate Social Responsibility Policy of the company from time to time

- The Board of every company referred to above shall after taking into account the recommendations made by CSR Committee:
  - approve the CSR Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, and
  - ensure that the activities as are included in CSR Policy of the company are undertaken by the company, and
  - ensure that the company spends, in every financial year, at least two per cent of the average net profits. Net Profits means the net profit of the preceding 3 financial year.
- If the Company fails to spend such amount, the Board shall, in its report specify the reasons for not spending the amount
- "Average net profit" shall be calculated in accordance with the provisions of section 198 of the 2013 Act

**CSR Activities are given under schedule VII of the Companies Act 2013,  
CSR Activities as per schedule VII are as follows**

- CSR activities to include:
  - eradicating extreme hunger and poverty
  - promotion of education
  - promoting gender equality and empowering women
  - reducing child mortality and improving maternal health
  - combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases
  - ensuring environmental sustainability
  - employment enhancing vocational skills
  - social business projects
  - 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 funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; and such other matters as may be prescribed
- **The 2013 Act provides that the company shall give preference to the local area and areas around it where it operates**

**FORMAT FOR THE ANNUAL REPORT ON CSR INITIATIVES TO BE INCLUDED IN THE BOARD REPORT BY QUALIFYING COMPANIES**

1. Provide a brief outline of the company’s CSR policy including the statement of intent reflecting the ethos of the company, broad areas of CSR interest and an overview of activities proposed to be undertaken.
2. Indicate the web-link to the CSR Policy. The Policy should include the full list of projects/activities/programmes proposed to be undertaken by the company.
3. The composition of the CSR Committee.
4. Average Net Profit of the company for last 3 financial years
5. Threshold Limit-(2% of this amount as in 4 above)
6. Details of CSR activities/projects undertaken during the year:

| 1. Sr No . | 2. CSR project/activity identified | 3. Sector in which the Project is covered | 4. Projects/Programmes<br>1.Local area/others -   | 5. Amount outlay (budget) project/Programme wise | 6. Amount spent on the project/programme                     | 7. Cumulative spend upto to the reporting period | 8. Amount spent: Direct/through implementing agency |
|------------|------------------------------------|---|---|--|--|--|---|
|            |                                    |   | 2.specify the state /district (Name of the District/s, State/s where project/programme was undertaken |  | Subheads:<br>1.Direct expenditure on project,<br>2.Overheads |  |   |
| 1          |                                    |   |   |  |  |  |   |
| 2          |                                    |   |   |  |  |  |   |
| 3          | Total                              |   |   |  |  |  |   |

*\*Give details of implementing Agency:*

7. In case the company has failed to spend the 2% of the Average Net Profit (INR) of the last 3 financial years, please provide the reasons for not spending the amount

8. A Responsibility statement, of the CSR Committee, that the CSR policy implementation and monitoring thereof is, in letter and spirit, in compliance with CSR objectives.

**Signed** .....

(CEO/Managing Director/Director

**Draft CSR rules provide for the following:**

- 'Net Profit' for the section 135 and these rules shall mean, net profit before tax as per books of accounts and shall not include profits arising from branches outside India
- Reporting will be done on an annual basis commencing from FY 2014-15
- Tax Treatment of CSR spend will be in accordance with the IT Act as may be notified by the Central Board of Direct Taxes (CBDT)
- CSR activities may generally be conducted as projects or programmes (either new or ongoing) excluding activities undertaken in pursuance of the normal course of business of a company

**• The CSR Committee shall prepare the CSR Policy of the company which shall include the following:**

- specify the projects and programmes to be undertaken
  - prepare a list of CSR projects/programmes which a company plans to undertake during the implementation year, specifying modalities of execution in the areas/sectors chosen and implementation schedules for the same
  - CSR projects/programmes of a company may also focus on integrating business models with social and environmental priorities and processes in order to create shared value
  - Surplus arising out of the CSR activity will not be part of business profits of a company
  - would specify that the corpus would include 2 percent of the average net profits, any income arising therefrom, and surplus arising out of CSR activities
- Where a company has been set up with a charitable objective or is a Trust/Society/Foundation/any other form of entity operating within India to facilitate implementation of its CSR activities, the following shall apply:
- contributing company would need to specify the projects/programs to be undertaken by such an organisation, for utilizing funds provided by it;
  - contributing company shall establish a monitoring mechanism to ensure that the allocation is spent for the intended purpose only.

- A company may also implement its CSR programs through not-for-profit organizations that are not set up by the company itself. Such spends may be included as part of its prescribed CSR spend only if such organizations have an established track record of at least three years in carrying out activities in related areas
- Companies may collaborate or pool resources with other companies to undertake CSR activities.
- Only such CSR activities will be taken into consideration as are undertaken within India
- Only activities which are not exclusively for the benefit of employees of the company or their family members shall be considered as CSR activity.
- Companies shall report, in the prescribed format, the details of their CSR initiatives in the Directors' Report and in the company's website
- CSR which has largely been a voluntary contribution by corporates has now been included in law
- There is a debate as to whether any penal consequences will emanate on failure to spend, or an explanation in the directors' report on the reasons therefore are only warranted
- There may be reluctance in compliance, especially in case of companies which are not profitable, but fall under the designated category due to triggering net worth or turnover criteria
- It is not clear what all constitutes CSR activities as the list specified under Schedule VII of the Act seems like an inclusive list and not exhaustive
- The CSR provisions under the 2013 Act require a minimum of 3 directors for the constitution of the CSR committee, clarification needed as to whether qualifying private companies would be required to appoint a third director to comply with the CSR provisions

MODERN INDIA LTD.



**MODERN™ INDIA**  
E N T E R P R I S E

MODERN CENTRE,  
SANE GURUJI MARG,  
MAHALAXMI,  
MUMBAI 400 011.

P : + 91 22 6662 4181

F : + 91 22 2307 5787 / 2300 4230

E : [info@modernindia.co.in](mailto:info@modernindia.co.in)

**MY MODERN MY LIFE**

# **CORPORATE SOCIAL RESPONSIBILITY POLICY**

- ❖ 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 no charity or mere donation.
- ❖ CSR is a way of conducting business, by which corporate entities visibly contribute to the social good. Socially responsible companies use CSR to integrate economic, environmental and social objectives with the company's Operations and growth.

## **Objective**

The main objective of CSR Policy is to lay down the guidelines for the Modern India Limited to make CSR a Key business process for sustainable Development for the society .It aims at supplementing role of the government in enhancing welfare measures of the society based on the immediate long term social and environmental consequences of their activities .MIL would act as good Corporate citizen.

## **COMPOSITION**

- Comprising of three or more Directors with at least one independent director
- Composition of the CSR to be disclosed in the annual report.

## **RESPONSIBILITIES**

- The Committee shall prepare, formulate and recommend to the Board the CSR Policy of the Company which shall indicate the activities to be undertaken
- Recommend the amount of expenditure to be incurred on above the activities to be undertaken.
- Monitor CSR Policy from time to time.

- Disclose the CSR Policy in the Annual Report and on the Company's Website.
- Ensure implementation of CSR Activities as per the policy.
- Ensure that Company spend in every financial year at least 2% of average net profit made during the three immediate preceding financial years.
- Directors report to specify reason in case the specified amount is not spent.

A Responsibility statement signed by the committee to be submitted to the Board

The committee will consider the following activities

### **SCOPE**

- Education including adoption of schools
- Water supply including drinking water
- Health care by providing indoor medical facilities and medicines
- Environment Protection.
- Social Empowerment including Empowerment of women for education /Health and self employments
- Infrastructure for village electricity/solar light/Pawan chaki etc in which recurring expenditure should be born by beneficiaries.
- Sports and cultural activities.
- Generation of employment and setting up co-operative society.
- Infrastructure support.
- Grant/donation/financial assistance/sponsorship to Reputed NGO'S doing/involved in upliftment of the poor.
- Relief of victims and natural calamities like earth quake, cyclone, drought, and flood situation in any part of the country.
- Disaster management activities including those related to mitigation/migration .
- Collection and distribution of old clothes to the needy & in the remote villages to those who are in dire needs.
- Adoption of village for carrying out the activities like infrastructure development e.g. Road construction, water supply, Electricity supply and community centre.

## **EDUCATION**

- ✓ Support to technical/ vocational institution for their self development
- ✓ Academic education by way of financial assistance to primary, middle and higher secondary school.
- ✓ Adult Literacy especially to those belonging to Below Poverty Line (BPL).
- ✓ Awareness programmes on girl education.
- ✓ Counseling of parents
- ✓ Special attention on education training and rehabilitation of mentally and physically challenged children.
- ✓ Provide Free ship/Scholarship for a period of 1 Year or more to the poor and meritorious student preferably girl student of the school in the operational area of the company to enable them to get uninterrupted education.

## **Water Supply**

- ❖ Installation Repair of hand pumps/Tube wells
- ❖ Digging/ renovation of wells.
- ❖ Development/Construction of water tank/pond
- ❖ Rain water harvesting scheme.

## **Health care by providing indoor medical facilities and medicines**

- AIDS TB and leprosy
- Social evils like alcohols, smoking, drug abuse etc.
- Child and mother care
- Diet and nutrition
- Diabetics and hypertension camps/Blood Donation Camp.
- Family welfare
- Senior citizen health care wellness clinics

## **ENVIRONMENT**

- Organizing sensitizing programme on environment management and pollution control
- Green belt development
- Afforestation social forestry.
- Animal care.
- Plantation of saplings producing fruits
- Restrain/Prohibit use of plastic bags.

### **SELF EMPOWERMENT**

- Self/Gainful employment opportunities-Training of rural youth for self employment
- Care for senior citizens
- Adoption or construction of hostels especially for SC/ST & girls

### **VILLAGE ELECTRICITY/SOLAR LIGHTS**

- To develop infrastructural facilities for providing electricity through solar lights or alternative renewal energy to the nereby villages, recurring expenditure should be born by the beneficiaries.

### **SPORTS AND CULTURE**

- Promotion of sports and cultural activities for participation in states and national level.
- Promotion/Development of sports activities in nereby villages for conducting tournament like football,kabaddi and khokh etc
- Sponsorship of cultural events to restore Indian cultural ethics and values.
- Possibility of providing facilities for physically handicapped person may be explored.

### **GENERATION OF EMPLOYEMENT AND SETTING UP CO-OPERATIVE SOCIETY**

- Employment facilities should be provided to community people especially to backward section by providing education and training therby developing their skill for suitable Employment.Furhter opportunities for self employment should be provided by constructing shopping complex in and around the projects

### **INFRASTRUCTURE SUPPORT-construction, repair and extension etc.**

- Auditorium
- Educational institution
- Rural dispensaries initiated by reputed NGOS.
- Mobile crèches.

- Bridges, culverts and Roads.
- Community centre.
- Sulabh souchalaya.
- Development of Park.

- **Impact:**

- ✓ The rationale for CSR Policy activity is that corporate earns profit by exploiting different resources of the society and so a portion of the benefit derived from the society shall be channelised for the betterment of the society.
- ✓ Though compulsory CSR spending may seem burdensome for some class of Companies it will create of a sense of responsibility among Corporates especially when they see benefits in the long term.
- ✓ Children, women, uneducated, unemployed would be among the beneficiaries as CSR activities will be focused on them
- ✓ The intension of policy maker is quite clear –to report on the business community’s contribution for fulfillment of social environmental and economic responsibilities .While contribution to local community is a good objective, business should choose, social, environmental and Economic activities that contribute to society at large.
- ✓ CSR activities will also help improve the image of a company within the community as one that cares for the community.
- ✓ Significantly there is no penalty for defaulting CSR norms, only an explanations to be given by the Board in its report for such non compliances.