



Modalities in CSR

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WIRC, Mumbai

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Role of CSR in India

Role of CSR in India

An Overview

Business organisations cannot isolate themselves from rapid and transformational changes in society.

Despite of high economic growth in the nation there persists several challenges.

CSR has become an integral part of a company's functioning and today it has become indispensable that a firm demonstrates such responsibility.

India is the first country to make CSR requirement for companies falling under the applicability criteria.

Role of CSR in India

Evolution of CSR trends

Corporate Social Responsibility is not the norm or boon of the present day society.
It was prevalent during early ages also.

First phase



Pre-Industrialization period where charity and philanthropy were main drivers of CSR.

Second Phase



During independence movement there was an increased stress on Indian Industrialists to demonstrate their dedication towards progress of society.

Third Phase



With emergence of PSUs, private sector was forced to take a back seat. PSUs were prime movers of development and promoters of CSR.

Fourth Phase



Indian companies started abandoning their traditional engagement with CSR and integrated it into a sustainable business strategy.

Current state



CSR contribution once again became a driver for corporates to co-exist in society.

Role of CSR in India

Brief introduction to Sec. 135 of The Companies Act, 2013

Applicability of Sec 135

1. Every company having net worth of rupees **five hundred crore or more**, or
2. Turnover of rupees **one thousand crore or more** or
3. A net profit of rupees **five crore or more** in **immediately preceding financial year** (as amended 19th Sept. 18) .

Requirement of Sec 135

1. Constitute a **Corporate Social Responsibility Committee** consisting of **three or more directors with at least one independent director**. (unless the company is not required to appoint independent director under the Companies Act, the committee shall comprise of two directors)
2. Shall spend at least **2 % of average net profit as per section 198** of last three financial years.

Where and what to
spend?

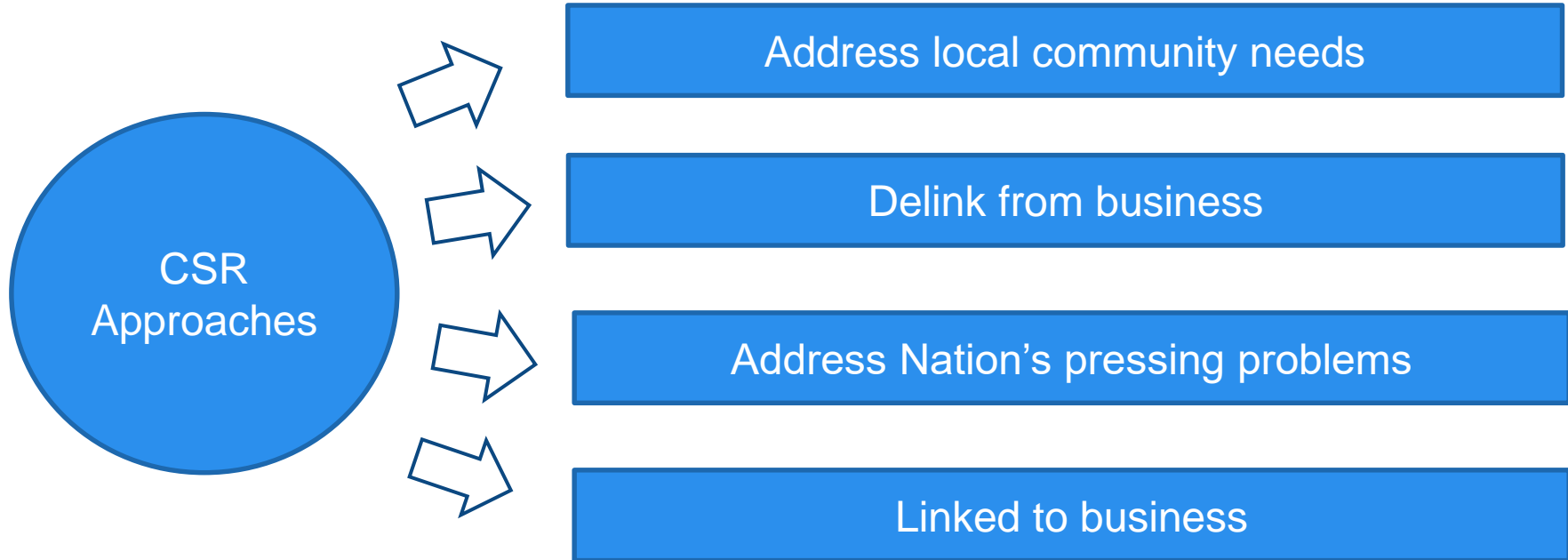
Where and what to spend?

Methods for implementing CSR



Where and what to spend?

Approaches towards CSR



The most popular CSR approach in India is 'Link to Business', helps corporate to integrate CSR as part of its business strategy and present a win-win situation at both ends.

Prohibited modes

- CSR activities outside India
- Exclusively for benefit of employees and their family
- Contribution directly/ indirectly to a political party
- Through a registered trust/ society having track record of less than 3 years
- Through registered trust/ society fulfilling above criteria where expenditure exceeds 5% of total prescribed spend in one financial year

Modes explicitly prohibited by the Companies (Corporate Social Responsibility Policy) Rules, 2014

Permitted modes

- Eradicating Hunger, Poverty, malnutrition
- Promoting education
- Promoting gender equality
- Environmental sustainability
- Contribution to Prime Minister's relief fund
- Rural Development projects

**Refer Schedule VII for complete list of activities*

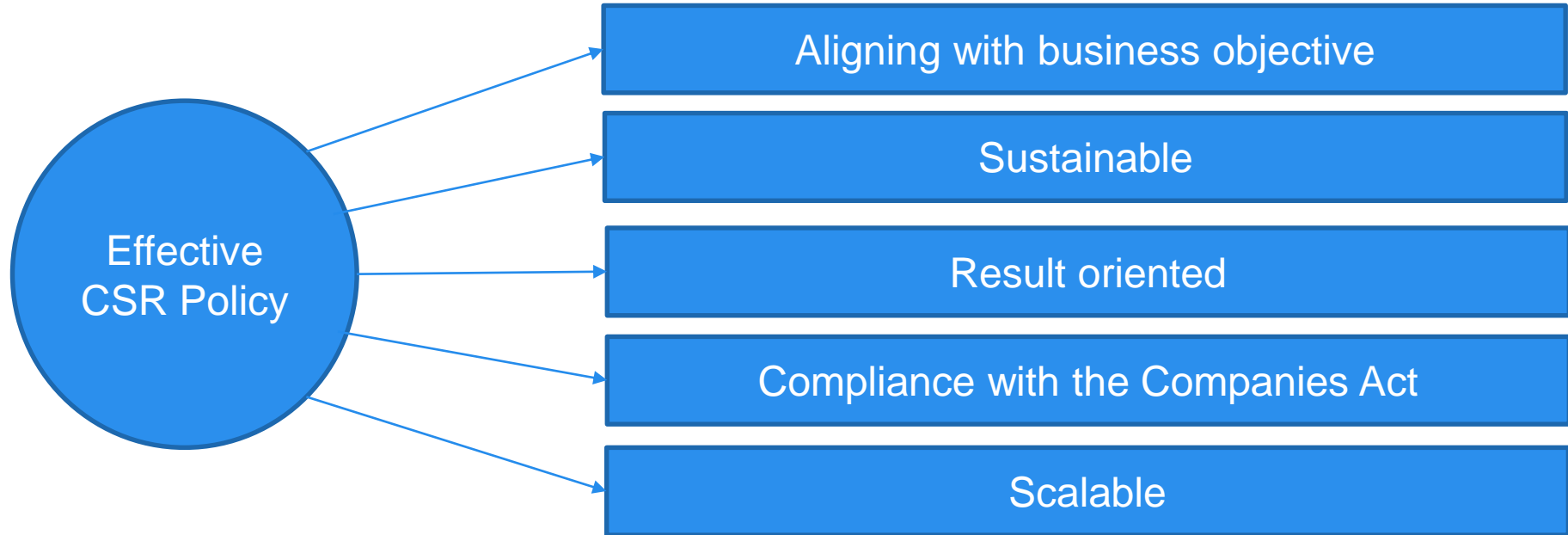
Activities eligible for CSR listed under the Companies Act include

As per circular 06/2018 Preference should be given to local area and areas around which company operates (the above provision should be followed in letter and spirit)

Where and what to spend?

How to devise effective CSR policy?

Objectives



Where and what to spend?

Planning and Strategising

01 Developing a policy and strategy

Selecting a target group - focus on marginalized/ excluded groups

Define geographical impact/ coverage of the project / activity

Identifying target sector and issues

02 Operationalising the institutional mechanism

Self execution – In house department/ CSR foundation

Implementing CSR activity through implementation partner

Grants to existing CSR projects meeting company's policy objective

Where and what to spend?

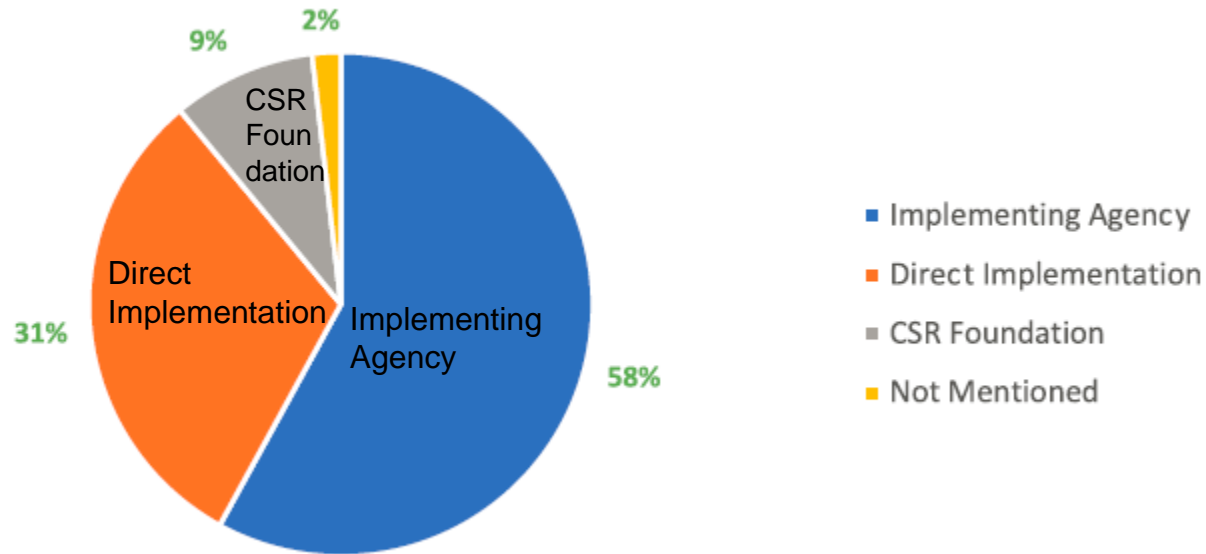
Implementing agency or Self execution?

Decision Criteria	Implementing agency	Self execution
Cost	More likely to be a lower cost option	High cost option
Customisation	Not highly customisable	High flexibility to customise the project
Control	Low to medium level of control	High levels of controls possible
Building Expertise	Development issues are not expected	Possibility of development issues due to lack of in depth knowledge

Where and what to spend?

Statistical snapshot – Modes adopted

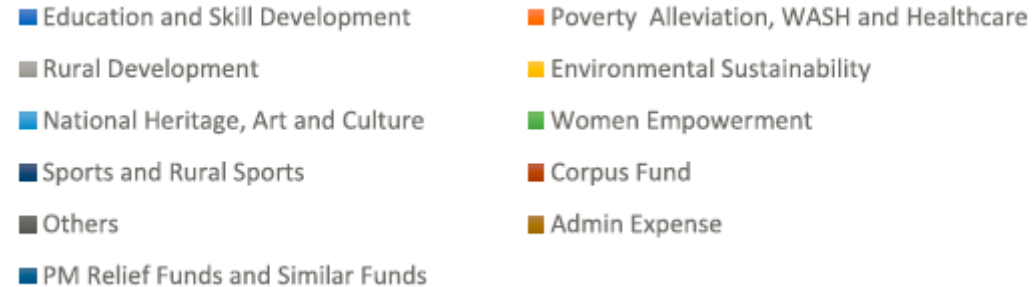
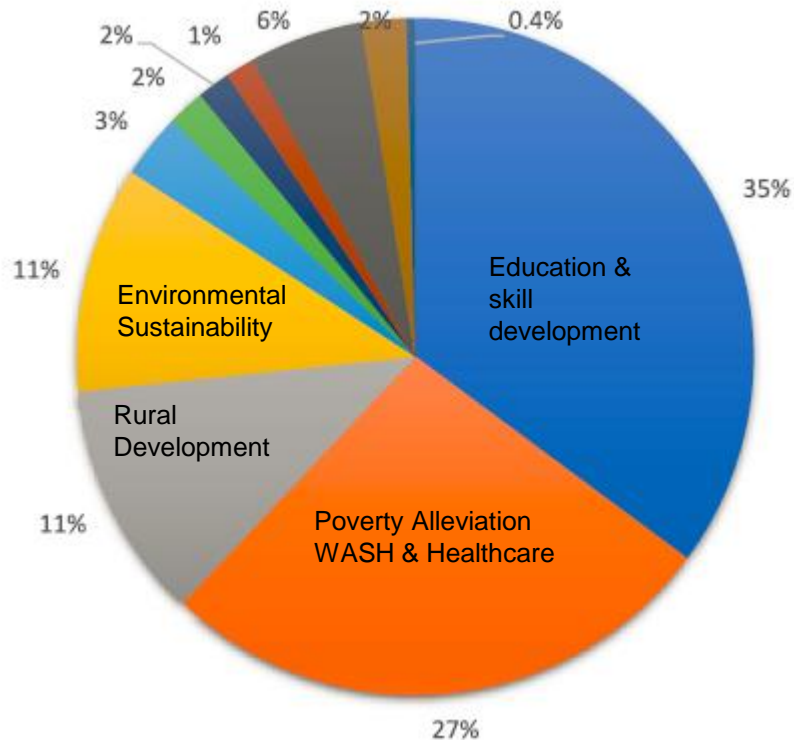
Project Implementation Mode



Where and what to spend?

Statistical snapshot – How is India Spending?

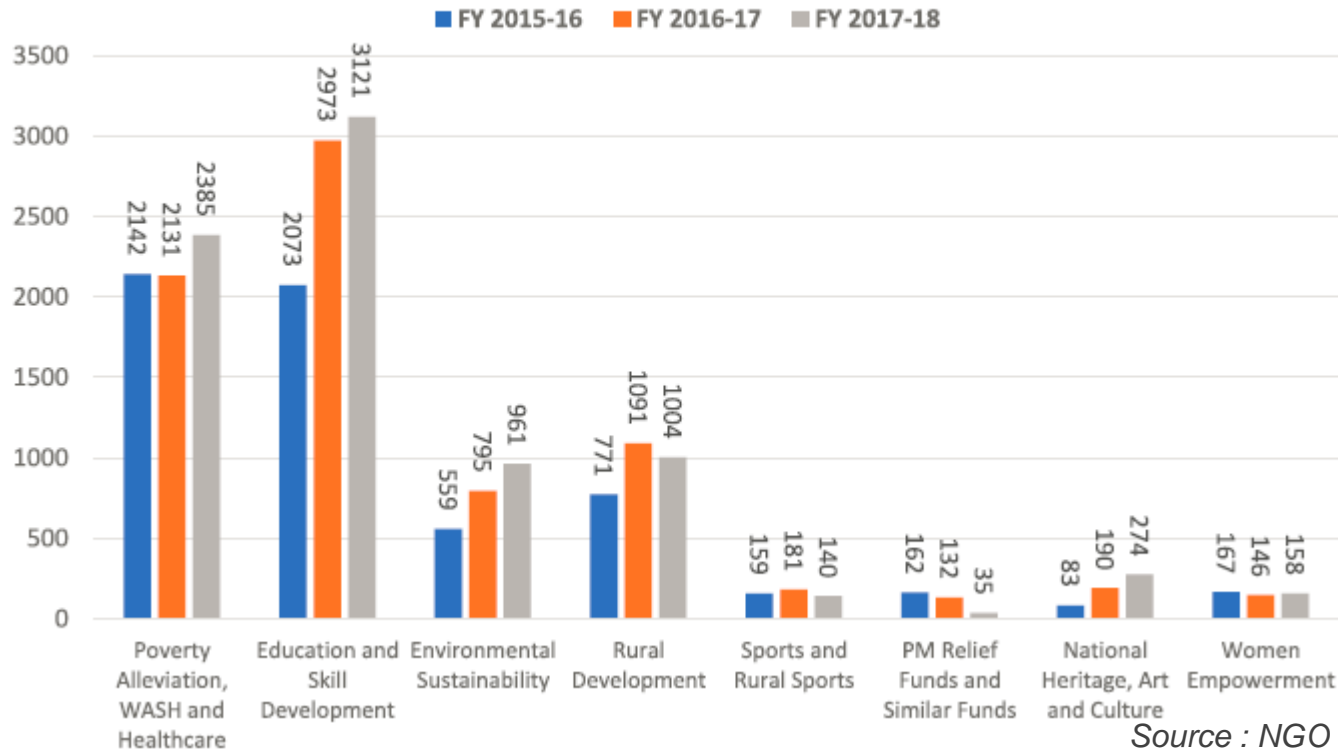
Thematic Distribution of CSR Fund



Where and what to spend?

Statistical snapshot – Trend Analysis

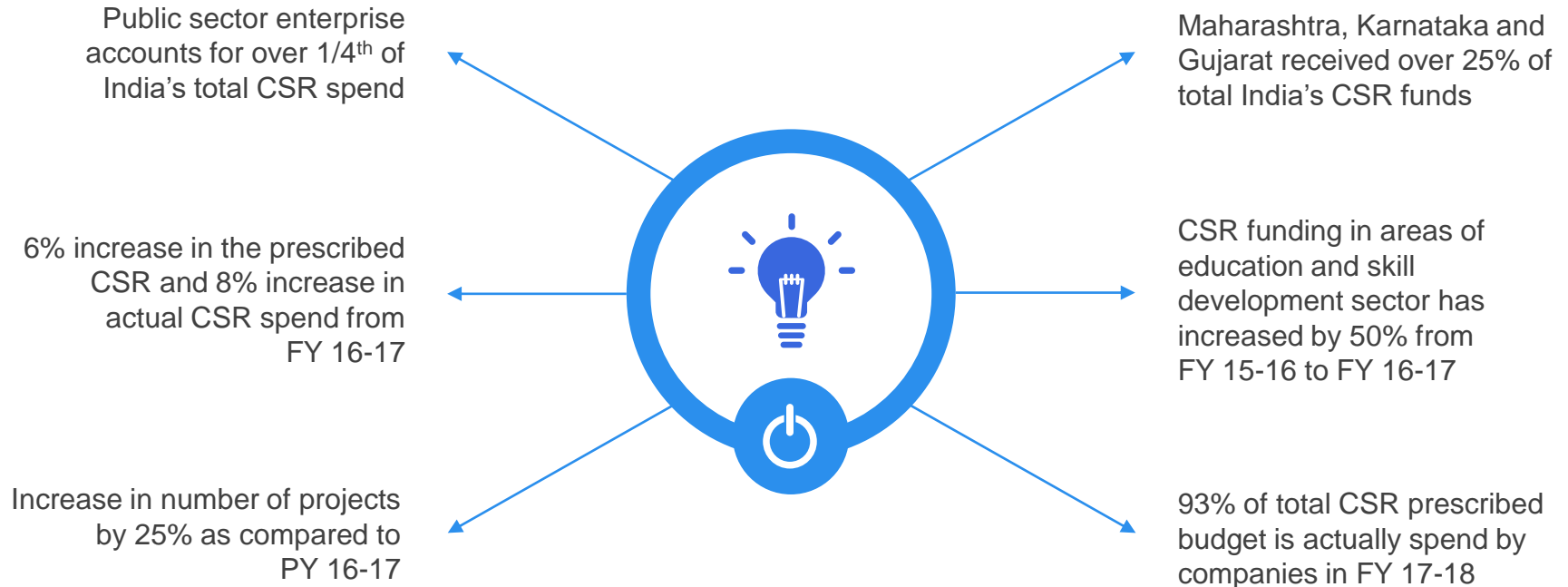
Theme-wise CSR Fund: The Trend Analysis



Source : NGO box report Sept 2018

Where and what to spend?

Highlights of CSR 2018



Where and what to spend?

Innovative CSR projects

Amul Industries Pvt. Ltd.

- Swarna Jayanti Gram Sanchar Yojana (SGSY): self employment of people by procuring milk from local villagers
- Tree plantation
- Amul Scholar: Scholarship program
- Blood Donation
- Rural Sanitization



TATA Group

- Vidhya Dhanam: Scholarship Program
- Aarogya: Addressing Malnutrition and preventive and curative healthcare
- Vasundhara: Tree Plantation
- Kaushalya: Training program for self employment



Wipro Ltd.

- Wipro Education: Sponsorship of higher education
- Mission 10x: Employability training
- Sustainability programs



Where and what to spend?

Innovative CSR projects

Clean City

- Made provisions for mechanised cleaning of streets within Pune City and Pune Cantonment area
- It currently covers 500km of roads in Pune with over 150 machines/ equipments on the streets

E-Spousing

- Revolutionary projects undertaken-widow remarriages in UP
- Espousing dowry less marriages

E-Choupal

- Link directly with rural farmers via the Internet for procurement of agriculture and aquaculture products



Checks and balances

Checks and Balances

CSR processes flow

1. Develop Policy and strategy + Operationalise institutional mechanism

2. Due diligence of implementing partner + Project development

3. Approval of project + Finalising arrangement with agencies

4. Progress monitoring and reporting

5. Impact measurement + Reporting and communication

Checks and Balances

How to ensure the amount is rightly spent?

Internal audit of CSR

Special area audit of CSR compliances by an independent party (at implementation, monitoring and reporting stage) ensures better compliance

Due diligence of implementing agency

To ensure that a company's implementation partners have the reputation, competence and integrity to implement effective projects

CSR Checklist

Ensures compliance with regulatory requirements and notification and acts as a tool for reflecting commitment towards stakeholders

Continuous monitoring of activity

Checking progress against plan and to take corrective actions against any deviation (including obtaining feedback through frequent field visits)

Compliance with Global standards of Social responsibility

A comprehensive guidance for companies pertaining to CSR is available in the form of several globally recognised guidelines, frameworks, principles and tools. Most of which are closely aligned with larger concept of sustainability. (ISO 26000, UN guidelines, Social Accountability international standards etc.)

Thoughts of Sir Ratan Tata back in 1913



To engage qualified and competent persons to investigate into matters that pertain to the social, economic or political welfare of the Indian community, *the object being to design schemes of a practical nature calculated to promote the welfare of the said community, care being taken that such work is not undertaken from the stereo typed point of view but from the point of view of fresh light that is thrown from day to day by the advance of science and philosophy on problems of human well-being...*

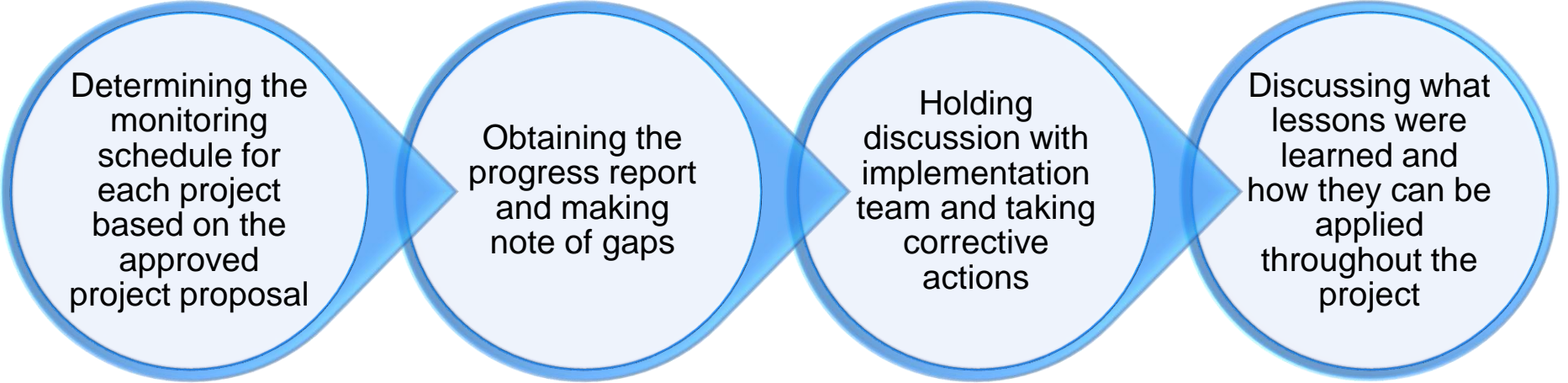
Further, he also directed that:

No experiment and no venture should be aided or undertaken unless the scheme thereof is carefully prepared. No institution or organisation should be aided of which the accounts are not subject to periodic audits and are not regularly issued and which would not be open to inspection and examination



Checks and Balances

Monitoring the project



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graph LR; A((Determining the monitoring schedule for each project based on the approved project proposal)) --- B((Obtaining the progress report and making note of gaps)); B --- C((Holding discussion with implementation team and taking corrective actions)); C --- D((Discussing what lessons were learned and how they can be applied throughout the project))
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Determining the monitoring schedule for each project based on the approved project proposal

Obtaining the progress report and making note of gaps

Holding discussion with implementation team and taking corrective actions

Discussing what lessons were learned and how they can be applied throughout the project

Checks and Balances

Impact Measurement

“ Impact analysis is to look beyond inputs and outputs to outcomes and impact – Understanding one’s foot print ”



Create theory of
change and a logic
model



Develop evaluation
plan



Collect Data



Analyse results



Communicate findings

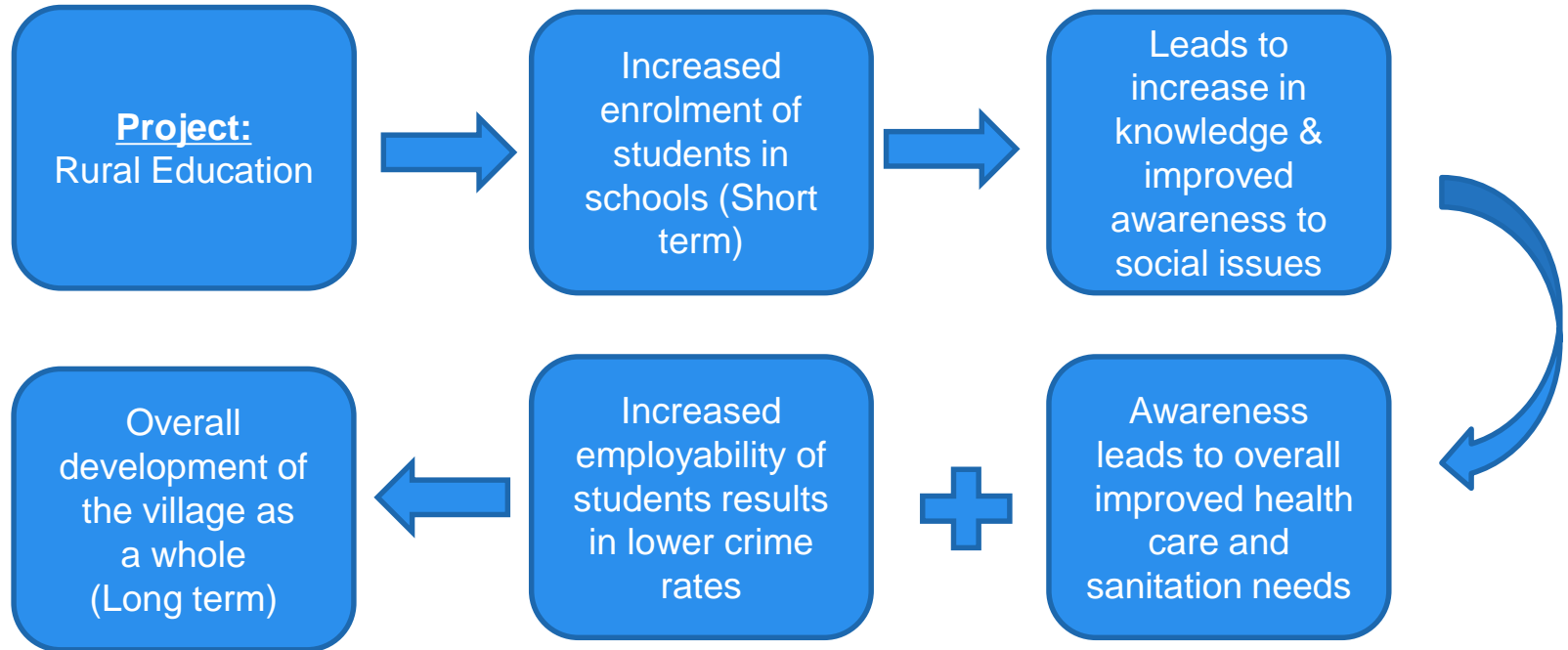


Continuous improvement

Checks and Balances

Impact Measurement

Example of impact measurement



Reporting and ensuring proper compliance

Reporting and ensuring proper compliance

Mandatory reporting under the Act

01 CSR policy in public domain

Guidance provided in rules on what constitutes policy:

1. Exclude normal business activities
2. A list of CSR projects and programmes which company plans to undertake

02 Annual report should specify

1. Brief outline of policy and over view of activities to be undertaken
2. Full description of projects / activities undertaken or proposed with a web link
3. Composition of CSR committee

Reporting and ensuring proper compliance

Mandatory reporting under the Act

02 Annual report should specify (Cont.)

4. Average net profit of last 3 FYs

5. Prescribed CSR expenditure (2% of above)

6. Details of CSR spent during the year :

a. Amount to be spent

b. Amount unspent (if any)

c. Manner in which amount is spent in FY (incl. modes)

Responsibility statement of CSR committee for implementing and monitoring the policy

03 Disclosure in Board report u/s 134

The details about the policy developed and implemented by the company on CSR initiatives taken during the year

Reporting and ensuring proper compliance

Mandatory reporting under the Act

01 Reporting as per Schedule III of the Companies Act, 2013
(Guidance note issued by ICAI)

Separate line item as 'CSR Expenditure' in P&L

Contractual liability for which provision is created in Balance sheet should be presented as per Schedule III. Movements to be shown separately

Disclosure in notes to accounts:

(a) Gross amount required to be spent

(b) Amount spent during the year on:

(i) on construction/ acquisition of asset or otherwise

(ii) amount paid in cash/ yet to be paid

Disclosure by way of notes to cash flow statement (wherever applicable)

Details of related party transactions (e.g. in case of contribution to a trust controlled by the company in relation to CSR expenditure as per AS 18)

Reporting and ensuring proper compliance

Illustrative format of Annual report

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
SI. No	CSR project or activity Identified.	Sector in which the Project is covered	Projects or programs (1) Local area or other (2) Specify the State and district where projects or programs was undertaken	Amount outlay (budget) project or programs wise	Amount spent on the projects or programs Sub-heads: (1) Direct expenditure on projects or programs (2) Overheads:	Cumulative expenditure upto to the reporting period	Amount spent: Direct or through implementing agency *
1							
2							
	TOTAL						

*Give details of implementing agency:

Reporting and ensuring proper compliance

Voluntary reporting

Disclosures in CSR policy

1. Details regarding CSR vision/ mission/ philosophy
2. Disclosure of governance structure

Disclosures in Board report

1. Details regarding employee volunteering/ involvement
2. Disclosure on outreach or people impacted
3. Focus area of the project

Disclosures in Annual report

1. Involvement of organisations in delivering products and services that are safe and sustainable
2. Quantitative data of projects and drilled down details
3. Plans for promoting employee welfare
4. Success stories of the projects undertaken and feedback from target group
5. How business is carried out with ethics, accountability and transparency

Food for Thought

Food for thought

CSR : A marketing tool?

It is quite natural for an organisation that exists for profit to seek direct or indirect benefit from all its actions including CSR. But if the benefit sought is unreasonable or lacks long term vision, it may prove to be counter productive and may have a negative impact on brand.

CSR must be an extension of the organisation's state-of-being and not just an activity that needs to get ticked off in the check-box.

Proper compliance vs. Better compliance

Contribution made to implementing partner qualifies as sufficient compliance under the Act. However it is recommended that continuous monitoring mechanism is present to ensure Maximum benefit from the activity to the community as well as the enterprise

There should be a balance between Proper and Better compliance

Food for thought

CSR : Should it be incentivised?

At present there are no incentives for compliance with the provisions of the Act. Also except few revenue expenditures (where deduction can be claimed u/s 80G, 35AC, 35CCD) all other expenditure incurred as per Schedule VII are disallowed u/s 37 Income tax Act, 1961

Even though allowing CSR expenditure as business expenditure is not the solution, not providing any benefit to the person will also not justify the purpose as other activities which are not allowed under Income tax act will be neglected

Should CSR be applicable for other entities (viz. LLP, Firms, Co-operative society etc.)

Mandatory CSR compliance is not applicable to non-corporates such as co-operative society, trusts, LLPs, Firms etc. which may be covered under threshold limit under the Companies Act for CSR.

Should there be mandatory policy under other acts as well covering large non-corporates under the ambit of CSR?

Food for thought

National CSR awards by Ministry of Corporate Affairs

Ministry of Corporate Affairs has instituted National CSR Awards to recognize corporate initiatives in the area of corporate social responsibility (CSR) to achieve inclusive growth and inclusive and sustainable development

Objective of the award:

- *Recognise the companies that have positively impacted both business and society*
- *Recognise the companies that are leading transformation by integrating sustainability in their core business model*
- *Recognise companies for implementing measures for conservation and sustainable management of the biodiversity and ecosystem in the value chain.*
- *Identifying innovative approaches and employing application and technologies that will help to build a robust CSR programs*

The companies are divided into categories on the basis of PSU/ Non-PSU and amount of CSR spends

Food for thought

Proposed amendments to Sec 135 of the Companies Act, 2013

*In sub-section (5), after the words “**three immediately preceding financial years,**”, the words “**or where the company has not completed the period of three financial years since its incorporation, during such period,**” shall be inserted;*

*Any **amount remaining unspent** under subsection (5) shall be transferred by the company **within thirty days from the end of the financial year to a special account** to be opened by the company in a scheduled bank as ‘**the Unspent Corporate Social Responsibility Account**’, and such amount shall be spent by the company within a period of three financial years from the date of such transfer.*



Questions?

Sources:

1. CSRbox / NGObox India CSR outlook report 2018
2. KPMG CSR Survey report 2017
3. MCA notice for proposed amendments in CSR
4. CSR presentation and disclosure Guidance note by ICAI

Thank You!
