

## CSR & Social Governance

### (Chapter 3)

(Total= 20 marks)

Time - 1 Hr

**Answer the following question.**

#### Case Study 1

According to “Corporate Social Responsibility: An Implementation Guide for Business” published by International Institute for Sustainable Development -Corporate social responsibility (CSR) is also known by a number of other names. These include corporate responsibility, corporate accountability, corporate ethics, corporate citizenship or stewardship, responsible entrepreneurship, and “triple bottom line,” to name just a few. As CSR issues become increasingly integrated into modern business practices, there is a trend towards referring to it as “responsible competitiveness” or “corporate sustainability.”

A key point to note is that CSR is an evolving concept that currently does not have a universally accepted definition. Generally, CSR is understood to be the way firms integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth and improve society. As issues of sustainable development become more important, the question of how the business sector addresses them is also becoming an element of CSR.

The World Business Council for Sustainable Development has described CSR as the business contribution to sustainable economic development.

**Questions:** (5 marks each)

1. What is the meaning of ‘ongoing project’? Which projects can be considered as ongoing?

**Answer**

Ongoing project has been defined under rule 2(1)(i) of the Companies (CSR Policy) Rules, 2014 as:

- (i) a multi-year project, stretching over more than one financial year;
- (ii) having a timeline not exceeding three years excluding the year of commencement;
- (iii) includes such project that was initially not approved as a multi-year project but whose duration has been extended beyond one year by the Board based on reasonable justification.

The project should have commenced within the financial year to be termed as ‘ongoing’.

The intent is to include a project which has an identifiable commencement and completion dates. After the completion of any ongoing project, the Board of the company is free to design any other project related to operation and maintenance of such completed projects in a manner as may be deemed fit on a case-to-case basis.

2. What are the responsibilities of the Board in case ongoing projects are undertaken by the company?

**Answer**

In case of ongoing projects, the major responsibilities of the Board, inter-alia, include:

- (i) identification of the ongoing projects;
- (ii) year-wise allocation of funds;
- (iii) transferring the unspent money to a separate bank account as prescribed under sub-section (6) of section 135;
- (iv) monitoring the implementation of the projects with reference to the approved timelines and year-wise allocation; and

(v) making modifications, if any, for smooth implementation of the projects within the overall permissible time period.

## Case Study 2

There is no “one-size-fits-all” method for pursuing a corporate social responsibility (CSR) approach. Each company has unique characteristics and circumstances that will affect how it views its operational context and its defining social responsibilities. Each will vary in its awareness of CSR issues and how much work it has already done towards implementing a CSR approach. That said, there is considerable value in proceeding with CSR implementation in a systematic way—in harmony with the company’s mission, and sensitive to its business culture, environment and risk profile, and operating conditions. Many companies are already engaged in customer, employee, community and environmental activities that can be excellent starting points for firm-wide CSR approaches. CSR can be phased in by focusing carefully on priorities in accordance with resource or time constraints. Alternatively, more comprehensive and systematic approaches can be pursued when resources and overall priorities permit or require. The bottom line is that CSR needs to be integrated into the company’s core decision making, strategy, management processes and activities, be it incrementally or comprehensively.

A well-designed CSR implementation framework integrates economic, social and environmental decision making throughout a company—from the board of directors to front-line officials and supply-chain partners—and is therefore intimately connected with effective corporate governance. A properly governed company can reap optimal benefits for itself and its shareholders, and in turn for those who are affected by the company’s activities. At all levels of a firm, inadequate direction and control of its activities and assets can jeopardize its very ability to operate.

### Questions:

(3 marks each)

1. What are the different modes of implementation of CSR activities?

#### Answer

Pursuant to rule 4 of the Companies (CSR Policy) Rules, 2014 a company may undertake CSR activities through following three modes of implementation:

- i) Implementation by the company itself.
- ii) Implementation through eligible implementing agencies as prescribed under sub-rule (1) of rule 4.
- iii) Implementation in collaboration with one or more companies as prescribed under sub-rule (4) of rule 4.

Is it mandatory for every implementing agency to register on the MCA21 portal?

Yes, every implementing agency mentioned in rule 4(1) of the Companies (CSR Policy) Rules, 2014 shall mandatorily register itself in the MCA21 portal w.e.f. 01st April 2021 in order to enable it to undertake CSR activities on behalf of the company.

2. Which entities are eligible to act as an implementing agency for undertaking CSR activities?

#### Answer

Rule 4(1) of the Companies (CSR Policy) Rules, 2014 provides the eligible entities which can act as an implementing agency for undertaking CSR activities. These are:

- (i) Entity established by the company itself or along with any other company – a company established under section 8 of the Act, or a registered public trust or a registered society, registered under section 12A and 80G of the Income Tax Act, 1961.
- (ii) Entity established by the Central Government or State Government – a company established under section 8 of the Act, or a registered trust or a registered society.
- (iii) Statutory bodies – any entity established under an Act of Parliament or a State legislature.
- (iv) Other bodies – a company established under section 8 of the Act, or a registered public trust or a registered society, registered under section 12A and 80G of the Income Tax Act, 1961, and having an established track record of at least three years in undertaking similar activities.

Q3. (4 marks)

In case the company is unable to spend the earmarked amount for CSR activities during a particular financial year, and if the Board has not approved any multi-year on-going project for CSR spending with reasonable justification as to why the CSR spending of that particular year needs to be carried forward beyond that financial year up to a maximum of next 3 financial years, such unspent CSR amount of that particular financial year needs to be transferred, within 6 months of the expiry of that financial year, to any of the funds mentioned in Schedule VII to the Act. If a company is unable to spend the earmarked amount for CSR activities during that particular financial year itself, second proviso to section 135(5) of the Act prescribes that the reasons for non- spending of CSR amount needs to be mentioned in Board's Report prepared under section 134 of the Act. A company has been given six months' time to transfer the unspent CSR amount, other than the amount pertaining to ongoing projects, to any fund included in Schedule VII of the Act. Can the company spend this amount in the said period of six months on any CSR activity? Can the amount transferred to 'Unspent CSR Account' of the company be utilised for regular business of the company?

**Answer**

(i) No, the provisioning of a separate special account, namely the 'Unspent CSR Account', in any scheduled bank is to ensure that the unspent amount, if any, is transferred to this designated account and used only for meeting the expenses of ongoing projects, and not for other general purposes of the company. The special account cannot be used by the company as collaterals or creating a charge or any other business activity.

(ii) No, the provisioning of a separate special account, namely the 'Unspent CSR Account', in any scheduled bank is to ensure that the unspent amount, if any, is transferred to this designated account and used only for meeting the expenses of ongoing projects, and not for other general purposes of the company. The special account cannot be used by the company as collaterals or creating a charge or any other business activity.

**BEST OF LUCK**