



Sattva Perspectives on CSR –

The Government is serious about CSR Compliance - are you?

Introduction

Corporate Social Responsibility (CSR) suggests that the responsibility of the for-profits operating within society, is to also contribute towards its economic, social and environmental development and well-being. The core objective of enforcing a CSR mandate is that businesses cannot succeed in isolation, especially when society at large fails to prosper. The Companies Act, 2013 is therefore, a landmark legislation that made India the first country to mandate and quantify CSR expenditure. This move was an attempt by the government to partner with business houses on the national development agenda.

The Story So Far

It has been close to 5 years since the government mandated that corporates with :

- a net worth of INR 500 cr. or more
- or a turnover of INR 1000 cr. or more
- or a net profit of INR 5 cr. or more

in a given financial year, must spend 2 percent (to be calculated as per Section 198 of the Act) of their average net profits on socially relevant projects as defined in Schedule VII of The Companies Act.

However, even today many corporates eligible for CSR do not contribute to development projects and therefore run a risk of being sent notices for non-compliance and non-conformance of CSR norms.

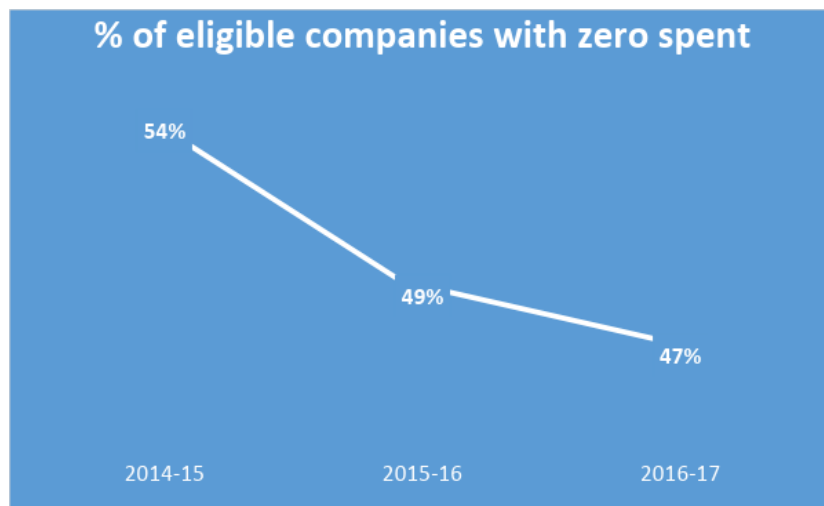
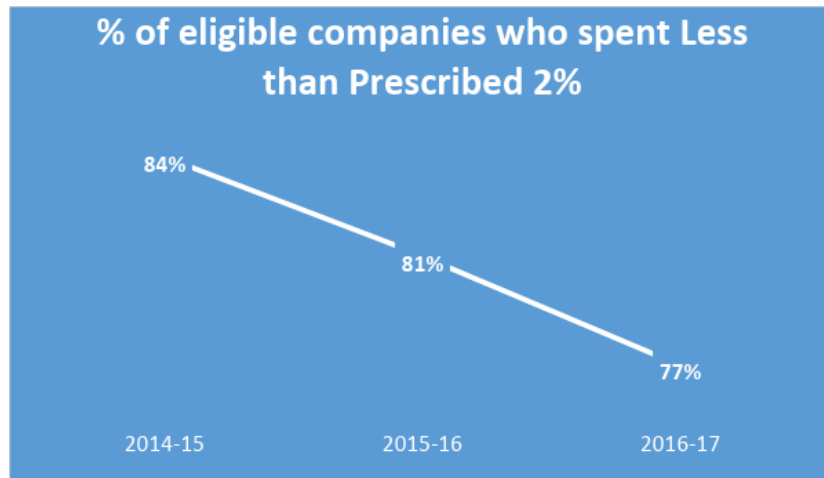
While a large chunk of eligible corporates have adopted the mandate as an opportunity to further their corporate citizenship and not just as a tick box activity, there is still a large share of eligible companies who are yet to deploy their CSR funds.

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(Source: csr.gov.in)

Three years after the law came into existence, that is till 2016-17 - close to half of 19,933 eligible companies have not spent any money as part of their CSR obligations (~9468 companies) and as many as 15,422 companies spent less than the prescribed CSR amount during the same period. In addition to the above citations, there are examples of companies as well who have spent upwards of four times of their prescribed CSR budget in the financial year.

However, as we see non-compliance has reduced year-on-year. A recent survey published by NGOBOX (http://ngobox.org/full-news_CSR-Outlook-Report-by-NGOBOX-analyses-top-359-companies-NGOBOX_22359) revealed interesting insights

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on CSR compliance among India's biggest 359 companies which together account for 3/4th of the total CSR spend:

- CSR compliance among these companies stood at 93% for the year 2017-18 up 2% points compared to previous year.
- Metal, mining and mineral (138%) followed by Oil, Drilling, Lubricants and petrochemicals (104%) sectors emerged as the highest CSR compliant industries followed closely by Auto and Auto ancillaries.

Government Initiatives/ Steps Towards Compliance

Things are looking up. The Ministry of Corporate Affairs has also stepped up its effort to encourage corporates to comply with the CSR provisions by setting up:

- **National CSR Data Portal** –The National Corporate Social Responsibility Data Portal is an initiative by the Ministry of Corporate Affairs, Government of India to establish a platform to disseminate Corporate Social Responsibility related data and information filed by the companies registered with it (<https://csr.gov.in>)
- **National CSR award** - The Ministry of Corporate Affairs has instituted National CSR Award (NCSRA) to recognise CSR for inclusive growth and sustainable development. This Award seeks to recognise the companies that have made a transformative impact on society.

Along with the initiatives mentioned above, the ministry has also taken a few steps to increase compliance by:

- **Reconstitution of a high-level committee** on Corporate Social Responsibility 2018 (HLC-2018) under the Chairmanship of Secretary, Ministry of Corporate Affairs (MCA) to review the existing framework and guide and formulate the roadmap for a coherent policy on Corporate Social Responsibility.
- **Centralised Scrutiny and Prosecution Mechanism (CSPM)** to promote enforcement of CSR provisions. CSPM has been tasked to start with examination of records of the top 1,000 companies mandated to spend on CSR. The CSPM team of inspectors are issuing show cause notices and prosecution proceedings against non-compliant companies.

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In the latest round, prosecution proceedings against 284 companies and show cause notices against 5,382 companies have already been issued.

In view of these efforts, it is clear that the government is serious about bringing rigour and strong scrutiny to ensure the CSR law is strictly followed in the near future.

Current challenges and what Corporate India Can Do

Corporates often find that they have unutilised funds in the last quarter of the financial year. This could be because of several reasons:

- long cycles in identification of impactful projects or/and credible partners
- uncertainty on the exact figure of what the total CSR budget may be due to the change in company profit
- ambiguity in the legal requirements
- difficulties in developing the strategic vision in a multi stake-holder environment
- challenges in planning and executing operations through the year

Some typical avenues that corporate India chooses to disburse its CSR funds are:

- Contribution to the Prime Minister's National Relief Fund
- Contribution to CSOs working in the chosen area of focus by the corporate
- Contribution to Corporate foundations setup to undertake CSR activities exclusively (Own or External)
- Contribution to multi stakeholder platforms founded to address areas of concern.

Although last minute, it would be imperative for corporates to consider some key points while making their social investment decisions in order to move **from a compliance-led CSR function to a more strategic CSR function**:

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- **Recognising CSR as a strategic corporate function** : CSR law is here to stay. Recognising the strategic and legal significance of CSR and incorporating it into long-term corporate strategy is imperative.
- **CSR Vision** : Alignment and long term commitment to company's CSR anchor (focus area/audience/geography) is key in creating long lasting impact and corporate legacy.
- **Measure to improve, not prove**: A robust monitoring and evaluation mechanism acts well as the steering wheel required to continuously improve CSR interventions and make timely course corrections.
- **Outcome first**: An outcome led approach as against an input led approach goes a long way in establishing the social impact goals the corporate wants to achieve.

There is a need to fund projects which will not only impact the last mile recipient of the intervention but also bring the culture of empathy and service within the organisation.

Sattva has been working with various corporate clients to help them define their social impact goals and maximise the return on social investment. Our focus is to solve critical problems and find scalable solutions. Several corporates have been a partner to many such collaborations where effective CSR programmes have strategically aligned with business and have provided meaningful solutions to social issues.

- To read more about our work with CSR, check: <https://bit.ly/2G9g2UZ>
- Talk to us: impact@sattva.co.in

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