

2. Corporate Social Responsibility (CSR) Expenditure

Prelims Syllabus: Growth, Development

Mains Syllabus: GSII- Issues relating to development and management of Social Sector or Services relating to Health, Education, Human Resources.

Why in News?

- The Ministry of Commerce and Industry has clarified that the contributions to the **Chief Minister's Relief Fund or the State relief fund** will not qualify as **Corporate Social Responsibility (CSR) expenditure**, while any donation to the **PM CARES Fund** will.

What are the Key Points?

- The **Chief Minister's Relief Fund or State Relief Fund** for COVID-19 is not included in **Schedule VII of the Companies Act, 2013**, and therefore any contribution to such funds shall not qualify as admissible CSR expenditure.
 - ✓ Schedule VII of the Companies Act, 2013 provides the list of activities that can be included in CSR.
- Some political parties criticised this saying it is discriminatory and goes against the constitutional principle of federalism.
- However, donations to the **State Disaster Management Authority** to combat COVID-19 can be counted as admissible CSR expenditure.

What is Corporate Social Responsibility?

- The term "Corporate Social Responsibility" in general can be referred to as a corporate initiative to assess and take responsibility for the company's effects on the environment and impact on social welfare. In India, the concept of CSR is governed by clause 135 of the Companies Act, 2013. India is the first country in the world to mandate CSR spending along with a framework to identify potential CSR activities.
- The CSR provisions within the Act is applicable to companies with an annual turnover of 1,000 crore and more, or a net worth of Rs. 500 crore and more, or a net profit of Rs. 5 crore and more.
- The Act requires companies to set up a CSR committee which shall recommend a Corporate Social Responsibility Policy to the Board of Directors and also monitor the same from time to time.

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- The Act encourages companies to spend 2% of their average net profit in the previous three years on CSR activities.
 - The indicative activities, which can be undertaken by a company under CSR, have been specified under Schedule VII of the Act. The activities include:
 - ✓ Eradicating extreme hunger and poverty,
 - ✓ Promotion of education, gender equality and empowering women,
 - ✓ Combating Human Immunodeficiency Virus, Acquired Immune Deficiency Syndrome and other diseases,
 - ✓ Ensuring environmental sustainability;
 - ✓ Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women etc.

Strategic importance of Social Responsibility:

- A healthy business can only succeed in a healthy society. Thus, it is in the best interest of a company to produce only goods and services which strengthen the health of society
- If the company wants to succeed in the long term it needs to have the acceptance—or licence to operate—from social actors affected by the company's' operations.