

**MANDATORY CSR SPENDING- A NEW SOURCE FOR TRANSFORMING RURAL
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Abstract

The emerging concept of Corporate Social Responsibility (CSR) goes beyond charity and requires the companies to act beyond its legal obligations and to integrate social, environmental and ethical concerns into company's business process. The concept of CSR demands businesses to operate transparently and responsibly with the considerations of its stakeholders and the community at the forefront, beyond what is legally required to them. India is the first country in the world making CSR mandatory by law. Govt. and Regulators have responded to the National Voluntary Guidelines for Social, Environmental and Economic Responsibilities of business. Supporting to this the CSR clause within the companies Act 2013 is introduced. According to Indian Institute of Corporate Affairs (IICA) more than 6000 Indian companies will be required to undertake the CSR projects in order to comply with the provisions in the Act. Further some estimates also indicate that CSR commitments from companies in India can amount to more than 20,000 Crore INR, following at least 15-20% growth every year as per growth of business sector. If only 50% amount of this huge spending by corporates is diverted to rural India, no doubt in coming ten years the face of Rural India will be defiantly changed. Considering CSR activities listed in schedule VII of the new Companies Act 2013, a big part of CSR spending will now automatically be diverted to rural areas, which will be useful not only for upgrading overall rural infrastructure but also for improving the living standard of rural peoples.

Key words: CSR Spending, Companies Act 2013, Clause 135, Schedule VII, Rural India etc.



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“ There is one and only social responsibility of business- to use its resources and engage in activities designed to increase its profits, so as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud.”

- Milton Friedman, 1962 in Capitalism and Freedom (P-133)

Introduction:

The emerging concept of Corporate Social Responsibility (CSR) goes beyond charity and requires the company to act beyond its legal obligations and to integrated social, environmental and ethical concerns into company's business process. CSR is a buzz word in today's market. Corporate organisations are supposed to fulfil their responsibility by contributing a designated percentage to social clauses such as education, health, sanitation, water management and so on. The notion of CSR that business has a moral obligation to the community in which they operates, has been around for decades. It seems to be a common thought that CSR is only related to large corporate houses or high profile businesses, but that's not the case. CSR is something all businesses should include in their operations, mission statements and strategic business plan.

The concept of CSR demands businesses to operate transparently and responsibly with the considerations of its stakeholders and the community at the forefront, beyond what is legally required to them. There are various opportunities for the businesses to provide tangible benefits to the community, although somewhat depends on operations and financial situations, the means a business can engage with and support the community is limitless. A great way to introduce CSR into any business is to start by identifying the local needs of communities considering its stakeholders or the environment and to develop an idea which will address and contribute to them. An example of simple initiative achievable in small businesses, including recycling, sustainability measures and offering internal mentoring, training or educational incentives. Furthermore CSR practices, common in medium or large businesses include grants, scholarship, community projects and volunteering etc. CSR is an aspect of business that is impossible to be ignored. It is a great way to engage with stakeholders outside the traditional business operations, increases brand reputation and can also contribute to organizational culture immeasurably.

CSR is becoming a relevant subject and it appears repeatedly in the vast majority of academic and professional journals. Some of them have dedicated a special issue to it and increasing number of research articles upon CSR is being published. Govt. and Regulator's positive response to the National Voluntary Guidelines for Social, Environmental and Economic Responsibilities of business and the CSR clauses within the new Companies Act 2013 are two such instances of the major steps taken by the government in India.

Definitions:

Since CSR is a multidimensional concept, there is no single and universally accepted definition of CSR. Each definition that currently exists underpins the impact that business has

on the society at large. Although the CSR roots in philanthropic activities of corporations globally, the concept of CSR has evolved and now encompasses all related concepts such as corporate citizenship, triple bottom line, corporate philanthropy, corporate sustainability and business responsibility etc.

Some important definitions of CSR should be mentioned as bellow-

1. The European Commission (EC) - “CSR is the responsibility of the enterprises for their impacts on society”.

2. The World Business Council for Sustainable Development (WBCSD): “CSR is a business commitment to contribute to sustainable economic development, working with employees, their families, the local community, and society at large to improve their quality of life”. Under this point of view, the CSR rests on the fundamental pillars of both the economic growth and the quality of life as an engine for sustainable development.

3. Ministry of Corporate Affairs (GOI): “CSR is about businesses and other organizations going beyond the legal obligations to manage the impact they have on the environment and society”. In particular, this could include how organizations interact with their employees, suppliers, customers and the communities in which they operate, as well as the extent they attempt to protect the environment.

Objectives of the study:

1. To study and understand the concept of CSR and its dimensions.
2. To study and understand the scope of clause 135 and Schedule VII of the new Companies Act 2013.
3. To take a broad review of problems in transforming Rural India.

Research Methodology:

Considering the above objectives of the study, the research design employed for the present study is descriptive in type. Available secondary data is used extensively. The researcher collected the data through secondary survey method. So different news articles, research papers, web references etc are used intensively.

Limitations:

The main limitation of this paper is that the present study is based on the provisions in new CA-2013 especially clause 135 and schedule 7th of the Act only. Secondly the information is collected from secondary data such as print literature, web sources etc. and no primary data was collected through primary sources.

CSR in India-An Overview:

In India traditionally CSR has been viewed as philanthropic activity. Keeping into mind the Indian trend, it was an activity which was performed but not deliberated. As a result there is lack of much literature available on CSR activities. But it is clearly evident that CSR has a national character encapsulated within it. As some observations have pointed out that practice of CSR in India still remains within the philanthropic space, but has moved from institutional building to community development through various community oriented programmes. As a part of global influence and with communities becoming more active and demanding, there appears to be a discernible trend that while CSR remains largely restricted to community development and is getting more strategic in nature. It is become an integrated part of corporate strategy. Today many companies are promoting CSR activities and also use it as a marketing and management tool.

The CSR Framework in Companies Act- 2013:

In order to bridge the gap of inequality and to fulfil various social obligations that requires certain amount of resources, the CSR is introduced and made mandatory in CA-2013. Basically CSR of any corporation is an obligation towards its stakeholders and the nation at large, which attempts to preclude confinements of the fruits of benefits to certain consumers or shareholders. It is now a legal responsibility that casts upon a corporate body to address the umpteen numbers of socio-economic- environment concerns plaguing the country.

Although the proper implantation of CSR will definitely add to the grandeur of the nation, detractors have questioned the need of such obligation in a nation such as India, where general policies of the Govts. focus on striving socio-economic quality and development. There should be two reasons for imposing such obligations- firstly that the protected problems of socio economic quality and environmental concerns have proved to be chronic and secondly the past endeavours demonstrates clearly that for reaching the roots and eradicating it from its roots a greater extent of participation is needed. Bringing the corporate world into the socio-economic obligations would prove to be beneficial for the masses as well as the corporate world at large.

Mandatory CSR Spending in India- Clause 135, in Companies Act 2013:

As per the provisions in new Companies Act 2013, now in India the concept of CSR is governed by clause 135 of the Act. The CSR provisions in the Act are applicable to the companies having – an annual turnover of 1000 crore INR and more, or a net worth of 500

crore INR and more or net profit of 05 crore INR and more. The new rules are applicable from 1st April, 2014 onwards.

The new Act requires the companies to set up the CSR committee consisting of their board members including at least one independent director. This composition will be disclosed in the Board's Annual Report as per sub-section (3) of section 134. The CSR committee shall formulate and recommend the comprehensive CSR policy to the board, indicating the activities as specified in schedule VII of the Act. The committee shall also recommend the amount of expenditure to be incurred on the activities and should monitor the CSR policy regularly.

The list of activities under scheduled VII of the new Act are- Promotion of Education, Eradicating extreme Poverty and hunger, Gender Equality and Women Empowerment, Reducing child Mortality, Combating HIV- AIDS, Malaria and other deceases, Environmental Sustainability, Project of Social Business, Contribution to Prime Minister Relief Fund and other such state and central funds, Employment generation and skill development and other matters as may be prescribed. Apart from the enumerated activities, the government may prescribe any other activity which it thinks proper to be included within the ambit of CSR.

The new Act according to section 135 (5) mandates the companies to spend at least 02 % of their average net profits in the last three financial years on CSR projects. The Act also lists out the set of activities eligible under CSR as mentioned above. Companies may implement these activities taking into account the local needs after seeking the board's approval. The draft rules also provides the number of clarifications on various issues such as surplus arising out of CSR activities, methods for implementing CSR, geographical boundaries of CSR activities, exclusion of certain activity from CSR, format for Board's Report on CSR, reasons for spending 2 % on CSR etc.

Governance and Reporting:

Clause 135 of the new Companies Act also lays down the guidelines on the Governance and Reporting method of the company's CSR activities. The CSR committee will be responsible for preparing a detail plan on CSR activities including the expenditure, type of activities, role and responsibility of stakeholders, and monitoring mechanism of such activities. The committee can also ensure that all the kinds of income accrued to the company by CSR activities should be credited back to the community or CSR corpus. For reporting the CSR activities in the company's annual report, the Act requires that the board of the company, looking into recommendations of the CSR committee will approve the CSR policy

and disclose the contents in their report and should also publish the details on company's official website. If the company fails to spend the prescribed amount on CSR as per the new rules, in its reports the board shall specify the reasons for that in its annual report.

CSR Spending and Rural India:

India's new company Act 2013 has introduced several new provisions which change the face of Indian corporate business and overall development strategy and position in India. One of the new provisions in the Act is mandatory CSR, which rests on the ideology of to give and to take from the society. After sixty years of independence the rural India is facing various problems though we have completed a long era of planning. Extreme poverty and hunger, malnutrition, infant mortality, poor quality of public health, poor quality of public education, imbalanced sex-ratio, gender inequality, lack of power, degradation of environment, lack of skilled manpower and so poor quality of human resources, absence of personal and public hygiene, lack of safe and pure drinking water, seasonal employment opportunities and so large number of rural unemployed, absence of conservation of rural resources such as water, forestry and minerals, regional imbalance on various fronts and so on etc. are the major problems of rural India. These problems work as hurdle in the process of rural development. According to some academicians and researchers decreasing public investment in rural area especially in the period of globalization is one of the basic causes responsible for the rural problems to remain still there.

The increasing role of corporates i.e. private sector through mandatory CSR spending shows the change in strategy of Govt. or Public Sector about the overall domestic development process. Today India is the first country in the world making CSR mandatory by law. Govt. and regulators have responded to the National Voluntary Guidelines (NVGs) for social, environmental and economic responsibilities of business. Supportive to this the CSR clause within the Companies Act 2013 is introduced now. According to Indian Institute of Corporate Affairs (IICA) more than 6000 Indian companies will be required to undertake the CSR projects in order to comply with the provisions in the Act. Further some estimates also indicate that CSR commitments from companies in India can amount to more than 20,000 Crore, INR following at least 15-20% growth every year as per growth of business sector. Plus with higher economic growth and increase in company's profits, this mandatory spending will go up year by year. If only 50% amount of this huge spending by corporate is diverted to rural India, no doubt in coming ten years the face of Rural India will be defiantly changed. Considering CSR activities listed in schedule VII of the new Companies Act 2013, A big part of CSR spending will now automatically be diverted to rural areas, which will be

useful not only for upgrading rural infrastructure but also for improving the living standard of rural peoples.

Conclusion:

The president of India gave the assent to the company's bill 2013 on 29th August, 2013 and India became the first country in the world having mandatory CSR spending on various socio economic activities through statutory provisions. Supporting to clause 135, schedule VII of the new Act have put formal and greater responsibilities on companies to set out clear framework and process to ensure strict compliance. The Govt. of India has cleared recently that along with the activities listed in schedule VII of the new Act, companies can contribute to village adoption scheme, Swachh Bharat Mission, MNREGA, Jalyukt Shivar Campaign of Maharashtra Govt. and so on. The company Act 2013 and the CSR provisions within it suggest that communities must be the focal point and the CSR need to go beyond the concept of philanthropy. It will be interesting to observe how this will translate into action at the ground level and results useful for society at large.

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