

General Studies – 2 Topic: Government policies and interventions for development in various sectors and issues arising out of their design and implementation.

Unspent CSR Funds

1) Introduction

- Indian companies spend around ₹15,000 crore a year on Corporate social responsibility (CSR).
- The government through amendments in the Companies Act plan to appropriate unspent CSR amounts of companies.

2) The Present Law

- Corporate social responsibility (CSR) was initiated through the Companies Act, 2013.
- The law mandates that firms with a net worth of at least ₹500 crore or revenue of ₹1,000 crore or net profit of ₹5 crore should spend at least 2% of their net profit on CSR.
- Any failure in this regard should be explained in the annual financial statement.

3) Highlights of the Amendments

- With the amendment, any unspent amount in a financial year has to be transferred to a CSR account, to be spent within the next three financial years.
- The unspent money after three years could go to Prime Minister's National Relief Fund or any other fund set up by the Central government or the State governments for socio-economic development.
- Companies will also be penalised for slip-ups in spending this quota and the Centre can 'direct' them to spend it.

4) Arguments for the Amendments

- Amendments to CSR provisions would prevent CSR irregularities
- This would bring accountability to the CSR activities of businesses
- It will compel the company to spend on CSR.
- It could increase the CSR spend many fold
- It could make CSR activities more organised, responsive and professional.

5) Arguments against the Amendments

- A company's profits belong to its shareholders.
- There's no reason why a for-profit private enterprise should be expected to be good at executing social projects.
- Executing social projects is the remit of the elected government.
- CSR was brought in as a self-regulatory provision.
- Subjecting CSR obligations to a yearly quota and a short three-year deadline is counter-productive.
- Companies taking up genuine projects deserve time to thrash out the most cost-efficient mode of delivering social impact.
- Those that have no genuine intent merely use the annual quota for tokenism and diversion.
- The government already imposes heavily on India Inc by way of the highest corporate tax rate in the world
- The proportion of unspent CSR capital has been on the decline since a few years.

6) Importance of CSR

- Corporate social responsibility gives a chance to the organization to contribute towards the society, environment, country and so on.
- It goes a long way in creating a positive word of mouth and brand building for the organization on the whole.
- Research shows that a strong record of CSR improves customers' attitude towards the company.
- It also gives employees a feeling of unparalleled happiness.
- Companies that maximize their social responsibility potential foster innovative and creative employees.
- Employees are able to professionally and personally develop as a result of corporate social responsibility.
- If the company is engaged in CSR programs it attracts foreign investment and helps the country to get valuable foreign exchange.

7) Way Forward

- As large unspent amounts reported by companies, the Centre needs to introspect if it has imposed one too many arbitrary conditions.
- Revisiting some of the unnecessary rules of the Act may help in better compliance.
- **India Inc can render a far greater service to society by**
 - a. Being compliant with tax laws
 - b. Adhering to labour or environmental laws
 - c. Paying its MSME dues on time
 - d. Treating its lenders and shareholders fairly.
- The global wave towards Environmental, social and governance (ESG) investing is mounting pressure for companies to be more socially responsible; the government must do its best to encourage this trend in India.
- The existence of fraudulent organisations that channel CSR funds to promote fake projects should be checked.
- One way to enable companies to take-up CSR initiatives could be a nudge by conscious investors/shareholders where they insist that before investing in companies they want to see the interventions that companies are taking for communities and environment.