

F. No.15 (13)/2013-DPE (GM)
Government of India
Ministry of Heavy Industries & Public Enterprises
(Department of Public Enterprises)

Public Enterprises Bhawan
Block No. 14, C.G.O. Complex
Lodhi Road, New Delhi- 110 003
Dated the 21st October, 2014


OFFICE MEMORANDUM

Subject: Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises.

The undersigned is directed to enclose the "Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises". These guidelines will supersede the guidelines on Corporate Social Responsibility and Sustainability issued by DPE vide OM No. 15 (7)/2012-DPE (GM)-GL-104 dated the 12th April, 2013. The guidelines would supplement CSR Rules (under Companies Act, 2013) notified by Ministry of Corporate Affairs and are issued in consultation with them.

2. These guidelines have the approval of Minister (Heavy Industries & Public Enterprises) and are effective from 1.4.2014.
3. All the administrative Ministries / Departments are requested to bring these guidelines to the notice of CPSEs under their respective jurisdiction for necessary action.

Encl: as above


(Umesh Dongre)
Director
Telefax: 24363066

To,

Secretaries of all administrative Ministries/ Departments concerned with CPSEs.

Copy to: Chief Executives of all CPSEs.

**Guidelines
on
Corporate Social Responsibility
And
Sustainability
For
Central Public Sector Enterprises**

w.e.f. 01.04.2014

Department of Public Enterprises

1.0. Background

1.1. The Government of India enacted the Companies Act 2013 in August 2013. Section 135 of the Companies Act 2013 (hereinafter referred to as 'the Act') deals with the subject of Corporate Social Responsibility (CSR). It lays down the qualifying criteria based on net worth, turnover, and net profit for companies which are required to undertake CSR activities and, inter alia, specifies the broad modalities of selection, implementation and monitoring of the CSR activities by the Boards of Directors of companies. The activities which may be included by companies in their CSR policies are listed in Schedule VII of the Act. The provisions of Section 135 of the Act and Schedule VII of the Act apply to all companies, including CPSEs.

1.2. The Ministry of Corporate Affairs has formulated CSR Rules (hereinafter referred to as the 'CSR Rules'), under the provisions of the Act and issued the same on 27.2.2014. The CSR Rules are applicable to all companies, including CPSEs w.e.f. 1.4.2014.

1.3 All CPSEs shall have to comply with the provisions of the Act and the CSR Rules. Any amendment notified by the Ministry of Corporate Affairs in the CSR Rules, or in Schedule VII of the Act will also be binding on the CPSEs.

1.4 Prior to the notification of CSR Rules, DPE Guidelines on CSR and Sustainability issued in December 2012, were applicable to CPSEs w.e.f. 01.04.2013. In DPE guidelines, CSR and sustainable development were treated as complementary and, therefore, dealt with together. CSR was seen as an important constituent of the overarching framework of sustainability. The present guidelines of DPE are also intended to reinforce the complementarity of CSR and sustainability and to advise the CPSEs not to overlook the larger objective of sustainable development in the conduct of business and in pursuit of CSR agenda.

2.0. DPE Guidelines on CSR and Sustainability for CPSEs

2.1. The CSR provisions of the Act, Schedule VII of the Act, and the CSR Rules are inviolable. However, in addition to the CSR provisions of the Act and the CSR Rules, the Department of Public Enterprises (DPE) has formulated Guidelines on CSR and Sustainability (hereinafter referred to as 'the Guidelines') which are applicable to CPSEs. It is clarified that the Guidelines do not supersede or override any provision of the Act, or Schedule VII of the Act, or the CSR Rules, but will only supplement them. The Guidelines are in the nature of initiatives or endeavour which the key stakeholders expect of CPSEs in the discharge of their Corporate Social Responsibility. Any possible situation in which there may be a conflict between the CSR Rules and the Guidelines, is not envisaged. However, it is clarified that in case of any perceived conflict between the CSR Rules and the Guidelines, the former shall prevail in all circumstances.

2.2 The term Sustainability has been used in conjunction with CSR in the title of DPE Guidelines because CSR activities which are envisaged in the Act and in the CSR Rules can be supplemented with sustainability initiatives as both aim at achieving sustainable development goals. In the Guidelines the need for taking sustainability initiatives is emphasised in addition to the requirement of mandatory compliance with the CSR Rules. The Guidelines are aimed at providing an overarching framework of Sustainability within which CSR is firmly embedded. Therefore, CPSEs are advised to read the CSR Rules together with the Guidelines to clearly understand what is expected of them by the stakeholders.

2.3 The Act enjoins all companies to have a CSR policy, and the information which needs to be furnished in the CSR policy is specified in the CSR Rules. There is to be no deviation from the mandatory provisions of the Act and the CSR Rules in this regard. However, the CSR policy document of a CPSE should also include a vision and mission statement of how the CPSE proposes to comply with the Guidelines. The broad sustainability initiatives which a CPSE intends to undertake should also find mention therein. Since CSR and Sustainability issues are complementary in nature, and both are to be mentioned in the policy document, it is suggested that it may be referred to as 'CSR and Sustainability' policy. The change in nomenclature of the policy document and its information expanse would not in any way detract from the CPSE's commitment to CSR, or dilute its content. Rather, it would only indicate the willingness of the CPSE to voluntarily take a few extra steps to address social, economic and environmental concerns, which may be beyond the realm of CSR as envisaged in the Act and the CSR Rules, but are nevertheless worthy of attention for promotion of sustainable development in its diverse dimensions.

2.4 The following Guidelines applicable to all CPSEs are generally in the nature of guiding principles. The guidelines contain certain additional requirements as mentioned below:

i) It is mandatory for all profit making CPSEs to undertake CSR activities as per the provisions of the Act and the CSR Rules. Even the CPSEs which are not covered under the eligibility criteria based on threshold limits of net-worth, turnover, or net profit as specified by Section 135 (1) of the Act, but which made profit in the preceding year, would also be required to take up CSR activities as specified in the Act and the CSR Rules, and such CPSEs would be expected to spend at least 2% of the profit made in the preceding year on CSR activities.

ii) All CPSEs must adopt a CSR and Sustainability Policy specific to their company with the approval of the Board of Directors. **The philosophy and spirit of CSR and Sustainability must be firmly ingrained in the policy and it must be consistent with the CSR provisions of the Act, Schedule VII of the Act, CSR Rules, the Guidelines, and the policy directions issued by the Government from time to time.** The CSR and Sustainability policy of a CPSE should serve as the referral document for planning its CSR activities in accordance with Schedule VII of the Act and give a road map for formulation of actionable plans.

iii) If the CPSEs feel the necessity of taking up new CSR activities / projects during the course of a year, which are in addition to the CSR activities already incorporated in the CSR policy of the company, the Board's approval of such additional CSR activities would be treated as amendment to the policy.

iv) It would be mandatory for all CPSEs which meet the criteria as laid down in Section 135(1) of the Act, to spend at least 2% of the average net profits of the three immediately preceding financial years in pursuance of their CSR activities as stipulated in the Act and the CSR Rules. This stipulated percentage of average net profits is to be spent every year in a manner specified in the Act and CSR Rules. In case a company fails to spend such amount, it shall have to specify the reasons for not spending it. However, in case of CPSEs mere reporting and explaining the reasons for not spending this amount in a particular year would not suffice and the unspent CSR amount in a particular year would not lapse. It would instead be carried forward to the next year for utilisation for the purpose for which it was allocated.

v) While selecting CSR activities / projects from the activities listed in Schedule VII of the Act, CPSEs should give priority to the issues which are of foremost concern in the national development agenda, like safe drinking water for all, provision of toilets especially for girls, health and sanitation, education, etc. **The main focus of CSR and Sustainability policy of CPSEs should be on sustainable development and inclusive growth, and to address the basic needs of the deprived,**

under privileged, neglected and weaker sections of the society which comprise of SC, ST, OBCs, minorities, BPL families, old and aged, women / girl child, physically challenged, etc.

vi) For CPSEs to fully exploit their core competence and mobilize their resource capabilities in the implementation of CSR activities / projects, they are advised to align their CSR and Sustainability policy with their business policies and strategies to the extent possible, and select such CSR activities / projects which can be better monitored through in-house expertise.

vii) All CPSEs are expected to act in a socially, economically and environmentally sustainable manner at all times. Even in their normal business activities, public sector companies should try to promote sustainable development through sustainability initiatives by conducting business in a manner that is beneficial to both, business and society. They are advised not to lose sight of their social and environmental responsibility and commitment to sustainable development even in activities undertaken in pursuance of their normal course of business. National and global sustainability standards which promote ethical practices, transparency and accountability in business may be referred to as guiding frameworks to plan, implement, monitor and report sustainability initiatives. But the amount spent on sustainability initiatives in the pursuit of sustainable development while conducting normal business activities would not constitute a part of the CSR spend from 2% of profits as stipulated in the Act and the CSR Rules.

viii) As a part of their sustainability initiatives CPSEs are expected to give importance to environmental sustainability even in their normal mainstream activities by ensuring that their internal operations and processes promote renewable sources of energy, reduce / re-use / recycle waste material, replenish ground water supply, protect / conserve / restore the ecosystem, reduce carbon emissions and help in greening the supply chain. CPSEs are expected to behave in a responsible manner by producing goods and services which are safe and healthy for the consumers and the environment, resource efficient, consumer friendly, and environmentally sustainable throughout their life cycles i.e. from the stage of raw material extraction to production, use / consumption, and final disposal. However, such sustainability initiatives will not be considered as CSR activities as specified in the CSR Rules, and the expenditure incurred thereon would also not constitute a part of the CSR spend. Nevertheless, CPSEs are encouraged to take up such sustainability initiatives from their normal budgetary expenditure as it would demonstrate their commitment to sustainable development.

ix) Sustainability initiatives would also include steps taken by CPSEs to promote welfare of employees, especially women, physically challenged, SC / ST / OBC categories, by addressing their concerns of safety, security, professional enrichment and healthy working conditions beyond what is mandated by

law. However, expenditure on such sustainability initiatives would not qualify as CSR spend.

x) The philosophy and spirit of CSR and Sustainability should be understood and imbibed by the employees at all levels and get embedded in the core values of the company.

xi) CPSEs should extend their reach and oversight to the entire supply chain network to ensure that as far as possible suppliers, vendors, service providers, clients, and partners are also committed to the same principles and standards of corporate social responsibility and sustainability as the company itself. CPSEs are encouraged to initiate and implement measures aimed at 'greening' the supply chain.

xii) As mentioned in the Act, CPSEs should give preference to the 'local area' in selecting the location of their CSR activities. It is desirable that the Board of Directors of CPSEs define the scope of the 'local area' of their commercial units / plants / projects, keeping in view the nature of their commercial operations, the extent of the impact of their operations on society and environment, and the suggestions / demands of the key stakeholders, especially those who are directly impacted by the company's commercial operations / activities. The definition of 'local area' may form part of the CSR policy of the CPSE.

xiii) After giving due preference to the local area, CPSEs may also undertake CSR activities anywhere in the country. The Board of Directors of each CPSE may also decide on an indicative ratio of CSR spend between the local area and outside it, and this may be mentioned in the CSR policy of the CPSE. CPSEs, which by the very nature of their business have no specific geographical area of commercial operations, may take up CSR activities / projects at any location of their choice within the country.

xiv) As far as possible, CPSEs should take up the CSR activities in project, which entails planning the stages of execution in advance by fixing targets at different milestones, with pre-estimation of quantum of resources required within the allocated budget, and having a definite time span for achieving desired outcomes.

xv) CPSEs should devise a communication strategy for regular dialogue and consultation with key stakeholders to ascertain their views and suggestions regarding the CSR activities and sustainability initiatives undertaken by the company. However, the ultimate decision in the selection and implementation of CSR activities would be that of the Board of the CPSE.

xvi) As per the CSR Rules, all companies are required to include an annual report on CSR in their Board's Report. The template / format for reporting CSR activities as provided by CSR Rules should be strictly adhered to. However, CPSEs shall also have to include in the Board's Report a brief narrative on the action taken

for the implementation of the Guidelines so that the stakeholders are informed of not only the CSR activities but also of the sustainability initiatives taken by the CPSEs. CPSEs are further advised to prepare an Annual Sustainability Report, which would go a long way in imparting greater transparency and accountability to the company's operations, apart from improving the brand image.

xvii) It is desirable that CPSEs get a baseline/ need assessment survey done prior to the selection of any CSR activity. It is also desirable that CPSEs should get an impact assessment study done by external agencies of the CSR activities / projects undertaken by them. Impact assessment is mandatory for mega projects, the threshold value of which can be determined by the Board of a CPSE and specified in its CSR and Sustainability policy. However, the expenditure incurred on baseline survey and impact assessment study should be within the overall limit of 5% of administrative overheads of CSR spend as provided for under the CSR Rules.

xviii) Within the provisions of the Act, Schedule VII of the Act, and the CSR Rules, CPSEs are encouraged to take up CSR activities / projects in collaboration with other CPSEs for greater social, economic and environmental impact of their CSR activities / projects.

xix) CSR projects taken up by CPSEs in 2013-14 under DPE guidelines on CSR & Sustainability which were effective from 1st April 2013, may be continued till their completion. However, CPSEs to ensure that all new CSR activities / projects are in accordance with the CSR Rules.

xx) CPSEs which are statutory corporations should also comply with the provisions of the Act, CSR Rules and the Guidelines.

xxi) These guidelines will supersede the guidelines / circulars / instructions issued earlier by DPE on the subject of CSR and Sustainability.

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