

Corporate Social Responsibility

6.1 Introduction

Corporate Social Responsibility (CSR) is a company's commitment to operate in an economically, socially and environmentally sustainable manner, while recognising the interest of its stakeholders.

The Committee on Public Undertakings (COPU) in 1992 examined the issue relating to social obligation of Central Public Sector Enterprises (CPSEs) and observed that "being part of the 'State', every public sector enterprise (PSE) has a moral responsibility to play an active role in discharging the social obligations endowed on a welfare State, subject to the financial health of the enterprise". Based on the recommendation of the COPU, the Department of Public Enterprises (DPE) issued general guidelines in November 1994. These guidelines basically left it to the Board of Directors of the PSEs to devise socially responsible business practices in accordance with their Article of Association, under the general guidance of their respective Administrative Ministry/Department. DPE issued a new set of guidelines on CSR in April 2010 which required the business plan under CSR to be integrated with social and environment concerns related to respective CPSEs. The guidelines laid stress on the link of CSR with sustainable development and specified the mandate and scope of activities for CSR by the CPSEs. The guidelines are in the nature of a charter on activities, projects, expenditure, documentation and monitoring of CSR initiatives of CPSEs.

6.2 Salient features of DPE's guidelines on CSR effective from April 2013

DPE has revised its CSR guidelines which are effective from 1 April 2013. There is infusion of policy content in a large measure in the revised guidelines. Some of the important features of the guidelines are detailed below:

CPSEs are expected to formulate their policies with a balanced emphasis on all aspects of CSR and Sustainability - equally with regard to their internal operations, activities and processes, as well as in their response to externalities.

- CPSEs are to take up at least one major project for development of a backward district.
- CPSEs are expected to act in a socially responsible manner at all times. Even in their normal business activities, public sector companies should try to conduct business in a manner that is beneficial to both, business and society.
- The two tier structure comprising Board level committee and a group of officials headed by a senior executive of not less than one rank below the Board level –which the CPSEs are mandated to create, is expected to have the authority and influence to be able to steer the CSR and Sustainability agenda of the company.
- CPSEs will have to disclose the reasons for not fully utilising the budget allocated for CSR and Sustainability activities for a year.

- Emphasis is now placed on the scalability of CSR and Sustainability projects, in terms of their size and impact, rather than on their numbers.
- The revised guidelines allow the employees to avail the infrastructure facilities created by their company from its CSR and Sustainability budget, provided the facilities are originally created essentially for the external stakeholders, and the use of these facilities by the company's employees (internal stakeholders) is only incidental and confined to less than 25 per cent of the total number of beneficiaries.

6.3 Review of compliance by selected PSEs of the Corporate Social Responsibility and Sustainability provisions

As on 31 March 2014, there were 544 CPSEs under the audit jurisdiction of the Comptroller and Auditor General of India. These included 377 government companies, 161 deemed government companies and six statutory corporations.

The review covered 39 CPSEs of Energy Sector under the administrative control of Ministry of Power, Ministry of Coal, Ministry of Petroleum & Natural Gas, Ministry of Atomic Energy and Ministry of New and Renewable Energy Resources. For the purpose of the review, an assessment framework was prepared based on the provisions contained in the DPE guidelines of 12 April 2013. The assessment framework consisted specific questions on compliance by CPSEs of various provisions of these guidelines related to planning, Financial Component, Implementation & Monitoring, Impact Assessment etc.

The period of one year ended March, 2014 was covered in the review. The findings of the review are presented in the following paragraphs.

6.4 Planning

6.4.1 Para 1.4.1 of DPE guidelines on Corporate Social Responsibility (CSR) and Sustainability specify that all CPSEs must adopt a CSR and Sustainability policy and CSR communication strategy 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 of the company. The policy must be consistent with the guidelines on CSR and Sustainability enunciated by the DPE.

However it was observed that, the following CPSEs have not formulated a CSR and Sustainability policy so far.

Sl No	Name of the CPSE
1	NEEPCO
2	Central Mine Planning & Design Limited
3	REC Transmission Projects Company Limited
4	REC Power Distribution Company Limited
5	Bharatiya Nabhikhya Vidyut Nigam Limited
6	Nuclear Power Corporation of India Limited

6.4.2 According to Para 1.4.2 of DPE guidelines on CSR, each plan must specify the CSR and Sustainability activities planned to be undertaken for each year, define the responsibilities of the designated authorities to be engaged in this task, and also prescribe the measurable and the expected outcome and social / environmental impact of such activities. Contrary to the above, CSR Plans of following CPSEs did not prescribe measurable and the expected outcome and social, economic & environmental impact of such activities.

SI No	Name of the CPSE
1	NHDC Limited
2	Nuclear Power Corporation of India Limited

6.5 Financial Component

6.5.1 Para 1.5.1 of DPE guidelines states that, every year, each CPSE shall, with the approval of its Board of Directors, make a budgetary allocation for CSR and Sustainability activities / projects for the year based on the profitability of the company. More specifically, it will be determined by the Profit after Tax (PAT) of the company in the previous year as shown hereunder:

PAT of CPSE in the previous year	Range of Budgetary allocation for CSR and Sustainability activities (as % of PAT in previous year)
Less than ₹ 100 Crore	3% - 5%
₹ 100 Crore to ₹ 500 Crore	2% - 3%
₹ 500 Crore and above	1% - 2%

In the following companies, the budgetary allocation was less than the prescribed ranges:

SI No	Name of the CPSE	Shortfall (₹ In crore)
1	Bharatiya Nabhikhya Vidyut Nigam Limited	0.59
2	IREDA	2.83
3	Nuclear Power Corporation of India Limited	0.58
4	Uranium Corporation of India Limited	0.35
5	NHDC Limited	4.31

6.5.2 Para 1.5.5 and para 1.5.6 of DPE guidelines on CSR stipulate that, CPSEs will have to earmark five *per cent* of their annual budget for CSR and Sustainability activities to meet the emergency needs which would include relief work undertaken during natural calamities / disasters, and contributions towards Prime Minister's / Chief Minister's Relief Funds and/or to the National Disaster Management Authority. However, in the following companies, five *per cent* of annual CSR budget has not been earmarked for emergency needs.

SI No	Name of the CPSE
1	South Eastern Coal fields Limited
2	Central Mine Planning & Design Limited
3	ONGC
4	Engineers India Limited
5	Certification Engineers International Limited
6	Power system Operation Corporation Limited
7	REC Power Distribution Company Limited
8	Mahanadi Coalfields Limited
9	Uranium Corporation of India Limited
10	Nuclear Power Corporation of India Limited
11	Oil India Limited

6.6 Implementation and Monitoring

6.6.1 Para 1.6.13 to 1.6.16 of DPE guidelines on CSR stipulated that, implementation and monitoring of the CSR and sustainability activities should be overseen by constituting the two-

tier organisational structure within the organisation in the form of a Board level committee headed by the Chairman / Managing Director / Independent Director and the below Board level team constituting a group of officials headed by a senior executive of not less than one rank below the Board level.

In the following companies, there is no two tier organisational structure to steer the CSR agenda as mandated by DPE guidelines.

SI No	Name of the CPSE
1	GAIL Gas Limited
2	Bharatiya Nabhikiya Vidyut Nigam Limited

Further it was observed that, in the following CPSEs Board level CSR committee had not yet constituted.

SI No	Name of the CPSE
1	GAIL Gas Limited
2	NTPC Electricity Supply Company

In the following companies, there are no Independent Directors on the Board of CSR committee.

SI No	Name of the CPSE
1	Balmer Lawrie & Co Limited
2	REC Power Distribution Company Limited
3	Neyveli Lignite Corporation

6.6.2 Para 1.6.11 of DPE guidelines stipulated that monitoring of CSR and Sustainability activities should be done periodically with the help of identified key performance indicators. It was observed that, in the following companies, monitoring of CSR project is not done periodically with the help of key performance indicators:

SI No	Name of the CPSE
1	Western Coalfields Limited
2	Mahanadi Coalfields Limited
3	REC Power Distribution Company Limited

6.6.3 As per Para 1.6.7of DPE guidelines, where the planned CSR and Sustainability activity is closely aligned with the business strategy and the company possesses core competence to do it, a Public Sector company may take up the implementation of CSR activity with its manpower and resources if it feels confident of its organisational capability to execute such projects. In such a case, it is advisable that monitoring is done by an external agency even though the staff of the CPSE may be associated with it. In any case, evaluation must always be assigned to an independent external agency for the sake of objectivity and transparency.

In the following companies, CSR projects which are implemented in-house by the Company, are not subject to monitoring and final evaluation has not been assigned to independent external agency.

SI No	Name of the CPSE
1	Central Mine Planning & Design Limited
2	REC Power Distribution Company Limited
3	Nuclear Power Corporation of India Limited
4	Indian Rare Earths Limited
5	South Eastern Coalfields Limited
6	Mahanadi Coalfields Limited
7	Certification Engineers International Limited

6.6.4 As per Para 1.6.12 of DPE guidelines, monitoring is crucial to the success of the projects being implemented by external agencies. Hence it must be performed by the CPSEs through their team of officials specifically designated for this task. The external agency, if any, engaged for implementing a project should not be considered for the task of monitoring and evaluation because of the likely conflict of interest involved in the assignment.

However, in respect of REC Power Distribution Company Limited, CSR projects though are being implemented through external agencies, monitoring is not performed by the staff of the CPSE.

6.7 Impact Assessment

The ultimate test of the success of any CSR and Sustainability activity / project is the social, economic or environmental impact thereof. Every such activity is planned and implemented with some anticipated impact on society or environment. In this backdrop, Para 1.8 of DPE guidelines on CSR stipulates that, the completed activity / project should be measured to ascertain the degree of its success, or failure.

It was observed that the following companies did not carry out studies to assess impact of completed CSR project/activities.

SI No	Name of the CPSE
1	Mahanadi Coal fields Limited
2	NHPC Limited
3	REC Power Distribution Company Limited
4	Nuclear Power Corporation of India Limited
5	South Eastern Coal fields Limited
6	Central Coalfields Limited

6.8 New Companies Act, 2013 and CSR guidelines of DPE with effect from 1 April 2014

The Government of India enacted the Companies Act, 2013 in August 2013. Section 135 of the Companies Act, 2013 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 Board of Directors of CPSEs. The activities which may be included by CPSEs 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.

The Ministry of Corporate Affairs has formulated CSR Rules under the provisions of the Act and issued the same on 27 February 2014. The CSR Rules are applicable to all companies, including CPSEs w.e.f. 1 April 2014. In addition to the CSR provisions of the Act and the CSR Rules, the 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.

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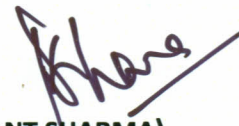


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Dated : 22 APR 2015



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