Syllabus subtopic: Government Policies and Interventions for Development in various sectors and Issues arising out of their Design and Implementation.

Prelims and Mains focus: about the amendments and their significance; about CSR

News: The Union Cabinet approved the proposal to amend 65 sections of the Companies Act.

Background

The amendments are based on the recommendations of a high-level panel set up in September 2019. If passed by Parliament, these would be the second set of amendments to the Act over the last year, as the law was already amended last July 2019.

Objective of the amendment:

- To decriminalise a number of offences: recategorise 23 offences so that they can be dealt with through an in-house adjudication framework, while five types of offences will be dealt with under different alternative frameworks. Another seven will be omitted altogether. Most of these are procedural or technical defaults that lack the element of fraud or do not affect larger public interest. For 11 kinds of offences, the provision of imprisonment will be removed, limiting punishment to fines only. Six offences that had already been decriminalised earlier will see a further reduction in the quantum of penalties.

- Enable the listing of Indian companies on stock exchanges in foreign jurisdictions. This is expected to give Indian firms greater access to capital, a broader investor base and better valuations.

- Ease corporate social responsibility (CSR) requirements, especially for smaller companies: ensure that companies which have an obligation to spend Rs.50 lakh per annum or less on Corporate Social Responsibility
(CSR) are no longer required to have a CSR committee. Companies that spend more than the mandatory 2% on CSR in a particular year can carry it forward as credit for fulfilment of CSR obligations for the next few years as well.

**Significance of the amendments**

The changes are expected to significantly enhance the confidence of Indian corporates in the government’s resolve to provide greater ease of doing business and accord highest respect to honest wealth creators in the country and reduce the burden on the justice system.

**What is Corporate Social Responsibility (CSR)?**

- Corporate social responsibility (CSR) is a self-regulating business model that helps a company be socially accountable—to itself, its stakeholders, and the public. By practicing corporate social responsibility, also called corporate citizenship, companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social, and environmental.

- To engage in CSR means that, in the ordinary course of business, a company is operating in ways that enhance society and the environment, instead of contributing negatively to them.

**Corporate Social Responsibility in India**

- India is the first country in the world to make corporate social responsibility (CSR) mandatory, following an amendment to the Companies Act, 2013 in April 2014. Businesses can invest their profits in areas such as education, poverty, gender equality, and hunger as part of any CSR compliance.

- The amendment notified in the Companies Act, 2013 requires companies with a net worth of INR 500 crore (US $70 million) or more, or an annual turnover of INR 1000 crore (US $140 million) or more, or net profit of INR 5 crore (US $699,125) or more, to spend 2 percent of their average net profits
Prior to that, the CSR clause was voluntary for companies, though it was mandatory to disclose their CSR spending to shareholders.

The methodology of CSR

CSR is the procedure for assessing an organization’s impact on society and evaluating their responsibilities. It begins with an assessment of the following aspects of each business:

1. Customers;
2. Suppliers;
3. Environment;
4. Communities; and,
5. Employees.

- The most effective CSR plans ensure that while organizations comply with legislation, their investments also respect the growth and development of marginalized communities and the environment. CSR should also be sustainable – involving activities that an organization can uphold without negatively affecting their business goals.

- Organizations in India have been quite sensible in taking up CSR initiatives and integrating them into their business processes.

- It has become progressively projected in the Indian corporate setting because organizations have recognized that besides growing their businesses, it is also important to shape responsible and supportable relationships with the community at large.

- Companies now have specific departments and teams that develop specific policies, strategies, and goals for their CSR programs and set separate budgets to support them.

- Most of the time, these programs are based on well-defined social beliefs or are carefully aligned with the companies’ business domain.