

**31. DPE/Guidelines/XII/31**

**New 'Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises'**

The undersigned is directed to enclose the new "Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises". These guidelines will supersede the guidelines/circulars/instructions etc. on the subject, that have been issued by Department of Public Enterprises (DPE) on any prior date, including the guidelines on Corporate Social Responsibility issued by DPE vide OM No. 15(3)/2007-DPE (GM)-GL-99 dated 9.4.2010 and Guidelines on Sustainable Development for CPSEs issued by DPE vide OM No. 3(9)/2010-DPE (MoU) dated 23.9.2011.

2. These guidelines issue with the approval of Minister (Heavy Industries & Public Enterprises) and have come into effect from 1.4.2013.

3. All the administrative Ministries/Departments are requested to bring these guidelines to the notice of CPSEs under their respective control for necessary action.

**( DPE OM No. 15 (7)/2012-DPE (GM)-GL-104 Dated the 12<sup>th</sup> April, 2013 )**

**Guidelines  
on  
Corporate Social Responsibility  
and  
Sustainability  
for  
Central Public Sector Enterprises**

(These shall come into effect on 1<sup>st</sup> April 2013)

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# Chapter I

## 1.1 Preamble

**1.1.1** In the context of public sector enterprises Corporate Social Responsibility (CSR) should be viewed as a way of conducting business, which enables the creation and distribution of wealth for the betterment of its stakeholders, through the implementation and integration of ethical systems and sustainable management practices.

**1.1.2** CSR is the process by which managers of an organization think about and evolve their relationships with stakeholders for the common good, and demonstrate their commitment in this regard by adoption of appropriate business processes and strategies.

**1.1.3** CSR does not emanate directly from external demands but instead from organizationally embedded processes. These processes prompt the organization to view its relationships with stakeholders in a different perspective, which in turn influences its engagement with them.

## **1.2 Executive Summary**

**1.2.1** There is infusion of policy content in a large measure in the revised guidelines. The expectations of the key stakeholders, including the Government, expressed in general and specific terms in this Chapter, constitute the 'Policy statement' on CSR and Sustainability. The earlier guidelines focussed mainly on CSR activities for external stakeholders i.e. how social causes and environmental concerns could be addressed through CSR projects funded by an earmarked budget for this purpose. Whereas, in the revised guidelines, CSR and Sustainability agenda is perceived to be equally applicable to internal stakeholders (particularly, the employees of a company), and a company's corporate social responsibility is expected to cover even its routine business operations and activities. Accordingly, under the revised guidelines, 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.

**1.2.2** Corporate Social Responsibility and Sustainable Development were treated as two separate subjects and consequently, dealt with separately for the purpose of MoU evaluation in the earlier guidelines. This reportedly posed practical difficulties for CPSEs in deciding in which category to report their sustainability initiatives, with both the departments in the organisation making competing claims for credit for such work. Dealing with the two concepts separately does not make practical sense from the business standpoint because of their close linkage. Hence, in line with the international practice, in the revised guidelines CSR and Sustainable Development have been clubbed together in one set of guidelines for CSR and Sustainability. For the purpose of MoU evaluation, the performance of the CPSEs would be judged on the basis of the revised guidelines.

**1.2.3** In the revised guidelines, the thrust of CSR and Sustainability is clearly on capacity building, empowerment of communities, inclusive socio-economic growth, environment protection, promotion of green and energy efficient technologies, development of backward regions, and upliftment of the marginalised

and under-privileged sections of the society. Making it mandatory in the revised guidelines for CPSEs to take up at least one major project for development of a backward district has the potential of contributing significantly in the long run to socio-economic growth in all the backward regions of the country.

**1.2.4** The revised guidelines give a clear, unequivocal message that 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. They are advised not to lose sight of their social responsibility and commitment to sustainable development even in their normal business activities. Rather, they are prompted to use social responsibility and sustainability initiatives for business gains as well as social value creation through adoption of “shared value” approach, wherever possible in their routine business operations.

**1.2.5** The revised guidelines emphatically underscore the need for the top management of the public enterprises to be passionately involved in carrying forward the agenda of corporate social responsibility and sustainability. Experience testifies that the delegation of the task of planning and implementation of activities under this policy to some officials in the company is not of much help. If the philosophy of CSR and Sustainability is to be ingrained in the DNA of the organization, and be reflected in the organizational culture and involve all employees engaged in diverse business operations and activities, it is imperative that the top management leads from the front in bringing about the required attitudinal and processual transformation. They have to demonstrate their belief in the change in order to bring about the desired change. This message is conveyed very clearly in the revised guidelines. The two-tier structure, comprising of a Board level committee headed by either the Chairman and / or Managing Director, or an Independent Director, 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.

**1.2.6** In the revised guidelines, the utility of a baseline survey in any need assessment study before taking up a CSR and Sustainability project is recognised, but keeping in view the vocal protests of several CPSEs against making it a mandatory provision, baseline survey is not insisted upon in every case. The CPSEs have been granted the flexibility to opt for other methods, including use of their own in-house expertise and resources for need assessment studies. The only requirement insisted upon in the revised guidelines is that the CPSEs should submit credible evidence of having made a fairly accurate assessment of the needs of the stakeholders likely to be benefitted from their CSR and Sustainability activity, which would also help in making a fair estimation of the social / environmental impact after the conclusion of the activity.

**1.2.7** As in the previous guidelines, there is provision in the revised guidelines that the unutilised budget for CSR activities planned for a year will not lapse and will, instead, be carried forward to the next year. However, in order to ensure that the CPSEs take their corporate social responsibility seriously, some new provisions have been incorporated in the revised guidelines. Henceforth, CPSEs will have to disclose the reasons for not fully utilising the budget allocated for CSR and Sustainability activities planned for each year. Besides, the unspent amount of the budget allocated for CSR and Sustainability activities for a year will have to be spent within the next two financial years, failing which, it would be transferred to a 'Sustainability Fund' to be created separately for CSR and Sustainability activities.

**1.2.8** In the previous guidelines, regardless of their size and profitability each CPSE was required to submit details of 10 projects for evaluation under MoU – 5 each for CSR and Sustainable Development, respectively. In the revised guidelines, emphasis is placed on the scalability of the projects, in terms of their size and impact, rather than on their numbers. Therefore, in the revised guidelines, CPSEs are required to submit details of only 2 projects for scrutiny for the purpose of annual MoU evaluation. Only the Maharatna companies which have larger resources for CSR & Sustainability activities will have to submit details of one additional project for evaluation. It is expected that with a reduced number of projects CPSEs will be able to spare sufficient resources for each project to ensure its viability, visibility and

noticeable impact. Besides, fewer projects would be easier to implement and monitor.

**1.2.9** In line with the same reasoning as mentioned in para above, regarding the scalability of projects, public sector enterprises are exhorted in the revised guidelines to join hands with other public sector companies for planning, implementing & monitoring mega projects for optimal use of resources and synergy of expertise and capabilities for maximum socio-economic or environmental impact.

**1.2.10** In a radical departure from the previous guidelines which prohibited employees from being the direct beneficiaries of the CSR policies and activities of their parent company, 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% of the total number of beneficiaries. This provision has been introduced to resolve the problem of several CPSEs who find themselves stuck in situations where the expenditure incurred on the construction and maintenance of their infrastructure facilities is not being treated as CSR endeavour, simply because a few of their employees also happen to be availing such facilities.

**1.2.11** Some changes have been made in the financial component of CSR and Sustainability agenda. One, there is no separate allocation of budget for sustainable development, as was mandated earlier. Two, the slab of budgetary expenditure on CSR and Sustainability activities for the CPSEs having PAT over Rs.500 crore in the previous year, would now be from 1% - 2%. This is only a marginal change because, in any case, CPSEs are now advised to maximise their expenditure on CSR activities and move towards the higher end of their respective slabs of budget allocation for this purpose. Third, in the earlier guidelines there was a provision of a minimum expenditure of Rs.3 crores on CSR activities for CPSEs having a net profit of Rs. 100 – 500 crores. This created an anomalous situation vis-à-vis the CPSEs placed in the higher slab, having a net profit of over Rs.500 crore,



for which no minimum expenditure was specified in the earlier guidelines. The requirement of a minimum expenditure of Rs.3 crore has been removed in the revised guidelines. However, these CSR guidelines and especially the suggested slabs of budgetary allocation for CSR and Sustainability activities would stand modified as and when the new Company Law brings in provisions in this regard, which would need to be followed by all companies including the CPSEs.

## **1.3 General**

**1.3.1 Corporate Social Responsibility and Sustainability is a company's commitment to its stakeholders to conduct business in an economically, socially and environmentally sustainable manner that is transparent and ethical.** Stakeholders include employees, investors, shareholders, customers, business partners, clients, civil society groups, Government and non-government organisations, local communities, environment and society at large.

**1.3.2** Corporate Social Responsibility and Sustainability is essentially a way of conducting business responsibly. 'Corporate responsibility' is integral to corporate social responsibility. Implicit in this premise that business should be conducted responsibly, are several expectations from corporate enterprises.

**1.3.3** Corporate enterprises are expected to conduct their business operations and activities in a socially responsible and sustainable manner at all times. Even routine business activities not funded from the CSR and Sustainability budget, should aim at creating new business opportunities and developing new products and services that are affordable for the consumers, profitable for the companies, and help in contributing to socio-economic development and environment protection.

**1.3.4** Public Sector enterprises are required to have a CSR and Sustainability policy approved by their respective Boards of Directors. The CSR and Sustainability activities undertaken by them under such a policy should also have the approval / ratification of their Boards. Even if the Board of a company were to delegate the authority to approve the CSR and Sustainability activities to the Board level committee, as mentioned in para 1.3.9, ultimately the ratification of such activities by the Board of Directors would be required. However, CPSEs should frame their CSR and Sustainability policies and plan their activities in this regard within the framework of DPE's guidelines on this subject. Within the ambit of these guidelines, it is the discretion of the Board of Directors of CPSEs to decide on the CSR and Sustainability activities to be undertaken.

**1.3.5** CPSEs should integrate and align their CSR and Sustainability policies and activities with their business goals, plans and strategies.

**1.3.6** CPSEs are expected to adhere to the global standards in this regard and keep in mind the UN Global Compact and the UN Millennium Development Goals.

**1.3.7** Mandatory compliance with legal requirements / rules / regulations / laws in letter and in spirit will be covered under CSR and Sustainability activity. However, expenditure on such activities would not be covered by CSR's financial component and would be considered as mainstream business spend.

**1.3.8** The philosophy and spirit of corporate social responsibility and sustainability should get embedded in the core values of all the CPSEs, be imbibed by the employees at all levels and it should permeate into all the activities, processes, operations and transactions of the enterprise. For this, the personal involvement, drive, passion and zeal of the top management, including the CEO of the public enterprise is essential to spread the message of CSR and Sustainability within the organisation and to ensure the committed involvement of all employees in carrying forward the agenda of CSR and Sustainability.

**1.3.9** Each CPSE shall have a Board level committee headed by either the Chairman and / or Managing Director, or an Independent Director to oversee the implementation of the CSR and Sustainability policies of the Company and to assist the Board of Directors to formulate suitable policies and strategies to take the CSR and Sustainability agenda of the company forward in the desired direction.

**1.3.10** To facilitate co-ordination of CSR and Sustainability initiatives of different departments within the organisation, to report on their separate endeavours, to issue policy directives on the subject, and to devise an appropriate corporate communication strategy in this regard, it is expected that the public sector enterprises will appoint a fairly senior officer not less than one rank lower to the Board level to function as the nodal officer. The designated nodal officer is expected

to have a team of officials to assist him / her in co-ordination work, which will in no way detract from the importance of CSR and Sustainability work in which all the supervisory staff in all departments would be continuously engaged in. The composition of the team of officials constituted to assist the nodal officer is to be decided by the Board of Directors, or the Board level committee. The designated nodal officer will regularly submit reports regarding the progress in the implementation of CSR and Sustainability activities to the Board level committee.

**1.3.11** The Board level committee and the designated nodal officer's team of officers together will constitute the two-tier organisational structure to steer the CSR & Sustainability agenda of the company.

**1.3.12** Public sector enterprises are expected to have knowledge about their important stakeholders, and be aware of their expectations of how business should be conducted. They should devise mechanisms for regular dialogue and consultation with key stakeholders, especially to ascertain their views and priorities regarding the selection and implementation of CSR and Sustainability activities. Though, the ultimate discretion in the selection and implementation of CSR and Sustainability activities is that of the Board of Directors of a company who take the decision in the best interest of the organisation, keeping in view the organisational capability, resource capacity and core competence of the enterprise.

**1.3.13** CSR and Sustainability policies should address social, economic and environmental concerns and in the selection of activities the focus should be on the social, economic and environmental impact thereof, rather than mere output or outcomes. Activities which are ad hoc and philanthropic in nature should be avoided. In fact, impact assessment of CSR and Sustainability initiatives may get greater weightage in performance (MoU) evaluation after completion of the project / activities, than mere certification of having utilized the earmarked budget, or even rigid adherence to timelines. CPSEs are encouraged to join hands and pool their resources and capabilities to create synergy for undertaking joint ventures for projects which have scalability and greater social impact that can trigger socio-economic development through ripple effects.

**1.3.14** CPSEs should refrain from taking up activities which are clearly mandated to be performed by the Government and / or for which Central / State Government's schemes have been sanctioned, as it could result in unnecessary duplication. However, the CPSEs can supplement the efforts of the Government in crossing the 'last mile' for achieving the targets / goals, if it is accurately assessed that the resource gap and inadequate capacities are critical constraints in achieving the targets / goals of a particular government scheme / initiative / welfare project. Here also, duplication in allocation of funds must be strictly avoided.

**1.3.15** Ethical conduct of business lies at the core of responsible business. To promote organisational integrity it is essential that premium is placed on individual probity of employees; transparency in all activities, dealings and transactions is encouraged; unethical, corrupt and anti-competition practices are discouraged; temptation of quick returns and marginal gains in business through questionable means is resisted; and, positions and situations that give rise to possible conflict of interest are avoided. The corporate enterprises are expected to subject their performance to scrutiny and audit by external agencies. As a part of their corporate social responsibility they should resort to public disclosure of all information for the benefit of all stakeholders. The companies should disclose their CSR and Sustainability initiatives on their official websites. A brief summary of CSR & Sustainability activities should also be included in their Annual Report.

**1.3.16** Public sector enterprises, especially those having global operations and dealings are encouraged to adopt global standards as these are increasingly becoming a requirement for testifying credentials of companies having global presence, and standardised reporting and systematised documentation makes comparison of performance easier. Such companies are also advised to practice CSR and Sustainability policies as applicable to the conditions prevailing in the host countries where they carry out their business operations.

**1.3.17** In their concern for social and environment sustainability, corporate enterprises professing to behave responsibly, are expected to produce goods and

services that are safe and healthy for the consumers and the environment, with reduced cost to the company in the long run. They are expected to effectively use the services of their R&D departments in leveraging technology for production of goods and services which are resource efficient, consumer friendly and environmentally sustainable throughout their life cycles. Educating the consumers and spreading awareness about the handling, usage and advantages of the eco-friendly products and influencing consumer preference for such products is what is expected of responsible business.

**1.3.18** In brief, it is generally expected that socially responsible public sector enterprises would take initiatives to:

- i) promote organisational integrity and ethical business practices through transparency in disclosure and reporting procedures,
- ii) leverage green technologies, processes and standards to produce goods and services that contribute to social and environment sustainability,
- iii) contribute to inclusive growth and equitable development in society through capacity building measures, empowerment of the marginalised and underprivileged sections / communities.
- iv) promote welfare of employees and labour (casual or contractual), by addressing their concerns of safety, security, professional enrichment and healthy working conditions, whether mandated or otherwise. However, expenditure on mandated activities cannot qualify for CSR's financial components.

Central Public Sector Enterprises should formulate policies which meet the expectations of the stakeholders, within their organisational resource capability.

**1.3.19** More specific guidelines are mentioned in other parts of this Chapter.

## **1.4 Planning**

**1.4.1** As a first step, all CPSEs must adopt a Corporate Social Responsibility and Sustainability policy and CSR communication strategy specific to their company with the approval of the Board of Directors. The philosophy and spirit of corporate social responsibility and sustainability must be firmly ingrained in the policy of the company. The policy must be consistent with the guidelines on corporate social responsibility and sustainability enunciated by the Department of Public Enterprises, and the policy directions on the subject issued by the Government from time-to-time. The generic principles contained in the UN Global Compact and other international instruments / charters accepted universally, and the recent trends and acclaimed best practices in the field also serve as useful guide to a company in formulating its policy in this regard. The policy document should not read as a mere statement of good intentions, but serve as a roadmap for formulation of actionable plans. Since the policy is company specific, it should factor in the organisational capabilities and resource capacity of the company for the achievement of goals / targets that it sets for itself. The policy formulated by the CPSE should serve as the referral document for planning and selection of its CSR and Sustainability activities, though, whenever in doubt, cross reference to DPE's guidelines on the subject is advised to avoid any inconsistency with the latter. Whenever any amendments are made in DPE guidelines on the subject, the same should be duly incorporated in the company's policy document on the subject. Communication is critical to keep all the stakeholders well informed, especially the employees so as to ensure that not only all the business processes are in tune with the globally accepted ethical systems and sustainable management practices, but also their engagement with external stakeholders is based on these values.

**1.4.2** As a thumb rule, CPSEs should integrate their CSR and Sustainability plans and strategy with their business plans and strategies. For easy implementation, long-term CSR and Sustainability plans should be broken down into medium-term and short-term plans. 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.

**1.4.3** CPSEs are encouraged to take up long gestation, high impact projects from the budget allocated for CSR and Sustainability activities. The period of implementation of these long term projects can extend over several years depending upon the expected outcomes / impact thereof. While planning for such long term projects CPSEs are advised to calculate the estimated total cost of each project and commit that amount for long term expenditure till the completion of the project. However, each long term project would be required to be broken up into annual targets and activities to be implemented sequentially on a yearly basis, and the budget would have to be allocated for the implementation of these activities and achievement of targets set for each successive year, till the final completion of the project. The performance of the CPSEs would be adjudged on the basis of their achievement of annual targets and the utilization of their annual budgets for the activities planned and the targets set for each year.

**1.4.4** From amongst the beneficiaries of CSR and Sustainability spend (Financial component) of a company, the stakeholders directly impacted by its operations and activities can rightfully stake a claim for attention before others. Such stakeholders are generally located in the periphery of commercial operations of a company. The corporate social responsibility of a company towards these stakeholders extends beyond its legal obligation to compensate for, and ameliorate the impact of its commercial activities. For this reason, CPSEs must accord priority to these stakeholders and undertake CSR and Sustainability projects in the periphery of its commercial operations on priority.

**1.4.5** Locating the CSR and Sustainability projects near its commercial / production units provides an opportunity to the companies to connect with the people, environment and other stakeholders closely impacted by its commercial operations. Besides, it makes it easier for the company to mobilize resources required for the execution of CSR and Sustainability projects. Moreover, it offers the



advantage of exercising regular oversight from close quarters over the progress in the implementation of planned activities.

**1.4.6** However, the companies may locate their CSR and Sustainability projects in any backward area (BRGF) of the country. Also, some companies by the very nature of their business have no specific geographical area of commercial operations, like companies in the financial and consultancy services. Such companies can take up CSR and Sustainability projects at any location of their choice within the country, including the backward regions.

**1.4.7** A decision first on the location / site of a CSR and Sustainability project may sometimes restrict the choice of a company in the range and type of activities that it may be desirous of undertaking in that area. Therefore, rather than have a preference for location influence the choice of CSR and Sustainability activity, it may be advisable at times to let the choice of activity, which a company is desirous of undertaking, based on its resource capability, determine the most suitable location of the CSR and Sustainability activity / project. But, it is reiterated that while exercising preference for a particular location, the public sector companies will not ignore the interest of the stakeholders who are directly impacted by their commercial activities.

**1.4.8** In the selection or choice of CSR and Sustainability projects, companies should avoid taking up ad hoc, one time, philanthropic activity, which does not contribute in any way to social value creation, environment protection or sustainable development. Mere contributions to philanthropic, charitable or other organisations would not be considered a valid CSR activity. The only exception being contributions made for natural calamities / disasters and for meeting the emergency needs of employees of sick and loss making CPSEs in distress, not provided for under existing pay revision / wage settlement arrangements as explained in para 1.5.5.

**1.4.9** Although CPSEs may select their CSR and Sustainability projects from a vast range of available options, priority should be accorded to activities pertaining to: i) inclusive growth of society, with special attention to the development of weaker

sections of society and the backward districts of the country, and ii) environment sustainability. Hence, it will be mandatory for all CPSEs to select one project in each of the two categories of CSR and Sustainability activities mentioned above.

**1.4.10** In the first category of activities mentioned in the para above, CSR and Sustainability initiatives should focus on capacity building, skill development and infrastructural development for the benefit of the marginalised and under privileged sections of the local communities and also in the backward regions so that avenues are created for their employment and income generation, and they also experience empowerment and inclusion in the economic mainstream. The backward districts referred to here are those which have been identified by the Planning Commission, Government of India for its Backward Region Grant Fund (BRGF) Scheme. Each CPSE will have to select one such backward district for initiating CSR and Sustainability projects with a-prior assessment of the expected level of beneficial impact on the largest number of stakeholders from the budget and other resources at its disposal for such a project. Weaker sections would include SC, ST, OBC, minorities, women and children, BPL families, old and aged, physically challenged, etc.

**1.4.11** In the second category of activities mentioned in para 1.4.9 above, CPSEs will have to plan for environmental sustainability and take up projects for water, waste or energy management, promotion of renewable sources of energy, biodiversity conservation, etc. Projects for reduction, re-use and recycle of waste materials, rain-water harvesting and replenishing the ground water supply, protection, conservation and restoration of eco-system, reduction of carbon emissions through energy efficient and renewable energy technologies, greening the supply chain, and innovation in products and services which have a clear and tangible impact on environmental sustainability fall under this category of activities.

**1.4.12** Besides the mandatory projects specified in para 1.4.9 above, CPSEs have to take up other projects / activities also to fully utilize their annual budget for CSR and Sustainability. Documentary and other record of the progress made or success achieved in implementing these projects / activities should also be

meticulously maintained for the purpose of audit, and for Sustainability reporting and disclosure to all stakeholders.

**1.4.13** Stakeholder engagement is a continuous process, but is of crucial importance at the stage of planning and selection of CSR and Sustainability projects. All companies should have a consultative mechanism to get feedback on the expectations of the key stakeholders. Central / State Government and/or District / local administration should be consulted to obtain their views on area specific needs or the priorities of the intended beneficiaries of the CSR projects planned for the areas under the jurisdiction of these authorities. Gram Sabhas and Panchayati Raj institutions at the village level are important and reliable sources for assessing the social, economic and environmental needs in rural areas. Therefore, as far as possible they should be consulted in planning for CSR and Sustainable projects.

**1.4.14** Preservation and promotion of heritage, art, music and culture in keeping with Indian tradition will form a valid CSR activity and therefore planning process should, keeping in mind the local needs, incorporate these aspects suitably.

**1.4.15** Public Sector enterprises have so far shown a clear preference for going it alone in selection and implementation of CSR and Sustainability projects. As a result, barring those in the big league i.e. the Maharatna and Navaratna companies, the others end up spreading their meagre budgets thinly over several CSR and Sustainability projects, which have at best, only a marginal and transient social / economic / environmental impact. Public Sector companies should, therefore, try to pool their resources and take up projects which have greater visibility, more number of beneficiaries, and wider and long lasting visible impact.

**1.4.16** Reputed and recognised, not-for-profit institutions which have the expertise and professional competence for conducting training, skill development and other capacity building activities that promote inclusive growth and sustainable development and help in realisation of UN Millennium Development Goals through sectoral or regional co-operation can be supported by CPSEs through CSR and Sustainability initiatives.

**1.4.17** Ultimately, a decision regarding the selection of a CSR and Sustainability activity and the site of its location, and the budgetary and other resource allocation for its implementation, is the sole discretion of the Board of Directors of a CPSE. It is for the management and the Board of Directors to take into consideration the resource capabilities of the public enterprise, the expectations of the key stakeholders, the expected social, economic and environmental impact of the planned initiative, and then take a carefully calibrated decision with regard to the choice of CSR and Sustainability project and its location.

**1.4.18** Before taking any final decision on the selection of any CSR and Sustainability project, CPSEs should get an exercise / study done to assess the needs of the intended beneficiaries for a realistic assessment of the resource inputs required for the expected level of social / economic / environmental impact through the implementation of the activity / project. The data / information collected through this exercise / study before the commencement of the project generally proves useful in impact assessment after the completion of the project. Although baseline surveys are generally considered to be very useful scientific tools for a fairly exact measurement of such needs, baseline surveys will not be insisted upon in all cases, provided CPSEs submit credible documentary evidence of having got the need assessment study done through their own resources, or through some specialised agency, or having accessed reliable data in this regard from recognised authoritative secondary sources.

## 1.5 Financial Component

**1.5.1** 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. The budgetary allocation will be 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 here under:

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

For all CPSEs having PAT above Rs. 500 Crores in the previous year, the range of budgetary allocation for CSR and Sustainability activities has been raised to 1%-2%. All CPSEs shall strive to maximize their spending on CSR and Sustainability activities and move towards the higher end of their slabs of budgetary allocation.

**1.5.2** Sick or loss making companies or those having a negative Net Worth are not mandated to earmark specific funds for CSR and Sustainability activities. However, they must pursue CSR and Sustainability policies by integrating them with their business plans, strategies and processes, which do not involve any financial expenditure. In addition, they may try to attain CSR and Sustainability objectives through the adoption of innovative methods for water, waste and energy management, reduction of carbon emission, preservation of bio-diversity, and production of goods and services which are consumer and environment friendly, without any additional cost, perhaps even savings to the company. They may also collaborate with the profit making CPSEs and assist them in ingenious ways without financial support in CSR and Sustainability activities.

**1.5.3** The budget allocated for CSR and Sustainability activities / projects planned for each financial year is expected to be spent within that year. If due to some reason, the budget of a year remains unutilised, the same would not lapse. Instead, it would be carried forward to the next year for expenditure on CSR and Sustainability activities, which were planned for implementation in the previous year, but could not be completed due to some reason. However, the public sector enterprise shall have to disclose reasons for not being able to spend the entire budget on CSR and Sustainability activities as planned for that year, and shall make every endeavour to spend the unutilised budget of any year within the next two financial years. In case the CPSEs are unable to spend the unutilised budget within the next two financial years, the unspent amount would be transferred to a 'Sustainability Fund' to be used for CSR and Sustainability activities. This 'Sustainability Fund' would be created separately. Implementation mechanism in this context is also being formulated separately.

**1.5.4** At least 80% of the annual budget earmarked for CSR and Sustainability activities shall have to be spent on implementation of activities in the project mode as explained in para 1.6.5. The activities not implemented in project mode also have to be in conformity with these guidelines.

**1.5.5** Upto 5% of the annual budget for CSR and Sustainability activities has to be earmarked for 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. Such contributions would count as valid CSR and Sustainability activities. Also, CPSEs may utilize this portion of the CSR and Sustainability budget, or a part thereof, to provide humanitarian assistance to the employees of other sick and loss making CPSEs whose employees are drawing salary, wages that are at least two pay revisions/wage settlements behind the current one and are in real distress and in need of emergency aid for survival. For this, the approval of the Board of Directors of the CPSE and the Administrative Ministry / Department would be required. In exceptional circumstances, supported by reasons recorded in writing and approved

by the Administrative Ministry, the budgetary allocation under the provision of Emergency needs can be enhanced by 5% of the budget allocated for CSR and Sustainability activities in a particular year. However, such enhancement should not become a regular feature.

**1.5.6** CPSEs will have to earmark 5% of their annual budget for CSR and Sustainability activities to meet the Emergency needs as specified in the para above. In case this amount is not utilised in the year of its allocation, it would be carried forward to the next year for utilization for CSR and Sustainability projects, which if not spent within two years would be transferred to the Sustainability Fund as explained in para 1.5.3.

**1.5.7** Generally, the employees of a CPSE should not be the direct beneficiaries of the activities undertaken with the budget allocated for CSR and Sustainability initiatives in any given year. However, an exception can be made in case of schools, hospitals, training institutes and other such infrastructure which are created primarily for environment protection and/or for the benefit of underprivileged communities, deprived sections and the society at large, but the facilities of which are availed by the employees of the CPSE and their families also, provided that the latter category does not constitute more than 25% of the total number of beneficiaries of such facilities. The capital cost involved in the creation of such facilities and the annual cost incurred on the maintenance of such infrastructure can be borne from the CSR and Sustainability budget of the company.

**1.5.8** The expenditure incurred on baseline survey / need assessment study, on capacity building programs such as training, workshops, seminars, conferences, etc. and on corporate communication strategies for engagement of all stakeholders, whether internal or external, to implement the CSR and Sustainability agenda of a company, would be accounted for as CSR and Sustainability expenditure from the budget allocated for this purpose.

## **1.6 Implementation and Monitoring**

**1.6.1** Every public sector enterprise should have a CSR agenda which is internal to the organisation, and a CSR policy which addresses externalities – both of which are important and complementary to each other.

**1.6.2** The former is essentially the mandate of a company to conduct its business in a socially responsible way by maintaining high level of organisational integrity and ethical behaviour; conforming to the expected standards of transparency in reporting and disclosing its performance in all the spheres of its activities; demonstrating concern for the welfare of its employees; adopting production methods, commercial operations and management practices that promote social and environmental sustainability; and, retaining the trust and confidence of the investors and shareholders by matching its financial performance with equally commendable achievements in non-financial parameters.

**1.6.3** CPSEs shall take steps to implement their CSR agenda within the organisation through the active involvement of the employees, who are important internal stakeholders. As CSR and Sustainability policies are expected to permeate into all the processes and activities of a company, the collective and united effort of all the employees, including the active involvement of the top management, is a sine qua non for the success of CSR and Sustainability policies of this kind. For the CSR agenda to be internalised in the organisation the employees at all levels, in all departments of the company need to be sensitized to the need for conducting business in a manner that is economically, socially and environmentally sustainable. This involves devising internal communication strategies to spread awareness of CSR and Sustainability amongst the employees, providing them with education and training necessary for attitudinal change and their conversion to socially and environmentally sustainable methods and practices of doing business, and adopting motivational tools to provide just the right momentum to push all such initiatives.



**1.6.4** CSR and Sustainability policy of a company also addresses the concerns of the external stakeholders – those who are directly impacted economically, socially, or environmentally by the operations and activities of the company, and also those who may not be directly impacted, like communities and society at large. CSR and Sustainability policy at this level generally addresses the social, economic and environmental concerns of society, and implementation of this policy requires selection of activities / projects, which, as mentioned in the previous chapter, are generally for inclusive growth of society and environmental sustainability.

**1.6.5** Activities which are selected under CSR and Sustainability agenda for external stakeholders should, as far as possible, be implemented in a project mode, which entails charting the stages of execution in advance through planned processes, with mobilisation of pre-estimated quantum of resources, and within the allocated budgets and prescribed timelines. It also involves assigning clear responsibility and accountability of the designated officials / agencies who are entrusted with the task of implementation. In exceptional cases, where CSR and Sustainability activities are not implemented in a project mode, the reasons for doing so should be recorded in writing.

**1.6.6** At times, implementation of CSR and Sustainability projects requires specialised knowledge and skills. Public Sector companies normally do not have such in-house expertise, the wherewithal, and dedicated staff to carry out this task. Therefore, in such cases CPSEs should seek the services of external specialised agencies for the implementation of such CSR and Sustainability projects.

**1.6.7** However, 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.

**1.6.8** While engaging or partnering with external agencies, care should be exercised in selecting only such specialised agencies which have the necessary capabilities and expertise to implement the CSR projects. The credentials of reliability, integrity and professional competence of such agencies should also be verified. Specialised agencies may include Government departments, semi-government, or non-government organisations (NGOs), autonomous organisations, professional consultancy organisations, registered Trusts / Missions, community based organisations, self-help groups, not-for-profit organisations, local bodies such as Panchayati Raj institutions, academic institutes, etc. Engagement of external specialised agencies / NGOs is the discretion of the Public Sector companies, but they are advised to engage them from the available panels of such agencies maintained by the Government Ministries / Departments, Planning Commission, autonomous organisations, or the National / Regional CSR Hub.

**1.6.9** In implementing their CSR and Sustainability policies, companies should extend their reach and oversight to the entire supply-chain network to ensure that as far as possible the 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. Public sector companies are encouraged to initiate and implement measures aimed at 'greening' the supply chain.

**1.6.10** CPSEs are encouraged to join hands and pool their resources for undertaking projects jointly with other CPSEs / Govt. agencies for long-term mega projects for greater social impact. Co-ordinated efforts of companies can scale up the projects in terms of their size and socio-economic impact, with optimal utilisation of resources of each participating entity, and also accelerate the pace of development, especially of the backward regions.

**1.6.11** Monitoring of CSR & Sustainability project goes concurrently with implementation, and is as important. Monitoring is essential to assess if the progress is on expected lines in terms of timelines, budgetary expenditure and achievement of physical targets. Monitoring should be done periodically with the help of identified key performance indicators; the periodicity being determined largely by the nature of performance indicators. Like implementation, monitoring too should be done in project mode with continuous feedback mechanism, and recourse always available for mid-course correction in implementation, whenever required.

**1.6.12** So crucial is monitoring to the success of the projects, being implemented by external agencies, that 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. If required, it is advisable to use the services of the agency engaged for doing the need assessment study prior to the commencement of the project, to perform the task of monitoring and eventual evaluation of outcome. However, whenever CSR and Sustainability activities are implemented by a CPSE and its staff, it is advisable to associate an external agency also for monitoring purposes, as it would enable an impartial assessment of work progression, and help in mid-course correction, if required. In any case, the final evaluation must always be entrusted to an external agency.

**1.6.13** Implementation and monitoring of the CSR & sustainability activities will be overseen by a Board level committee headed by either the Chairman and / or Managing Director, or an Independent Director as mentioned in para 1.3.9. The composition of the committee is to be decided by the Board of Directors of the company, but it is mandatory to have at least one Independent Director as a member of this Committee.

**1.6.14** In case the Board level committee on CSR and Sustainability is neither headed by the Chairman and / or the Managing Director, or by an Independent Director, and in case an Independent Director is not a member of this committee,

the CPSEs would still have to allocate budget for CSR and Sustainability activities every year, depending upon the profitability criteria specified in para 1.5.1. However, in such cases the entire amount allocated for CSR and Sustainability activities would be transferred to 'Sustainability Fund', which is being contemplated, as explained in para 1.5.3. Hence, CPSEs are advised to fill the vacancies, if any, of the posts of Independent Directors on their respective Boards, at the earliest.

**1.6.15** To exercise constant oversight over the implementation of CSR and Sustainability activities all companies should appoint a senior officer not less than one rank lower to the Board level, who will function as the nodal officer, with any suitable designation as decided by the company. The designated nodal officer should be assigned a team of officials to assist him / her. This team shall oversee the implementation of CSR and Sustainability agenda of the company within the organisation and also outside, i.e. covering internal as well as external stakeholders. The designated nodal officer will regularly submit reports regarding the progress in the implementation of CSR and Sustainability activities to the Board level committee headed by the Chairman, or the Managing Director or an Independent Director. The Board level Committee will in turn, periodically submit the reports to the Board of Directors for their information, consideration and necessary directions. The periodicity of submission of reports by the Committee to the Board of Directors is a matter to be decided by each company.

**1.6.16** The Board level committee headed by the Chairman / Managing Director / Independent Director and the below Board level team headed by the nodal officer will constitute the two-tier organisational structure within the organisation to steer the CSR and Sustainability agenda of the company.

## **1.7 Sustainability Reporting and Disclosure**

**1.7.1** Sustainability Reporting is the practice of disclosing to the stakeholders the economic, social and environmental initiatives taken by a company, as an indication of its commitment to sustainable development. Public disclosure and reporting of a company's performance in economic, social & environmental areas is no less important than the initiatives themselves.

**1.7.2** Disclosure of a company's financial performance is a traditional practice, but disclosures in non-financial parameters, which offer a holistic view of a company's performance, is a relatively recent phenomenon which is rapidly gaining acceptance and recognition as a good corporate practice that enhances the reputation, improves the financial performance and increases the competitive advantage of the company in the long run. However, unlike financial reporting, sustainability reporting in India is still in its infancy, largely unregulated, predominantly a voluntary initiative, and it would take a while for companies to take it seriously and match its quality and content with that of their financial reporting. Nevertheless, a large number of corporates, including Indian companies are resorting to sustainability reporting and the format is generally patterned on the internationally accepted reporting frameworks like the Global Reporting Initiative (GRI).

**1.7.3** What lends impetus to sustainability reporting is the policy directives of the Securities and Exchange Board of India (SEBI) that all listed companies have to report on their environmental, social and governance (ESG) initiatives in their Annual Reports. To begin with, it has been made mandatory for the top 100 companies in terms of market capitalisation to submit their Business Responsibility Reports. For the others, it is still a voluntary disclosure and reporting at this stage, but from the discernible trend-setting it appears that it would be made mandatory for other companies also in a phased manner. Therefore, Sustainability reporting and disclosure of all CSR and Sustainability activities undertaken by a CPSE is mandatory.

**1.7.4** Public Sector companies must take a cue from this and accept the requirement of Sustainability reporting and disclosure, and internalize the established reporting mechanisms in their system and processes. By reporting transparently and with accountability, public sector companies can gain and reinforce the trust of the stakeholders. This, in turn, would provide a powerful stimulus to their CSR and Sustainability policies and agenda, and motivate them to pursue them with greater vigour.

## **1.8 Impact Assessment**

**1.8.1** 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. It is against such perception and expectation of impact that the completed activity / project should be measured to ascertain the degree of its success, or failure. In fact, it is at the time of impact assessment that a well-documented and detailed baseline survey or need assessment study done at the commencement of the activity, comes in handy for comparison of data. Conversely, the absence of a baseline survey or a need assessment study is sorely missed at the stage of impact assessment.

**1.8.2** Impact assessment has a wider connotation than mere outputs or outcome. These are generally associated with accomplishment of set targets and goals at various stages of progress in implementation. Whereas, impact is the cumulative effect of outcome(s) on the developmental process – affecting society, economy and environment.

**1.8.3** While achievement of targets and expected outcomes can be a source of satisfaction, public sector companies should get an assessment done of the social / economic / environmental impact of their CSR and Sustainability activities after the same are completed.

**1.8.4** Any impact assessment study requires specialised skills and tools for associated research. Hence, it is a task best carried out by specialised agencies.

**1.8.5** It is recognised that small scale activities / projects under CSR and Sustainability agenda of a company cannot be expected to have any significant social or economic or environmental impact, which can be easily measurable. Hence, the public sector companies are urged to take up larger projects, even if fewer in number, for greater social, economic or environmental impact, and get

impact assessment studies done after their completion and necessary minimum gestation period.



## **1.9 Advocacy and Research**

**1.9.1** Academic interface is essential for successful socially responsible businesses. Therefore, CPSEs should have collaboration with academic institutions such as TISS, IITs, IIMs and similarly placed other such institutions on a perpetual basis. Till such time CPSEs develop such linkages locally, the National CSR Hub presently located at TISS, Mumbai would continue to act its designated role in this regard.

**1.9.2** The tasks presently assigned to the National CSR Hub are as follows:

- i) Nation-wide compilation, documentation and creation of database;
- ii) Advocacy of the concepts;
- iii) Research on the subject including publishing of research papers / articles and concept papers on specific issues;
- iv) Preparation of panels of implementing organisations, monitoring and valuation agencies;
- v) Promotional activities, including production of short films, printing of brochures, pamphlets promotional materials etc.;
- vi) Organising Conferences, Seminars, Workshops – both national and international;
- vii) Act as a Think Tank;
- viii) Setting up a National Data Base;
- ix) Any other matter or activity pertaining to CSR and Sustainability entrusted to it by the Department of Public Enterprises;

**1.9.3** Public sector companies can avail the services of the National CSR Hub in seeking guidance on the implementation of their CSR and Sustainability activities. For this, the companies will have to pay a service charge to the National CSR Hub. The service charge may be decided between the National CSR Hub and the company availing the services, but generally, the service charge should be nominal and adequate to cover the expenses of the services requisitioned and to

meet the proportionate cost of running the National CSR Hub establishment during the period of services availed.

**1.9.4** The expenditure incurred by the public sector companies in availing the services of the National CSR Hub for the implementation of their CSR and Sustainability activities would be treated as a part of expenditure of the company under this budgetary Head.

## **1.10 MoU Evaluation**

**1.10.1** CPSEs would be evaluated under the MoU framework for their achievement in the area of Corporate Social Responsibility and Sustainability on the basis of certain key performance indicators.

**1.10.2** More specifically they would be judged by:

- i) the degree of involvement of the employees and the top management in internalising the CSR and Sustainability agenda within the organisation;
- ii) the degree of success in implementing the CSR and Sustainability projects they undertake during the year;
- iii) the expenditure they incur on these activities (vis-à-vis the annual budgetary allocation);
- iv) the effectiveness of the two-tier organisational structure in the process of planning, implementing and monitoring the CSR activities;
- v) the efforts made and the success achieved in the engagement of key stakeholders through adoption of a good corporate communication strategy;
- vi) the adoption of sustainability reporting and disclosure procedures and practices.

The weightage assigned to each of these non-functional performance indicators of companies would be decided during the MoU task force meetings.

**1.10.3** As regards the CSR and Sustainability projects, the guidelines make it mandatory for all CPSEs to undertake at least one project for the development of any one backward district of the country, and at least one project on environmental sustainability. There can be some overlapping of activities between these two projects, but whereas, one project is clearly focused on socio-economic development and inclusive growth of the under developed and neglected regions, the other project is focused mainly on protection of environment and biodiversity conservation.

However, Maharatna companies will have to submit, details of one additional project, making it a total of three projects for evaluation. Impact assessment would be done in cases of completed projects / activities. The on-going long term projects with an implementation span of several years would be adjudged by the achievement of targets set for the year under evaluation. Therefore, at the time of submission of their reports on CSR and Sustainability projects for the purpose of MoU evaluation, the CPSEs shall have to submit all details of planning, selection, implementation, monitoring, and impact assessment of the activities related to these projects. Hence, documented details regarding progress made in stages during implementation and in overcoming the difficulties encountered in the process, the resources deployed, the expenditure incurred, and the performance of the implementing agencies should be available for evaluation purpose.

**1.10.4** As regards promotion of CSR agenda within the organisation, the CPSEs would have to provide evidence that initiatives were taken to sensitise the staff regarding the CSR and Sustainability policies of the organisation, and the need to adopt ethical business practices. The efforts made to impart training to the employees for the desired attitudinal change and their conversion to new production methods and commercial practices by leveraging appropriate technology aligned with social and environmental sustainability. CPSEs would have to give evidence through documents, photographs, reports etc. of their efforts and achievements in internalising socially responsible and sustainable policies in the organisation.

**1.10.5** Each CPSE is required to have a two-tier organisational structure for planning, implementing and monitoring the CSR and Sustainability policies. Formulating policy, selecting CSR projects, devising implementation strategies, earmarking budgets, mobilising resources, engaging external specialised agencies, adopting effective communication strategies for linkage with all stakeholders, keeping the Board of Directors and the top management apprised of all important developments, and preparing sustainability reports will be the task of this two-tier structure. It is expected to function like the brain of the company in matters relating to CSR and Sustainability. The performance of each CPSE would be judged by how effectively this two-tier organisational structure discharges its role.

**1.10.6** CPSEs will also be judged by their sustainability reporting and disclosure practices. From the format and content of these reports, the level of transparency and the sincerity of the company in accepting responsibility of the social, economic and environment impact of its activities would be judged.

**1.10.7** As is the practice, CPSEs would have to submit their self-assessment reports regarding each performance indicators pertaining to Corporate Social Responsibility and Sustainability, as mentioned above.

## **1.11 Miscellaneous**

**1.11.1** The Note on 'CSR and Sustainability – Definition, Evolution of the Concepts, Recent Trends and practice' in the Annexures is not a part of the Guidelines, but serves as a useful background 'Concept Paper' for reference to get a sense of the philosophy and spirit of CSR and Sustainability and how they are interpreted and practised in different situations. The other material given in the Annexures is also meant only for ready reference.

**1.11.2** Projects / activities, whether planned or in various stages of implementation, as per previous guidelines on CSR issued by DPE in April 2010 and guidelines on Sustainable Development issued by DPE in September 2011, would continue to be recognised as valid till completed.

**1.11.3** These guidelines are in consonance with the National Voluntary Guidelines for Social, Environmental & Economic Responsibilities of Business issued by the Ministry of Corporate Affairs in July 2011.

**1.11.4** These guidelines will stand modified by the provisions of the new Companies Act and updated SEBI Guidelines as and when these are in place and made enforceable.

## **1.12 Repeal**

**1.12.1** These Guidelines will supersede all the Guidelines / circulars / instructions issued earlier by the Department of Public Enterprises (DPE) on this subject.

# Annexure - I

## **Corporate Social Responsibility and Sustainability - Definition, Evolution of the Concepts, Recent trends and practices**

1. The emergence of corporate social responsibility and sustainable development as important concerns of business activity is the result of realization that any business conducted with the sole motive of profit maximisation for the shareholders, in disregard of societal and environmental concerns is bound to fail in the long run.

2. The traditional concept of Business has come a long way since the famous economist and Nobel laureate, Milton Friedman famously proclaimed in 1970, “The business of business is to maximise profits, to earn a good return on capital invested and to be a good corporate citizen obeying the law – no more and no less”. In 1984, Edward Freeman introduced the stakeholder theory and argued that socially responsible activities helped business in building strong relationships with stakeholders, and that management must pursue actions that are optimal for a broad class of stakeholders rather than those that serve only to maximise shareholder interests. In 1989 another prominent economist, Kenneth Andrews exhorted corporates “to focus corporate power on objectives that are possible but sometimes less economically attractive than socially desirable”. In 1998, John Elkington first introduced the concept of “Triple Bottom line” to emphasise that a company’s performance is best measured by the economic, social and environmental impact of its activities.

3. These developments at the turn of the previous century are only indicative of several parallel movements, private initiatives and scholarly debates focussed on introduction of reforms in business, corporate governance and management practices. They arose out of a common concern for economic growth, environmental issues, social imperatives and enhanced ethical standards in



business. Cumulatively, they brought about an integration of environmental, social and economic aspects of business and espoused societal expectations from business to behave responsibly and deliver better governance.

**4.** The UN Global Compact was the first major initiative by the International organisation to lay down a charter of ten principles for all companies globally to respect and follow in their business operations. By asking companies to embrace, support and enact a set of core values in the areas of human rights, labour standards, environment and anti-corruption, it sets the agenda for corporate social responsibility for all corporate enterprises and provides a framework for initiation and practice of sustainability policies. The overwhelming endorsement which it received from the corporate world testifies that the UN Global Compact is the largest voluntary corporate responsibility initiative in the world that forges close linkage between business, society and environment in all development endeavours. Many other international bodies and associations like the OECD countries were quick in coming out with their set of guidelines for multinational corporations, largely in conformity with the principles of the UN Global Compact.

**5.** If in spite of such widespread awareness about corporate social responsibility and sustainable development, both these concepts have for long have been in search of definitions which could separately capture their all-encompassing essence and philosophy, it is because these concepts are dynamic and evolving. Corporate Social Responsibility is the responsibility which the corporate enterprises accept for the social, economic and environmental impact their activities have on the stakeholders. The stakeholders include employees, consumers, investors, shareholders, civil society groups, Government, non-government organisations, communities and the society at large. It is the responsibility of the companies to not only shield the diverse stakeholders from any possible adverse impact that their business operations and activities may have, but also entails affirmative action by the companies in the social, economic and environmental spheres as expected of them by the stakeholders, to the extent of their organisational resource capabilities. This is besides corporate legal obligation to comply with statutory rules and

regulations regarding the conduct of business operations, and the duty to compensate the stakeholders in the event of any harm or collateral damage.

**6.** It is now universally accepted that corporate social responsibility is not a stand-alone, one time, ad hoc philanthropic activity. Rather, it is closely integrated and aligned with the business goals, strategies and operations of the companies. There is a close integration of social and business goals of companies.

**7.** Brundtland Commission's Report in 1987 defined sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". This is considered to be a standard definition, judged by its widespread use and frequent citation. However, this definition seems to resolve the apparent conflict between economic development and environment protection only, without highlighting the social dimension of sustainable development. It was in the Johannesburg Declaration at the World Summit on Sustainable Development in 2002 that social development as the third pillar of sustainable development was clearly acknowledged.

**8.** Sustainable development poses a multi-dimensional challenge – in terms of economic, social and environmental dimensions – with each having competing claims for primacy. Corporate enterprises are expected to adopt sustainability policies that balance the trade-offs between these competing claims for the promotion and growth of business. An enduring and balanced approach to economic activity, social progress and environment protection is what is called for. But, for some reason, the concern for environmental protection continues to be emphasised and the social dimension of sustainable developments is often overlooked.

**9.** Sustainable development policies touch upon social issues such as welfare of employees, empowerment of the weaker sections, holistic development of backward regions, improvement of the working conditions of labour, etc. Activities undertaken by companies to address basic issues pertaining to health, nutrition,

sanitation and education needs of the impoverished communities, for the promotion of skill development, capacity building and inclusive growth of society, are all sustainability activities.

**10.** CSR policies are closely linked with the practice of sustainable development. Sustainability practiced through CSR involves conduct of business operations in a way that minimizes harm to the environment and local communities located in the vicinity of a company's commercial / production units, while benefitting consumers and employees, and thus contributing to sustainable development. Through sustainability initiatives, which include development of new range of goods and services, and innovative production methods that are environmental and consumer friendly and cost effective, companies can enhance consumer satisfaction, and simultaneously boost business growth and profitability. The R&D department in companies helps in sustainability efforts through innovation that often changes consumer preference for new products and services that are beneficial for environment and society. In fact, CSR activities are generally so full with content of, and focused on sustainable development that often CSR initiatives cannot be easily separated from sustainability policies. Hence, to judge the performance of a company separately for its CSR activities and sustainability initiatives, is at times difficult and impractical, and for that reason it makes business sense to deal with them together.

**11.** Since corporate social responsibility and sustainability are so closely entwined, it can be said that **Corporate Social Responsibility and Sustainability is a company's commitment to its stakeholders to conduct business in an economically, socially and environmentally sustainable manner that is transparent and ethical.** Stakeholders include employees, investors, shareholders, customers, business partners, clients, civil society groups, Government and non-government organisations, local communities, environment and society at large.

**12.** Recent trends indicate that a company's corporate social responsibility and sustainability is not limited to its own operations and activities, but extends to its supply chain network, which includes service providers, vendors, contractors and other outsourced agencies. Therefore, companies, especially multinational

companies, are nowadays careful in their selection of partners, agents, vendors and contractors abroad and prefer to do a thorough check of their credentials in corporate social responsibility and sustainability.

**13.** Growing awareness about corporate social responsibility and sustainability issues have led to attempts at devising some common matrices for measuring the performance of companies in these areas. Such attempts, though nowhere near perfection, at least underline the need for consistency, transparency and impartial measurement. A number of international private initiatives in this regard have led to the development of standards and benchmarks for voluntary disclosure, reporting and audit of corporate social responsibility and sustainability programmes. Most notable of these initiatives are the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines; AccountAbility's AA1000 standard based on John Elkington's triple bottom line (3BL) reporting; Social Accountability International's SA8000 standard; and, the ISO 14001 environmental management standard.

**14.** Due to increased customer interest, growing investor pressure, competitive labour markets, greater oversight over suppliers in the supply chain network, and increasing globalisation of business, there is demand for greater disclosure and audit of corporate social responsibility and sustainability reporting to establish good business citizenship credentials. Sustainability reporting is on the increase and a large number of organisations and companies worldwide have voluntarily adopted internationally accepted standards and frameworks like GRI for disclosure and reporting, and have offered their performance for measurement and audit against international benchmarks.

**15.** Corporate Social Responsibility and sustainability, if discharged sincerely, is perceived to bring with it several benefits for the companies. The spin offs can be by way of improving the brand image, preparing it for risk management through public goodwill in the event of a crisis, retaining and attracting talent for the organisation, winning the confidence of the investors and shareholders, improving its

relations with important stakeholders, and positioning the company for competitive business advantage and financial gains in the long run.

**16.** The benefits that a company expects to reap from its CSR and Sustainability policies, or the motivation behind these policies is of great significance in determining the kind of CSR and Sustainability activities that it undertakes, or the implementation strategy that it chooses to adopt in pursuit of these policies. CSR activities prompted by 'genuine concern' for social and environmental issues produce implementation models different from those motivated by 'enlightened self-interest' of a company. CSR and Sustainability activities taken up as a part of 'public relations' campaign for enhancing the 'brand image', or for earning 'public goodwill' are different from CSR and Sustainability activities undertaken by a company to obtain 'license to operate' in certain areas.

**17.** From amongst the various perspectives of CSR and the different prevalent practices of CSR, the one that finds favour with the private multi-national companies of the developed economies is the 'strategic CSR', or CSR based on 'enlightened self-interest' of companies. This approach is supported and endorsed by the doctrine of "shared value" propounded by eminent Harvard economists Michael Porter and Mark Kramer. This approach seeks financial gains for companies from the activities they undertake in discharging their corporate social responsibility. According to Porter and Kramer "The essential test that should guide CSR is not whether a cause is worthy but whether it presents an opportunity to create shared value – that is, a meaningful benefit for society that is also valuable to the business". Creating "Shared Value" involves creating new business opportunities and developing new products that are profitable for companies while simultaneously contributing to social development. Through 'strategic CSR' companies seek to exploit "opportunities to achieve social and economic benefits simultaneously". Putting it succinctly, companies look for business opportunities in socio-economic problems besetting societies.

**18.** Creating "shared value" approach offers a good model for corporate enterprises to conduct their normal business operations, but it may not be the best

suitable for activities undertaken under CSR and Sustainability by the public sector enterprises in India because there appears to be an unstated but underlying direction for spending the mandatory budgetary allocation for CSR for public good, social value creation, and social causes.

**19.** Engaging the stakeholders in a dialogue to know their expectations is an important aspect of corporate social responsibility and sustainability. It is observed that corporate enterprises operating in different socio-economic conditions differ in their understanding of the range of stakeholders to be covered through their CSR activities, their assessment of the expectations of the stakeholders, and the mechanism of engagement of the stakeholders.

**20.** In the developed economies where the basic needs of the society are adequately taken care of, either through economic advancement, or by strong state welfare system like social security schemes for citizens, the corporate enterprises in such developed countries in their selection of CSR and Sustainability activities, are mainly concerned about the stakeholders directly impacted by their business operations, like employees, consumers, shareholders, vendors, contractors, service providers and environment. And from the CSR and Sustainability activities they pursue, they seek and expect financial gains for business also.

**21.** However, in developing economies like India, where socio-economic disparities are glaring and state social security network is also not available to all, the responsibility of public sector enterprises gets enlarged to cover a wider spectrum of stakeholders, at times even those that are not directly impacted, like interest groups, government and non-government organisations, communities and the society at large. In such situations, stakeholders expect public corporations to assume social responsibility for inclusive socio-economic growth and lend support to efforts aimed at development of backward regions, empowerment of the weaker sections, and upliftment of the deprived and marginalised communities. Social and environmental concerns tend to assume primacy over immediate business gains.

**22.** Thus, there can be variations in the perception of corporate social responsibility and sustainability, and its implementation strategies, because different stakeholders in different socio-economic situations have different expectations from business and the way it should be conducted.

## Annexure - II

### Backward Districts identified by the Planning Commission for Backward Regions Grant Fund (BRGF)

#### List of 272 Districts

ANDHRA PRADESH			
1	ADILABAD	2	ANANTAPUR
3	CHITTOOR	4	CUDDAPAH
5	KARIMNAGAR	6	KHAMMAM
7	MAHBUBNAGAR	8	MEDAK
9	NALGONDA	10	NIZAMABAD
11	RANGAREDDI	12	VIZIANAGARAM
13	WARANGAL		
ARUNACHAL PRADESH			
1	UPPER SUBANSIRI		
ASSAM			
1	BARPETA	2	BONGAIGAON
3	CACHAR	4	DHEMAJI
5	GOALPARA	6	HAILAKANDI
7	KARBI ANGLONG	8	KOKRAJHAR
9	LAKHIMPUR	10	MARIGAON
11	NORTH CACHAR HILLS	12	CHIRANG
13	BAKSA		
BIHAR			
1	ARARIA	2	AURANGABAD
3	BANKA	4	BEGUSARAI
5	BHAGALPUR	6	BHOJPUR
7	BUXAR	8	DARBHANGA
9	GAYA	10	GOPALGANJ
11	JAMUI	12	JEHANABAD
13	KAIMUR (BHABUA)	14	KATIHAR
15	KHAGARIA	16	KISHANGANJ
17	LAKHISARAI	18	MADHEPURA
19	MADHUBANI	20	MUNGER
21	MUZAFFARPUR	22	NALANDA
23	NAWADA	24	PASHCHIM CHAMPARAN
25	PATNA	26	PURBI CHAMPARAN
27	PURNIA	28	ROHTAS
29	SAHARSA	30	SAMASTIPUR
31	SARAN	32	SHEIKHPURA
33	SHEOHAR	34	SITAMARHI
35	SUPAUL	36	VAISHALI
37	ARWAL	38	SIWAN
CHHATTISGARH			
1	BASTAR	2	BILASPUR
3	DANTEWADA	4	DHAMTARI
5	JASHPUR	6	KABIRDHAM
7	KANKER	8	KORBA



9	KOREA	10	MAHASAMUND
11	RAIGARH	12	RAJNANDGAON
13	SURGUJA	14.	NARAYANPUR
15.	BIJAPUR		
<b>GUJARAT</b>			
1	BANAS KANTHA	2	DAHOD
3	DANG	4	NARMADA
5	PANCH MAHALS	6	SABAR KANTHA
<b>HARYANA</b>			
1	MAHENDRAGARH	2	SIRSA
<b>HIMACHAL PRADESH</b>			
1	CHAMBA	2	SIRMAUR
<b>JAMMU AND KASHMIR</b>			
1	DODA	2	KUPWARA
3	POONCH	4.	RAMBAN
5.	KISHTWAR		
<b>JHARKHAND</b>			
1	BOKARO	2	CHATRA
3	DEOGHAR	4	DHANBAD
5	DUMKA	6	GARHWA
7	GIRIDIH	8	GODDA
9	GUMLA	10	HAZARIBAGH
11	JAMTARA	12	KODERMA
13	LATEHAR	14	LOHARDAGA
15	PAKUR	16	PALAMU
17	RANCHI	18	SAHEBGANJ
19	SARAIKELA KHARSAWAN	20	SIMDEGA
21	WEST SINGHBHUM	22.	KHUNTI
23.	RAMGARH		
<b>KARNATAKA</b>			
1	BIDAR	2	CHITRADURGA
3	DAVANGERE	4	GULBARGA
5	RAICHUR	6.	YADGIR
<b>KERALA</b>			
1	PALAKKAD	2	WAYANAD
<b>MADHYA PRADESH</b>			
1	BALAGHAT	2	BARWANI
3	BETUL	4	CHHATARPUR
5	DAMOH	6	DHAR
7	DINDORI	8	GUNA
9	JHABUA	10	KATNI
11	KHANDWA	12	KHARGONE
13	MANDLA	14	PANNA
15	RAJGARH	16	REWA
17	SATNA	18	SEONI
19	SHAHDOL	20	SHEOPUR
21	SHIVPURI	22	SIDHI
23	TIKAMGARH	24	UMARIA
25.	ASHOKNAGAR	26.	BURHANPUR
27.	ANUPPUR	28.	CHHINDWARA
29.	ALIRAJPUR	30	SINGRAULI
<b>MAHARASHTRA</b>			
1	AHMEDNAGAR	2	AMRAVATI
3	AURANGABAD	4	BHANDARA

5	CHANDRAPUR	6	DHULE
7	GADCHIROLI	8	GONDIA
9	HINGOLI	10	NANDED
11	NANDURBAR	12	YAVATMAL
<b>MANIPUR</b>			
1	CHANDEL	2	CHURACHANDPUR
3	TAMENGLONG		
<b>MEGHALAYA</b>			
1	RI BHOI	2	SOUTH GARO HILLS
3	WEST GARO HILLS		
<b>MIZORAM</b>			
1	LAWNGTLAI	2	SAIHA
<b>NAGALAND</b>			
1	MON	2	TUENSANG
3	WOKHA	4.	LONGLENG
5.	KIPHRIE		
<b>ORISSA</b>			
1	BALANGIR	2	BOUDH
3	DEOGARH	4	DHENKANAL
5	GAJAPATI	6	GANJAM
7	JHARSUGUDA	8	KALAHANDI
9	KANDHAMAL	10	KEONJHAR
11	KORAPUT	12	MALKANGIRI
13	MAYURBHANJ	14	NABARANGPUR
15	NUAPADA	16	RAYAGADA
17	SAMBALPUR	18	SONEPUR
19	SUNDARGARH	20.	BARGARH
<b>PUNJAB</b>			
1	HOSHIARPUR		
<b>RAJASTHAN</b>			
1	BANSWARA	2	BARMER
3	CHITTORGARH	4	DUNGARPUR
5	JAISALMER	6	JALORE
7	JHALAWAR	8	KARALI
9	SAWAI MADHOPUR	10	SIROHI
11	TONK	12	UDAIPUR
13.	PRATAPGARH		
<b>SIKKIM</b>			
1	NORTH DISTRICT		
<b>TAMIL NADU</b>			
1	CUDDALORE	2	DINDIGUL
3	NAGAPATTINAM	4	SIVAGANGA
5	TIRUVANNAMALAI	6	VILLUPURAM
<b>TRIPURA</b>			
1	DHALAI		
<b>UTTAR PRADESH</b>			
1	AMBEDKAR NAGAR	2	AZAMGARH
3	BAHRAICH	4	BALRAMPUR
5	BANDA	6	BARABANKI
7	BASTI	8	BUDAUN
9	CHANDAULI	10	CHITRAKOOT
11	ETAH	12	FARRUKHABAD
13	FATEHPUR	14	GONDA
15	GORAKHPUR	16	HAMIRPUR

17	HARDOI	18	JALAUN
19	JAUNPUR	20	KAUSHAMBI
21	KHERI	22	KUSHI NAGAR
23	LALITPUR	24	MAHARAJGANJ
25	MAHOBA	26	MIRZAPUR
27	PRATAPGARH	28	RAE BARELI
29	SANT KABEER NAGAR	30	SHRAVASTI
31	SIDDHARTH NAGAR	32	SITAPUR
33	SONBHADRA	34	UNNAO
35.	KANSHIRAM NAGAR		
<b>UTTARAKHAND</b>			
1	CHAMOLI	2	CHAMPAWAT
3	TEHRI GARHWAL		
<b>WEST BENGAL</b>			
1	24 PARAGANAS SOUTH	2	BANKURA
3	BIRBHUM	4	DINAJPUR DAKSHIN
5	DINAJPUR UTTAR	6	JALPAIGURI
7	MALDAH	8	MEDINIPUR EAST
9	MEDINIPUR WEST	10	MURSHIDABAD
11	PURULIA		

Source: Planning Commission

# Annexure – III

## UN Global Compact Principles

### The Ten Principles

The UN Global Compact's ten principles in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus and are derived from:

- The Universal Declaration of Human Rights
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption:

#### Human rights

- **Principle 1**: Businesses should support and respect the protection of internationally proclaimed human rights; and
- **Principle 2**: Make sure that they are not complicit in human rights abuses.

#### Labour standards

- **Principle 3**: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- **Principle 4**: the elimination of all forms of forced and compulsory labour;

- **Principle 5**: the effective abolition of child labour, and
- **Principle 6**: the elimination of discrimination in respect of employment and occupation.

### **Environment**

- **Principle 7**: Businesses should support a precautionary approach to environmental challenges;
- **Principle 8**: undertake initiatives to promote greater environmental responsibility; and
- **Principle 9**: encourage the development and diffusion of environmentally friendly technology.

### **Anti-corruption**

- **Principle 10**: Businesses should work against corruption in all its forms, including extortion and bribery.

Source: <http://www.unglobalcompact.org/aboutthegc/thetenprinciples/index.html>

# Annexure – IV

## UN Millennium Development Goals

At the Millennium Summit in September 2000 the largest gathering of world leaders in history adopted the UN Millennium Declaration, committing their nations to a new global partnership to reduce extreme poverty and setting out a series of time-bound targets, with a deadline of 2015 that have become known as the Millennium Development Goals.

### The goals (MDGs) are:

1. Eradicate Extreme Hunger and Poverty
2. Achieve Universal Primary Education
3. Promote Gender Equality and Empower Women
4. Reduce Child Mortality
5. Improve Maternal Health
6. Combat HIV/AIDS, Malaria and other diseases
7. Ensure Environmental Sustainability
8. Develop a Global Partnership for Development

The United Nations Millennium Campaign, started in 2002, supports and inspires people from around the world to take action in support of the Millennium Development Goals.

“The Millennium Development Goals set time bound targets, by which progress in reducing income poverty, hunger, disease, lack of adequate shelter and exclusion – while promoting gender equality, health, education and environmental sustainability – can be measured. They also embody basic human rights – the rights of each person on the planet to health, education, shelter and security. The Goals are ambitious but feasible and, together with the comprehensive United Nations development agenda, set the course for the world’s efforts to alleviate extreme poverty by 2015.”

United Nations Secretary–General, Ban Ki-Moon

Source1: <http://www.unmillenniumproject.org/goals/index.htm>

Source2: <http://www.un.org/millenniumgoals/bkgd.shtml>

# Annexure – V

## OECD Guidelines for Multinational Enterprises

The OECD Guidelines for Multinational Enterprises are non-binding recommendations covering all major areas of business ethics addressed by governments to multinational enterprises operating in or from adhering countries. The Guidelines were adopted on 21 June 1976 by OECD member states. The last update of the OECD Guidelines was adopted in May 2011. The new text introduces provisions on human rights, workers and wages, and climate change. It establishes that enterprises should avoid causing or contributing to adverse impacts through their own activities or through business relationships, and it recommends that companies exercise due diligence to ensure they live up to their responsibilities.

### Content

The OECD Guidelines provide voluntary principles and standards for responsible business conduct in the following areas:

- Information disclosure
- Human Rights
- Employment
- Combating bribery, bribe solicitation, and extortion
- Consumer interests
- Science and technology
- Competition and
- Taxation

Core issues include:

- Respect for labour standards
- Contribution to sustainable development
- Respect for human rights
- Environment protection
- Combating Bribery and corruption
- Whistle-blower protection
- Supply chain responsibility

Source: <http://oecdwatch.org/about-oecd/guidelines>