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Handbook on Corporate Social Responsibility in India



Confederation of Indian Industry

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Message from the Chairman

CII's Development Initiative Council

A robust and thriving development sector is central to India's quest for equitable, inclusive and sustainable growth. India's development sector has evolved substantially over the last few decades and is now witnessing unprecedented interest and investments across the value chain.

With the passage of the Companies Act, 2013 the mandate for corporate social responsibility (CSR) has been formally introduced to the dashboard of the Boards of Indian companies. The industry has responded positively to the reform measure undertaken by the government with a wide interest across the public and private sector, Indian and multinational companies.

The practice of CSR is not new to companies in India. However, what this Act does is bring more companies into the fold. Also, it is likely that the total CSR spends will increase. What is clear to many companies is that if this increased spending is to achieve results on the ground – which is the intent of the Act – then it needs to be done strategically, systematically and thoughtfully.

It is in this context, that the 'Handbook on Corporate Social Responsibility in India' developed by PwC India for CII can play an important role. The CII being the leading industry body, through this handbook, envisages equipping companies for this shift of structured engagement with communities. This handbook is aimed both at companies that are veteran CSR practitioners as well as those that are just entering the fray. It suggests steps to develop a CSR strategy and Policy and identifies the key building blocks for initiating and developing the CSR programs. It walks the CSR practitioner through some of the key choices that may be required to be made while pursuing CSR objectives and develop an organisation that is socially sensitive and responsible.

Building a society which provides equal access to opportunities negates disparities and, is a collective responsibility. This Act presents a unique opportunity to stand up to the challenge. It is a call for action. And this handbook is a significant step in that direction.



A handwritten signature in black ink, appearing to read 'Rakesh Mittal'. The signature is fluid and cursive, written over a light grey background.

Rakesh Bharti Mittal

Chairman, CII's Development Initiative Council and
Vice Chairman and Managing Director, Bharti Enterprises

Message from the Mentor and Chairman Emeritus

Fortis Healthcare Limited

The constitutional structure of the country was laid with an objective of one man equals one vote, equals one value. However the socio-economic realities of the country still have a long way to go to match this vision of independent India where today there are many first among equals. The country presently is under intense debate of developmental growth versus welfare based development. Our political realities and our economic senses are at cross-roads. How do we strike a balance between the two? The choices we make today are going to influence our generations to come.

Every single major policy initiative in this country has been driven with a perspective that an overwhelming concern for the disadvantaged and marginalised, a multidimensional view of poverty and human deprivation, the focus on our fundamental rights and the need to expand opportunities while ensuring its equal distribution are fundamental for achieving strong human development. But disparity, inequality and the growing divide in our societies define our existence today. The inclusion of the CSR mandate under the Companies Act, 2013 is an attempt to supplement the governments efforts of equitably delivering the benefits of growth and to engage the Corporate World with the country's development agenda.

Philanthropy and CSR is not a novel concept for Indian companies, however a few organisations are likely to struggle. The role of civil society in fuelling this change is bound to be extremely important. With the new corporate resources in their tool bag much will depend on their ability to innovate and adapt.

The handbook is a guidance document which will facilitate development of CSR mandate within organisations and help streamline dialogue within the industry. An addendum will follow with details of the rules once the same have been notified by the Government. The members of the industry are likely to find their output helpful, informative and enabling.

Confederation of Indian Industry has been in the forefront in sensitising industry on CSR and creating necessary enablers for promoting CSR for over a decade. I am confident that all companies will be immensely benefitted from this document too.

I would like to extend my warm appreciation to the PwC team, including Sachin Shukla, Sharique Ahmad, Anjan Katna, Ankit Gupta and Shankar Venkateswaran who worked towards the development of this document.



Harpal Singh

Harpal Singh

Mentor and Chairman Emeritus,
Fortis Healthcare Limited



List of abbreviations

BRR	Business Responsibility Report
CSR	Corporate social responsibility
DPE	Department of Public Enterprises
EC	European Commission
ESG	Environmental, social and governance
ILO	International Labour Organisation
ISO	International Organisation for Standardisation
LBG	London Benchmarking Group model
MCA	Ministry of Corporate Affairs
NVG	National Voluntary Guidelines
OECD	Organisation for Economic Co-operation and Development
SEBI	Securities and Exchange Board of India
SME	Small and medium enterprises
SAAS	Social accountability accreditation services
SGAAP	Social generally accepted accounting principles
SROI	Social return on investments
UN	United Nations
UNGC	United Nations Global Compact
UNIDO	United Nations Industrial Development Organisation
WBCSD	World Business Council for Sustainable Development

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About the handbook

India is a country of myriad contradictions. On the one hand, it has grown to be one of the largest economies in the world, and an increasingly important player in the emerging global order, on the other hand, it is still home to the largest number of people living in absolute poverty (even if the proportion of poor people has decreased) and the largest number of undernourished children. What emerges is a picture of uneven distribution of the benefits of growth which many believe, is the root cause of social unrest.

Companies too have been the target of those perturbed by this uneven development and as a result, their contributions to society are under severe scrutiny. With increasing awareness of this gap between the haves and the have-nots, this scrutiny will only increase over time and societal expectations will be on the rise. Many companies have been quick to sense this development, and have responded proactively while others have done so only when pushed.

Governments as well as regulators have responded to this unrest and the National Voluntary Guidelines for Social, Environmental and Economic Responsibilities of Business or the NVGs (accompanied by the Business Responsibility Reports mandated by the SEBI for the top 100 companies) and the CSR clause within the Companies Act, 2013 are two such instances of the steps taken.

According to Indian Institute of Corporate Affairs, a minimum of 6,000 Indian companies will be required to undertake CSR projects in order to comply with the provisions of the Companies Act, 2013 with many companies undertaking these initiatives for the first time. Further, some estimates indicate that CSR commitments from companies can amount to as much as 20,000 crore INR.

This combination of regulatory as well as societal pressure has meant that companies have to pursue their CSR activities more professionally. This handbook attempts to bring together good practices of companies and grant-making foundations so as to assist companies pursue their CSR activities effectively, while remaining aligned with the requirements of the Companies Act, 2013.

This handbook begins by building a common understanding of the concept of CSR, based on global practices, Indian tradition, and the intent and provisions of the Companies Act, 2013. It then goes on to bring out the key aspects of clause 135 of the Companies Act, 2013 and the recently released draft rules, and highlights its implications to companies.

A major part of the handbook focuses on the 'what' and 'how' of strategising, planning, executing and monitoring the CSR activities of companies. It provides a detailed guidance (rather than prescriptions) for each of these processes covering the following:

- Objective of the process
- Process owners
- Key inputs and outputs
- Activities or tasks to be covered, including methodology and timelines
- Tools, technical guidance or standards to be employed

It also has a section on what small and medium enterprises, some of whom will be required to comply with the Act, can do collectively.

What is CSR?



What is CSR?

The global context

While there may be no single universally accepted definition of CSR, each definition that currently exists underpins the impact that businesses have on society at large and the societal expectations of them. Although the roots of CSR lie in philanthropic activities (such as donations, charity, relief work, etc.) of corporations, globally, the concept of CSR has evolved and now encompasses all related concepts such as triple bottom line, corporate citizenship, philanthropy, strategic philanthropy, shared value, corporate sustainability and business responsibility. This is evident in some of the definitions presented below:

The EC¹ defines CSR as “*the responsibility of enterprises for their impacts on society*”. To completely meet their social responsibility, enterprises “*should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders*”

The WBCSD defines CSR as² “*the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large.*”

According to the UNIDO³, “*Corporate social responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives (Triple-Bottom-Line Approach), while at the same time addressing the expectations of shareholders and stakeholders. In this sense it is important to draw a distinction between CSR, which can be a strategic business management concept, and charity, sponsorships or philanthropy. Even*

though the latter can also make a valuable contribution to poverty reduction, will directly enhance the reputation of a company and strengthen its brand, the concept of CSR clearly goes beyond that.”

From the above definitions, it is clear that:

- The CSR approach is holistic and integrated with the core business strategy for addressing social and environmental impacts of businesses.
- CSR needs to address the well-being of all stakeholders and not just the company's shareholders.
- Philanthropic activities are only a part of CSR, which otherwise constitutes a much larger set of activities entailing strategic business benefits.

CSR in India

CSR in India has traditionally been seen as a philanthropic activity. And in keeping with the Indian tradition, it was an activity that was performed but not deliberated. As a result, there is limited documentation on specific activities related to this concept. However, what was clearly evident that much of this had a national character encapsulated within it, whether it was endowing institutions to actively participating in India's freedom movement, and embedded in the idea of trusteeship.

As some observers have pointed out, the practice of CSR in India still remains within the philanthropic space, but has moved from institutional building (educational, research and cultural) to community development through various projects. Also, with global influences and with communities becoming more active and demanding, there appears to be a discernible trend, that while CSR remains largely restricted to community development, it is getting more strategic in nature (that is, getting linked with business) than philanthropic, and a large number of companies are reporting the activities they are undertaking in this space in their official websites, annual reports, sustainability reports and even publishing CSR reports.

The Companies Act, 2013 has introduced the idea of CSR to the forefront and through its disclose-or-explain mandate, is promoting greater transparency and disclosure. Schedule VII of the Act, which

lists out the CSR activities, suggests communities to be the focal point. On the other hand, by discussing a company's relationship to its stakeholders and integrating CSR into its core operations, the draft rules suggest that CSR needs to go beyond communities and beyond the concept of philanthropy. It will be interesting to observe the ways in which this will translate into action at the ground level, and how the understanding of CSR is set to undergo a change.

CSR and sustainability

Sustainability (corporate sustainability) is derived from the concept of sustainable development which is defined by the Brundtland Commission as “*development that meets the needs of the present without compromising the ability of future generations to meet their own needs*”⁴. Corporate sustainability essentially refers to the role that companies can play in meeting the agenda of sustainable development and entails a balanced approach to economic progress, social progress and environmental stewardship.

CSR in India tends to focus on *what* is done with profits *after* they are made. On the other hand, sustainability is about factoring the social and environmental impacts of conducting business, that is, *how* profits are made. Hence, much of the Indian practice of CSR is an important component of sustainability or responsible business, which is a larger idea, a fact that is evident from various sustainability frameworks. An interesting case in point is the NVGs for social, environmental and economic responsibilities of business issued by the Ministry of Corporate Affairs in June 2011. Principle eight relating to inclusive development encompasses most of the aspects covered by the CSR clause of the Companies Act, 2013. However, the remaining eight principles relate to other aspects of the business. The UN Global Compact, a widely used sustainability framework has 10 principles covering social, environmental, human rights and governance issues, and what is described as CSR is implicit rather than explicit in these principles.

1 http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index_en.htm

2 <http://www.wbcscd.org/work-program/business-role/previous-work/corporate-social-responsibility.aspx>

3 [http://www.unido.org/what-we-do/trade/csr/what-is-csr.html#pp1\[g1\]/0/](http://www.unido.org/what-we-do/trade/csr/what-is-csr.html#pp1[g1]/0/)

4 Brundtland Commission's Report, 1987

Globally, the notion of CSR and sustainability seems to be converging, as is evident from the various definitions of CSR put forth by global organisations. The genesis of this convergence can be observed from the preamble to the recently released draft rules relating to the CSR clause within the Companies Act, 2013 which talks about stakeholders and integrating it with the social, environmental and economic objectives, all of which constitute the idea of a triple bottom line approach. It is also acknowledged in the Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises issued by the DPE in April 2013⁵. The new guidelines, which have replaced two existing separate guidelines on CSR and sustainable development, issued in 2010 and 2011 respectively, mentions the following:

“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.”

Why is the CSR clause of the new Companies Act, 2013 so critical for SMEs?

By requiring companies, with a minimum net profit of 5 crore INR, to spend on CSR activities, the Companies Act, 2013 is likely to bring in many SMEs into the CSR fold. This will usher in a fresh set of challenges to a sector that is increasingly being asked by its B2B customers to comply with environmental and social standards, while remaining competitive in terms of price and quality. Thus, SMEs will have to quickly learn to be compliant with these diverse set of requirements and it is hoped that this handbook will facilitate their ability to comply with the CSR clause of the Companies Act, 2013.

⁵ Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises -http://www.recindia.nic.in/download/DPE_Guidelines_CSR_Sust.pdf

Benefits of a robust CSR programme

As the business environment gets increasingly complex and stakeholders become vocal about their expectations, good CSR practices can only bring in greater benefits, some of which are as follows:

- **Communities provide the licence to operate:** Apart from internal drivers such as values and ethos, some of the key stakeholders that influence corporate behaviour include governments (through laws and regulations), investors and customers. In India, a fourth and increasingly important stakeholder is the community, and many companies have started realising that the ‘licence to operate’ is no longer given by governments alone, but communities that are impacted by a company’s business operations. Thus, a robust CSR programme that meets the aspirations of these communities not only provides them with the licence to operate, but also to maintain the licence, thereby precluding the ‘trust deficit’.
- **Attracting and retaining employees:** Several human resource studies have linked a company’s ability to attract, retain and motivate employees with their CSR commitments. Interventions that encourage and enable employees to participate are shown to increase employee morale and a sense of belonging to the company.
- **Communities as suppliers:** There are certain innovative CSR initiatives emerging, wherein companies have invested in enhancing community livelihood by incorporating them into their supply chain. This has benefitted communities and increased their income levels, while providing these companies with an additional and secure supply chain.
- **Enhancing corporate reputation:** The traditional benefit of generating goodwill, creating a positive image and branding benefits continue to exist for companies that operate effective CSR programmes. This allows companies to position themselves as responsible corporate citizens.



Global principles and guidelines

A comprehensive guidance for companies pertaining to CSR is available in the form of several globally recognised guidelines, frameworks, principles and tools, some of which are discussed below. It must be noted that most of these guidelines relate to the larger concept of sustainability or business responsibility, in keeping with the fact that these concepts are closely aligned globally with the notion of CSR.

UNGC

UNGC is world's largest corporate citizenship initiative with the objective to mainstream the adoption of sustainable and socially responsible policies by businesses around the world. The 10 principles of the UN Global Compact have been derived from various UN conventions such as the Universal Declaration of Human Rights, ILO's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on environment and development, and the UN Convention Against Corruption. These principles cover four broad areas:

- Human rights (support and respect the protection of international human rights and ensure that business is not complicit with human rights abuses)
- Labour rights (uphold the freedom of association and effective recognition of the right to collective bargaining, elimination of all forms of forced and compulsory labour, effective abolition of child labour and elimination of description in respect of employment and occupation)
- Environment (support a precautionary approach to environmental challenges, undertake initiatives to promote greater environmental responsibility and encourage the development of environmental friendly technology)
- Governance (work against corruption in all forms, including bribery and extortion).

For more details refer the website of UNGC ⁶

The UN Guiding Principles on Business and Human Rights

The UN guiding principles provide assistance to states and businesses to fulfil their existing obligations towards respecting and protecting human rights and fundamental freedoms and comply with the existing laws. These principles act as global standards for addressing the risk of human rights violation related to business activity. In circumstances when these laws are breached or the guidance is not adhered to, suitable remedies have also been recommended. The primary focus is on the protection of human rights by both, the state and the business enterprises, and the principles broadly outline the manner in which the framework can be implemented.

For more details refer the website of Office of the High Commissioner for Human Rights⁷

ILO's tripartite declaration of principles on multinational enterprises and social policy

This is another voluntary declaration whose adoption by governments, employers and multinational organisations is encouraged, with the intention of further ensuring labour and social standards. This is particularly for organisations that operate across multiple countries. Focus is on core labour standards such as (i) freedom of association and the right to collective bargaining (prohibition of discrimination, bonded and forced labour) (ii) industrial relations (no trade union restrictions, regular discussions between management and labour, and the provision of a forum to lodge complaints in case of labour standard violation) (iii) employment opportunities (creation of job security, improved living and working conditions and ensuring that wages are on par with those of other enterprises in the same country).

For more details refer the website of ILO⁸

OECD Guidelines: Multinational enterprises

OECD Guidelines for multinational enterprises elaborate on the principles and standards for responsible business conduct for multinational corporations. These guidelines were recently updated in 2011. They cover areas such as employment, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition and taxation. They contain defined standards for socially and environmentally responsible corporate behaviour, and also provide procedures for resolving disputes between corporations and communities or individuals adversely impacted by business activities.

For more details refer the website of OECD⁹

Institute of Social and Ethical Accountability: AccountAbility's AA1000 series of standards

This is a series of standards which enable organisations to become accountable, responsible and sustainable. It consists of the (i) AA1000 accountability principles (AP) standard (ii) AA1000 assurance standard (AS) (iii) AA1000 stakeholder engagement (SE) standard. Since these standards have been formulated through a multi-stakeholder consultation process, they ensure that those impacted (that is, enterprises, governments and civil societies) stand to gain. The Vodafone Group Plc has adopted the AA1000AP standard by focussing on three broad areas: (i) inclusivity (stakeholder engagement to develop and implement a strategic approach to sustainability) (ii) materiality (assess the management effort required for each material issue and determine the content of sustainability reports) (iii) responsiveness (respond with solutions to material issues and challenges).

For more details refer the website of AccountAbility¹⁰

Social Accountability International (SAI): SA 8000 Standard

This is one of the world's first auditable social certification standard. It is based on ILO, UN and national law conventions, and adopts a management system approach in order to ensure that companies that adopt this approach also comply with it. This standard ensures the protection of basic human rights of workers. The nine basic elements of this standard include (i) child labour (ii) forced and compulsory labour (iii) health and safety (iv) freedom of association and the right to collective bargaining (v) discrimination (vi) disciplinary practices (vii) working hours (viii) remuneration (ix) management systems. According to SAAS, there are 695 facilities in India that have been accredited with this standard. Out of these, Aditya Birla Chemicals (India) Limited, Bhilai Steel Plant Steel Authority of India Limited, Birla tyres, Dr Reddy's Laboratories Limited and Reliance Infrastructure Limited figure prominently in the list of certified facilities within India.

For more details refer the website of SAI¹¹

6 www.unglobalcompact.org/

7 http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

8 http://www.ilo.org/empent/Publications/WCMS_094386/lang--en/index.htm

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

10 <http://www.accountability.org/standards/>

11 <http://www.sa-intl.org/index.cfm?fuseaction=Page.ViewPage&PageID=937>

ISO 26000: Social responsibility

This is a guidance tool provided by the ISO which enables organisations to understand the meaning and significance of social responsibility. It is important to note that this is not a certification but only a guiding tool. Hence, organisations which comply with these standards are self-certified. It covers six core areas of social responsibility, including (i) human rights (ii) labour practices (iii) environment (iv) fair operating practices (v) consumer issues (vi) community involvement and development. This ensures a holistic approach to the concept of social responsibility and sustainable development.

For more details refer the website of ISO¹²

OECD CSR policy tool

The OECD CSR policy tool aims to help companies gain insight into their current CSR activities, assess its value and determine other CSR activities that can be employed. This policy tool is based on the OECD Guidelines and the ISO26000 implementation guidelines. The result of the policy tool is a complete CSR policy, including an action plan with tasks, responsibilities and a communication strategy plan.

For more details refer the website of OECD¹³

Global Compact Self-Assessment Tool

The Global Compact Self Assessment Tool is an easy-to-use guide designed for use by companies of all sizes and across sectors committed to upholding the social and environmental standards within their respective operations. The tool consists of 45 questions with a set of three to nine indicators for each question. It consists of a 'management section' and four other sections, including human rights, labour, environment and anti-corruption that relate to the principles of the UN Global Compact. The tool is in line with the UN Guiding Principles on Business and Human Rights. For a small company, this tool acts as a measure of the company's performance in all areas of the UN Global Compact and how well these issues are managed. For a large organisation, this tool helps to continuously improve existing policies and systems, engage subsidiaries, suppliers or other stakeholders, and improves internal and external reporting.

For more details refer the website of Global Compact Self-Assessment Tool¹⁴

The SROI Network

The SROI Network is a framework based on social generally accepted accounting principles (SGAAP) that can be used to help manage and understand the social, economic and environmental outcomes created by an organisation or a person. In order to increase the social value or impact of a task, SROI helps in understanding, managing and communicating the social value that a particular task creates in a clear and consistent way with customers, beneficiaries and funders. It also helps in managing risks and identifying opportunities and raise finances. It flags potential improvements to services, information systems and the way to govern the businesses. By forecasting the value a company expects to create using SROI, one can identify the areas where changes are required and a comparison of performance against forecasts will help create additional value.

For more details refer the website of SROI¹⁵

The LBG model

Companies across the world adopt LBG's measurement model in order to assess the real value and impact of their community investment to both, the business and society. This model helps companies to understand the total amount of cash, time and in-kind invested within the community, and enables them to understand the geographic spread of their community support and the kind of themes supported such as education, health and arts and culture. Through this model, companies can track the manner in which their community programme supports wider business goals such as building employee morale or creating reputational advantages. Also, it helps to measure the difference their programmes make to the community at large. Under this model, member companies share data and best practices which in turn help in the benchmarking process.

For more details refer the website of LBG¹⁶

National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business

These guidelines rolled-out by the Ministry of Corporate Affairs in India, were developed through an extensive consultative process with the objective of providing a distinctive India-centric approach for Indian businesses to understand the nuances of responsible business, applicable to large and small businesses alike. They are easy to comprehend and implement, and encourage businesses to adopt the triple bottom line approach. These guidelines consist of nine principles which relate to ethics and transparency, product life cycle sustainability, employee well-being, stakeholder engagement, human rights, environmental stewardship, responsible policy advocacy, inclusive development and consumer well-being. Each principle consists of core elements that further articulate the purpose and sense of each principle. It also provides an approach for adopting these guidelines.

For more details refer the website of MCA¹⁷

12 <http://www.iso.org/iso/home/standards/iso26000.htm>

13 <http://www.oecdguidelines.nl/get-started/creating-a-csr-policy/>

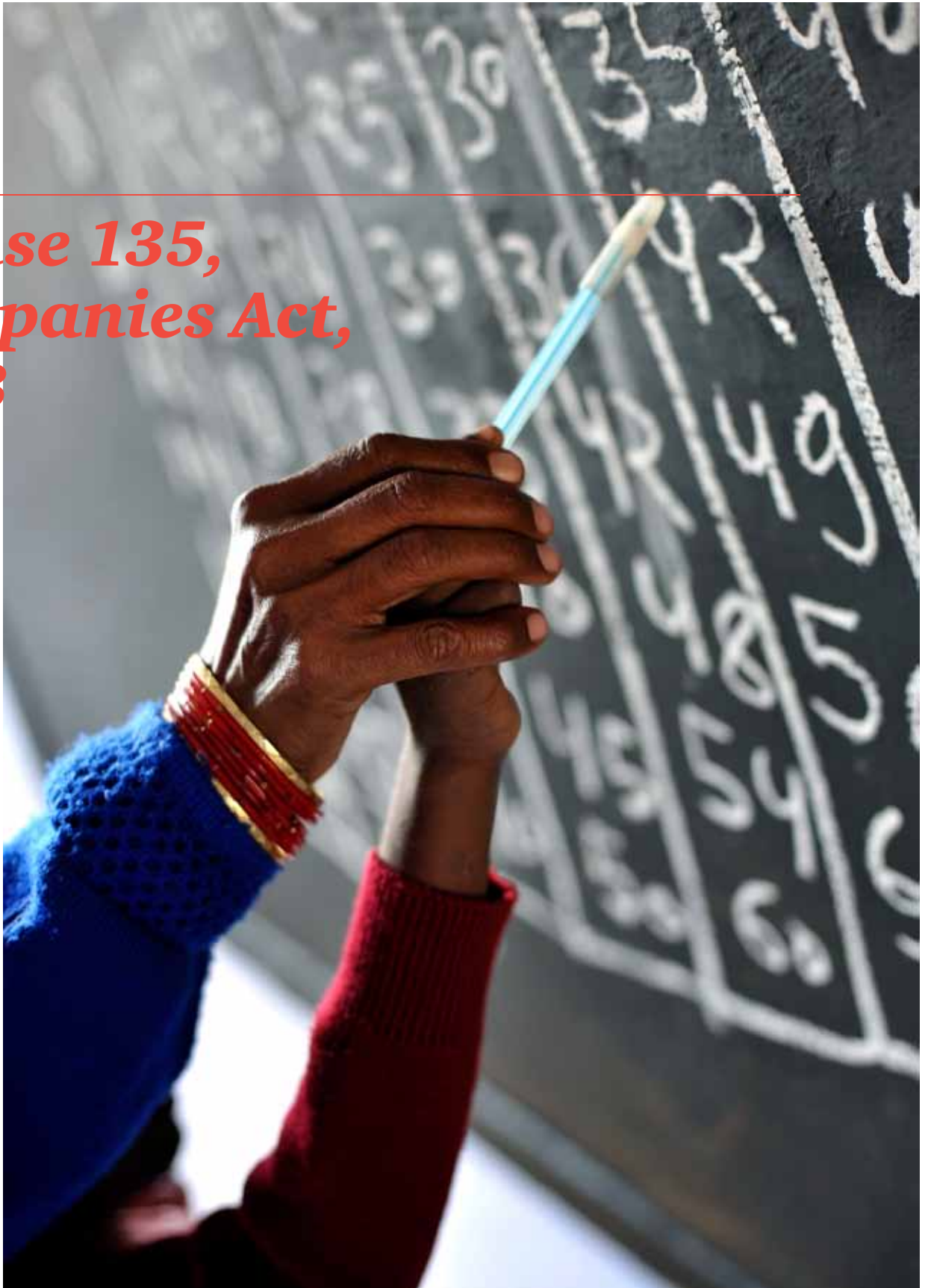
14 <http://www.globalcompactselfassessment.org/aboutthistool>

15 <http://www.thesroinetwork.org/117-home/all-regions/167-why-should-i-use-sroi10>

16 <http://www.lbg-online.net/about-lbg.aspx>

17 http://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf

***Clause 135,
Companies Act,
2013***



The Companies Act, 2013

In India, the concept of CSR is governed by clause 135 of the Companies Act, 2013, which was passed by both Houses of the Parliament, and had received the assent of the President of India on 29 August 2013. The CSR provisions within the Act is applicable to companies with an annual turnover of 1,000 crore INR and more, or a net worth of 500 crore INR and more, or a net profit of five crore INR and more. The new rules, which will be applicable from the

fiscal year 2014-15 onwards, also require companies to set-up a CSR committee consisting of their board members, including at least one independent director.

The Act encourages companies to spend at least 2% of their average net profit in the previous three years on CSR activities. The ministry's draft rules, that have been put up for public comment, define net profit as the profit before tax as per the books of accounts, excluding profits arising from branches outside India.

The Act lists out a set of activities eligible under CSR. Companies may implement these activities taking into account the local conditions after seeking board approval. The indicative activities which can be undertaken by a company under CSR have been specified under Schedule VII of the Act.

The draft rules (as of September 2013) provide a number of clarifications and while these are awaiting public comment before notification, some the highlights are as follows:

- Surplus arising out of CSR activities will have to be reinvested into CSR initiatives, and this will be over and above the 2% figure
- The company can implement its CSR activities through the following methods:
 - Directly on its own
 - Through its own non-profit foundation set-up so as to facilitate this initiative
 - Through independently registered non-profit organisations that have a record of at least three years in similar such related activities
 - Collaborating or pooling their resources with other companies
- Only CSR activities undertaken in India will be taken into consideration
- Activities meant exclusively for employees and their families will not qualify
- A format for the board report on CSR has been provided which includes amongst others, activity-wise, reasons for spends under 2% of the average net profits of the previous three years and a responsibility statement that the CSR policy, implementation and monitoring process is in compliance with the CSR objectives, in letter and in spirit. This has to be signed by either the CEO, or the MD or a director of the company

List of activities under Schedule VII



Governance

Clause 135 of the Act lays down the

guidelines to be followed by companies while developing their CSR programme.

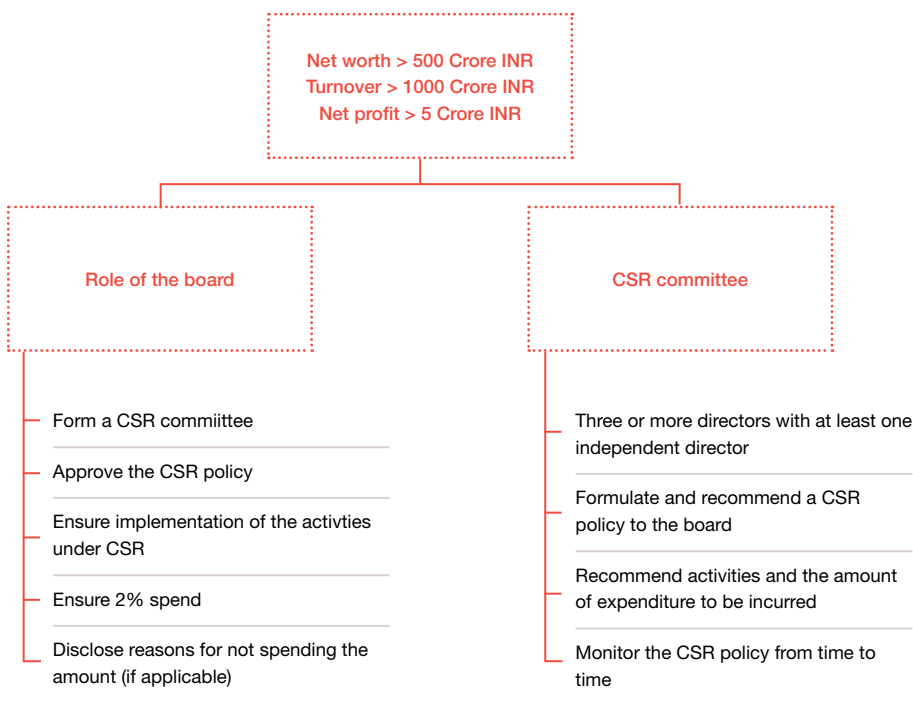
The CSR committee will be responsible for preparing a detailed plan on CSR

activities, including the expenditure, the type of activities, roles and responsibilities of various stakeholders and a monitoring mechanism for such activities. The CSR committee can also ensure that all the kinds of income accrued to the company by way of CSR activities should be credited back to the community or CSR corpus.

Reporting

The new Act requires that the board of the company shall, after taking into account the recommendations made by the CSR committee, approve the CSR policy for the company and disclose its contents in their report and also publish the details on the company's official website, if any, in such manner as may be prescribed. If the company fails to spend the prescribed amount, the board, in its report, shall specify the reasons.

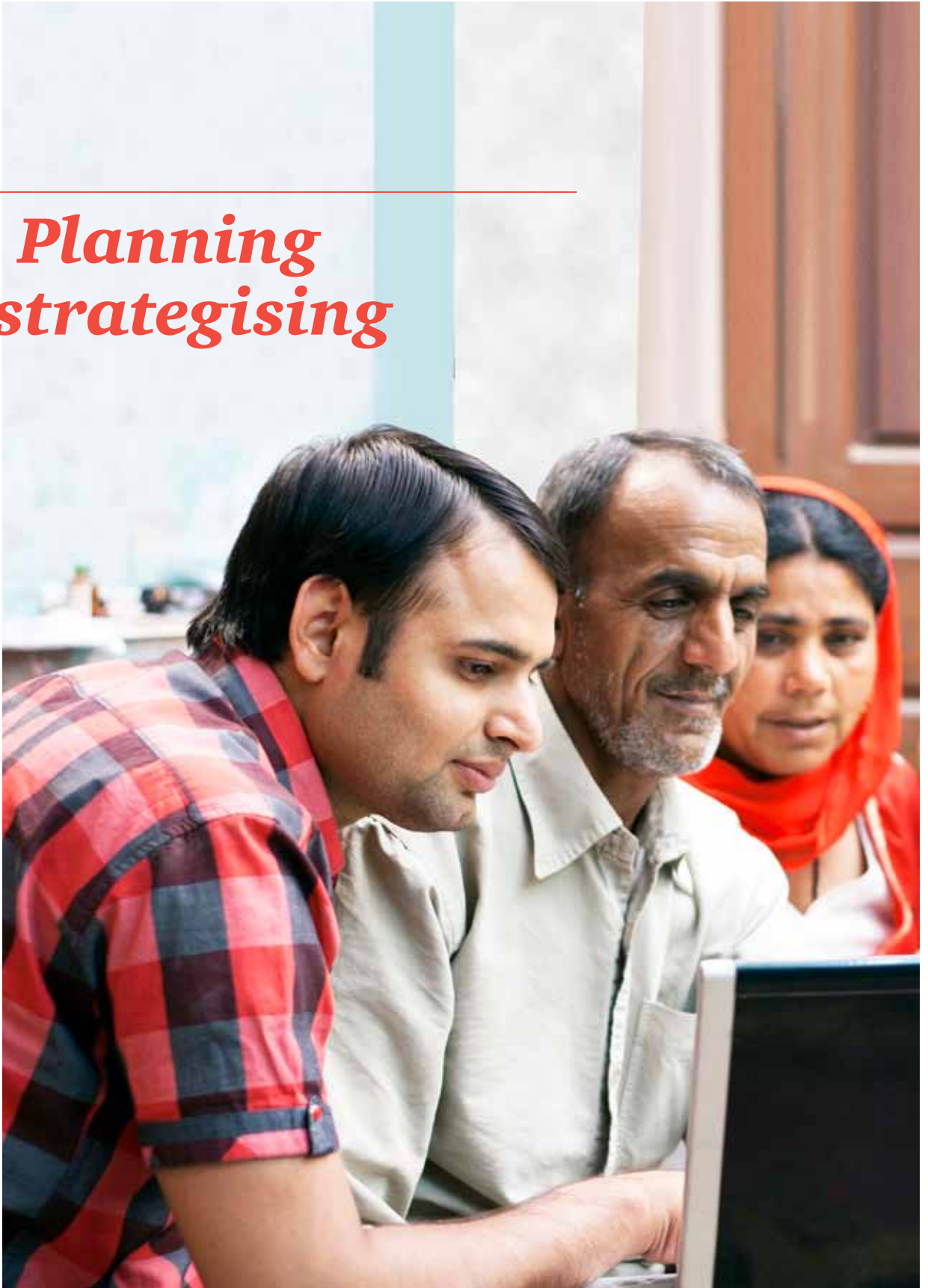
Role of the board and the CSR committee



Business responsibility reporting

The other reporting requirement mandated by the government of India, including CSR is by the SEBI which issued a circular on 13 August 2012 mandating the top 100 listed companies to report their ESG initiatives. These are to be reported in the form of a BRR as a part of the annual report. SEBI has provided a template for filing the BRR. Business responsibility reporting is in line with the NVG published by the Ministry of Corporate Affairs in July 2011. Provisions have also been made in the listing agreement to incorporate the submission of BRR by the relevant companies. The listing agreement also provides the format of the BRR. The BRR requires companies to report their performance on the nine NVG principles. Other listed companies have also been encouraged by SEBI to voluntarily disclose information on their ESG performance in the BRR format.

CSR: Planning and strategising



CSR: Planning and strategising

The first step towards formalising CSR projects in a corporate structure is the constitution of a CSR committee as per the specifications in the Companies Act, 2013, clause 135.

Background

Clause 135 of the Companies Act, 2013 requires a CSR committee to be constituted by the board of directors. They will be responsible for preparing a detailed plan of the CSR activities including, decisions regarding the expenditure, the type of activities to be undertaken, roles and responsibilities of the concerned individuals and a monitoring and reporting mechanism. The CSR committee will also be required to ensure that all the income accrued to the company by way of CSR activities is credited back to the CSR corpus.

Companies Act, 2013, Clause 135: CSR committee requirements

- A CSR committee of the board should be constituted. It should consist of at least three directors out of whom at least one is an independent director. This composition will be disclosed in the board's report as per sub-section (3) of section 134.
- The CSR committee shall:
 - formulate and recommend a CSR policy to the board, indicating the activities as specified in Schedule VII of the Act
 - recommend the amount of expenditure to be incurred on the activities indicated in the policy
 - monitor the CSR policy regularly

This is an excellent starting point for any company new to CSR. In case a company already practices CSR, this committee should be set up at the earliest so that it can guide the alignment of the company's activities with the requirements of the Act.

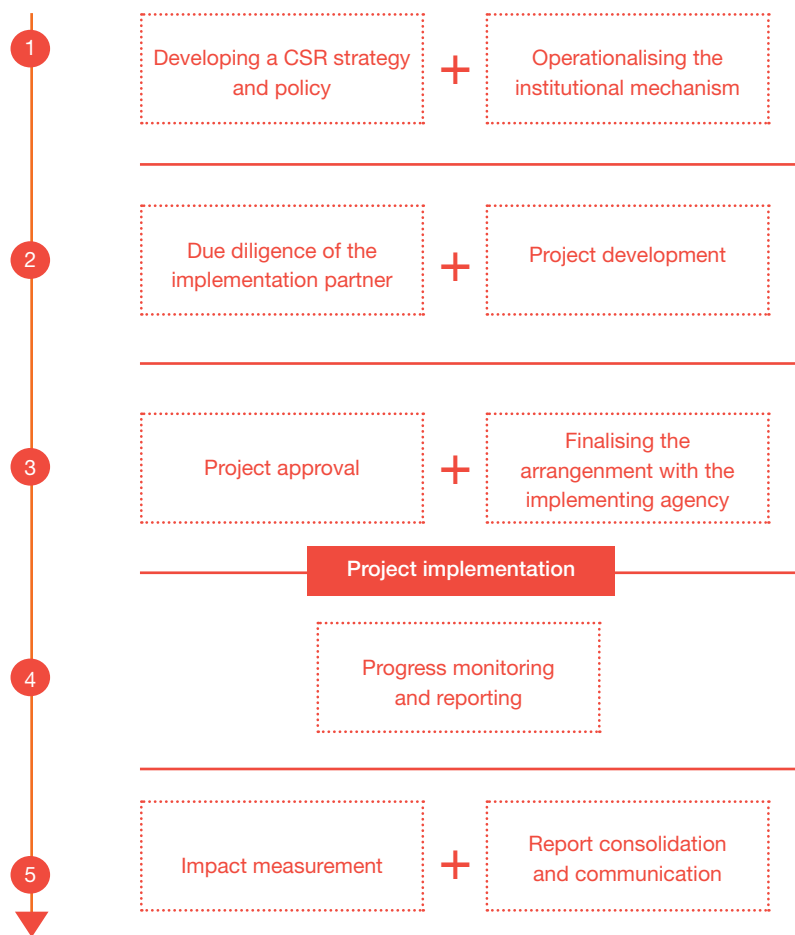
For effective implementation, the CSR committee must also oversee the systematic development of a set of processes and guidelines for CSR to deliver its proposed value to the company, including:

- one-time processes such as developing the CSR strategy and operationalising the institutional mechanism

- repetitive processes such as the annual CSR policy, due diligence of the implementation partner, project development, project approval, contracting, budgeting and payments, monitoring, impact measurement and reporting and communication

A set of such enabling processes, their inter-relationships and the sequence in which they need to be developed have been identified below:

CSR processes



While developing these processes, no standard set of recommendations exist for all companies. However, an overview of the required details, the activities required to be completed for each of these processes along with some additional guidance on critical issues has been provided below:

Step one: Developing a CSR strategy and policy

Purpose

The Companies Act, 2013 requires every company to put out its CSR policy in the public domain. The guidance provided in the Act and the draft rules on what constitutes a CSR policy are that it should:

- exclude normal business activities of the company
- contain a list of the CSR projects or programmes which the company plans to undertake during the implementation year

While specifying the annual report requirements, the draft rules go on to say is that the company must provide:

- a brief outline of its CSR policy, including 'the statement of intent reflecting the ethos of the company, broad areas of CSR interest and an overview of activities to be undertaken'
- a web link to the CSR policy including 'the full list of projects, activities and programmes proposed to be undertaken by the company'

Since most of the development requires long-term commitments and their impact often takes a while to accrue, a good CSR practice requires that a company that is serious about its CSR should develop a long-term (three to five years) vision and strategy which is reviewed annually and the activities and budgets are planned on an annual basis. The latter will comply with the CSR policy requirements of the Companies Act, 2013.

To avoid confusion regarding terms like policy, strategy, project and programme, a brief explanation has been provided here:

- CSR strategy refers to what the company expects to achieve in the next three to five years and incorporates the vision, mission and goals on a broader level. It also entails how it plans to achieve these in terms of organisation and approach.

- CSR policy refers to what the company expects to achieve over the next year. This is aligned with the requirements of the Companies Act, 2013 .
- Programme refers to a sector or an issue that the company proposes to address through its CSR. This can, for instance, be 'education of the girl child' or 'agriculture development'. Programmes will be clearly outlined in the company's CSR strategy.
- Programme goals will be achieved through a series of individual projects and, a project refers to a set of interventions, typically in a specific geography and addressing a specific stakeholder group, with a definite set of goals, beginning and end and a budget attached to it.
- Each project in turn will consist of a number of activities. All of which contribute towards the project goals.

Frameworking CSR strategy

An effective CSR strategy should articulate:

- who it wishes to address i.e the target group
- where it wishes to work i.e the geography
- what sectors or issues it wishes to address

A brief understanding of these terms is outlined below:

Target group: While development and welfare programmes in India address all the citizens, the focus is on the disadvantaged, marginalised and excluded. Marginalisation in India is primarily on the basis of gender, disability, ethnicity and location. This leads to social and physical exclusion of such groups from all kinds of development. Engaging the marginalised in India is further complicated due to language and literacy variances, information asymmetry, infrastructure constraints, geographical challenges and cultural barriers to name a few. The CSR strategy should ideally indicate which of these marginalised groups it proposes to target.

Geography: The Companies Act, 2013 encourages companies to target their CSR interventions in their local region. While this is an obvious choice for companies that are in manufacturing, those in the services sector (like banking and telecom) with a wider footprint have no concentrated local region. Companies must decide whether their CSR activities will be focused on a few geographies (this can be around their plants or in specific backward districts) or whether they will prefer to particularly work anywhere in India.

Sector and issue: Sector refers to the development area that the company wishes to focus on; typically, health, education, livelihood, environment, and so on. Issue refers to a specific aspect of a sector for example, primary education in the education sector, skills development or social enterprise in the livelihoods sector. It is important for a company to determine which sector and issues it will focus on to ensure significant positive impact. Also, the reporting format in draft rules of the Companies Act, 2013 requires that the company report against the sector making it all the more important.

Process

Objective: Developing the CSR strategy and policy.

Process owners: The CSR committee

Inputs:

- Guidance from the board
- Companies Act requirements
- Corporate business strategy, plan and supply chain
- Development priorities: both, national and wherever the company has business interests

Output(s): the CSR policy document and an indication of sectors and issues, geographies and a profile of the beneficiaries.

Activities

- Reviewing the past as well as the current CSR activities and examining their alignment with Schedule VII of the Companies Act, 2013.
- Studying the publicly available information on national and local development priorities.
- Meeting development experts in the government as well as the NGOs to understand priorities and identifying potential areas of intervention.
- Conducting internal meetings with business leaders to establish the relevance of potential CSR activities to the company's core business.
- Studying the good CSR practices of other companies and their achievements.
- Developing a CSR strategy that defines for the next three to five years, what the company's CSR activities will cover in terms of:
 - vision and mission
 - sectors and issues
 - geographies: states and districts
 - beneficiaries
 - KPIs

- Determining the implementation mechanism:
 - grant-making or direct implementation
 - institutional mechanism: in-house department, corporate foundation, partnerships with other NGOs
- Annually developing a CSR policy in line with the Companies Act, 2013 rules that defines programmes, geographies and budgets for the following financial year, aligned with the strategy and ensuring that the 2% requirement of funds allocation is met
- Establish methods for monitoring and reporting

Tools, technical guidance and standards to be used:

- The 10 principles of the UN global compact
- UN guiding principles on business and human rights
- ILO tri-partite declaration of principles on multinational enterprises and social policy
- OECD CSR policy tool
- Global compact self assessment
- Clause 135, Companies Act, 2013

Step two: Operationalising the institutional mechanism

Purpose

In order for a corporate to gain the greatest leverage and a strategic advantage through the investment of intellectual and financial resources, they are required to select their implementation mechanism. In terms of implementation mechanism, a company has several options, which are permitted under the CSR draft rules:

- Self-execution through:
 - an in-house CSR department
 - a company foundation with execution capabilities
- Making grants to an independent implementation partner (which has a track record of at least three years).
- The grants can be made:
 - directly by an in-house CSR department
 - through the company's grant-making foundation

The factors that a company needs to consider while deciding between in-house execution and grant-making (whether by the department or the company foundation) are as follows:

Decision criteria	Grant making	Self execution
Availability and access to implementation partner	Preferred when there is an easy availability and access to the implementation partners (in the target geography working on identified sector and issue) who can work towards the objective that the company wants them to pursue.	Preferred when there is a lack of availability and access to the implementation partners (in the target geography working on identified sector and issue) who can work towards the objective that the company wants them to pursue.
Customisation	The flexibility of customising a CSR project to suit the company needs is low to medium.	The flexibility of customising a CSR project to suit the company needs is high.
Cost of implementation	Implementation partners are more likely to have lower costs due to their concentrated focus in pursuing development activities, cumulative time spent on the field, cost of human resources deployed and in general operational efficiencies. Fixed costs are usually averaged down as the implementation partners usually try to tap multiple sources of funding including government assistance.	Overheads are usually higher and economic efficiencies lower (at least during inception and growth phases). Higher fixed costs are involved.
Control	Low to medium levels of control over day to day activities, efficiencies and outputs.	High levels of control over day to day activities, efficiencies and outputs.
Building expertise	Project management know-how is sufficient and in-depth domain knowledge of development issues is not expected.	Project management know-how is required along with in-depth domain knowledge of development issues.

It must be noted that whatever implementation mechanism the company chooses, it must have a basic CSR department in place to support the CSR committee. The role and structure of the department will be determined by the CSR committee.

Selecting legal structure of the company foundation

Many companies have set up their own foundations (a term used loosely to describe a non-profit entity promoted by a company) to implement their CSR activities. The advantages that they see in this are:

- It enables leveraging of funds from other sources i.e. the government schemes and other foundations. Typically, profit organisations are not eligible for such funds.
- Since the skills, job titles, career paths and cost structures required for the execution of CSR projects are quite different from a company's operations, a separate foundation enables the company to keep these distinct.

Under the draft CSR rules, an entity that a company sets up to facilitate the implementation of its CSR activities is to be registered in India as a trust, society, or a non-profit company under section 8¹⁸ of the Companies Act, 2013. Non-profit organisations in India are:

- self-governed by a board of trustees or a managing committee or a governing council, comprising individuals who generally serve in a fiduciary capacity
- intended to benefit others outside the membership of the organisation
- prohibited from distributing a monetary residual to its members

A detailed comparative analysis of the three choices of non-profit legal structures is attached in Appendix 1: Comparative analysis of the three choices for legal entity.

Process

Objective: Establishing a legal entity and aligning the accounting, tax, finance, administration, HR and IT systems to deliver the commitments made in the CSR policy.

Process owners: The CSR committee

Inputs: The CSR strategy

Output(s):

- creation of a separate legal entity or a CSR department for CSR activities
- other institutional mechanisms to align the accounting, finance, administration, HR and IT systems with CSR activities

Activities:

- Selecting the organisation model for the CSR implementation: in-house versus outsourced and its legal entity (trust, society, Section 8¹⁹ company, in-house department, etc)
- Identifying the implementation model (grant making, direct project execution, etc)
- Formalising the job description, the roles and responsibilities and the reporting relationships for the CSR team (whether in-house or in a foundation)
- Integrating budgeting, procurement, payments and reporting for CSR with the existing finance, administration and IT systems
- Analysing accounting systems and chart of accounts and make required changes to record all expenses appropriately. Establish a method of allocation for the expenses (or assets created) that are partly for the CSR and partly for business or employee use.

Tools, technical guidance and standards to be used:

- To be tailored as per corporate requirements

Step three: Due diligence of the implementation partner

Purpose

Due diligence refers to the process a company undertakes to determine the risks as well as the benefits of working with a potential implementation partner. This process has to be sufficiently robust to ensure that a company's implementation partners have the reputation, competence and integrity to deliver effective programmes on the ground.

It begins as soon as the discussions with the implementation partner suggest that there is prima facie interest of both parties to enter into a partnership. A detailed due-diligence is essential for large and long partnerships but may be brief for a relatively small or opportunistic partnership opportunity.

The due diligence process consists of five primary areas for investigation:

- competence of the implementation partner
- identity
- management
- accountability
- transparency and financial capability

These have been outlined below:

^{18,19} The non-profit organization formerly known as Section 25 companies are now called Section 8 companies after the introduction of Companies Act, 2013.

Issue	Sub-issue	Description
Competence of the implementation partner	Geography	Capacity, expertise and the number of years of experience with the geography under consideration
	Sector	Capacity, expertise and the number of years of experience with the sector under consideration
	Issue	Capacity, expertise and the number of years of experience with the issue under consideration
Identity	History of existence	The number of years the implementation partner has been in existence
	Legal identity	The organisation is registered either as a trust, a society or Section 8 company, a charitable company, a co-operative society or is unregistered
	Affiliations	The desired level of affiliation with governments, local administration and international bodies
	Litigations	Any ongoing litigation
Management	Composition of the board	Number of members, advisors, term of members and advisors and board renewal procedures
	Profile of the board members and advisors	Bios of the members on the board, their number of years and depth of experience and relevant achievements
	Diversity in expertise	The expertise available at the disposal of the board for development activities
	Board meetings	Regularity of meetings, attendance records and recent topics of discussion
	Vision, mission and strategy	The management outlines its vision, mission and strategy in its operational plans or other documents. These plans are communicated to all relevant employees
	Experience of the management	The management personnel responsible for the day-to-day activities have the necessary depth of experience and skill set to manage the current and the future growth plans.
	Conflict of interest	Any conflict of interest between the board members, the advisors or the management personnel with the company. There is no conflict of interest with the local governments.
Transparency	Transparency	Awareness of the disclosure and the transparency requirements for all stakeholders (including regulators and funders) like periodic reporting, external audits and ratings
Financial capability	Financial statements	Availability of audited financial statements
	Adequacy of reserves	A formalised and institutionalised system for keeping reserves for times of financial need
	Section 12A registration	Status of Section 12A registration
	80G registration	Status of 80G registration.
	FC(R)A registration	Status of the registration with the Foreign Contribution (Regulation) Act 2010.

A more detailed due-diligence can also undertake the evaluation of the following five issues:

- organisation structure
- operations, systems and processes
- human resource
- financial capability
- risk management

CII and Credibility Alliance's guidelines for identifying NGO partners are mentioned in Appendix 4.

Process

Objective: Selecting the implementation partner.

Process owners: The CSR department or Company Foundation

Inputs:

- the CSR strategy and policy
- discussions with communities, board, staff, other funders, local government officials, local leaders or influencers, auditors

- studying the books of accounts and the auditor's report

Output(s):

- a due diligence report

Activities:

- Establishing a due diligence criteria to evaluate the implementation or concept development agency including its incorporation, permits and licenses, systems, processes, public image, management, team deployment, track record, financial soundness, competence level, presence in desired geography, compatibility with company CSR policy and any conflicts of interest.
- Establishing a due diligence criteria for evaluation and empanelment of private funders for partnership and joint projects.
- Evaluating the partnership opportunities for its risks and benefits.

Tools, technical guidance and standards to be used:

- To be tailored as per corporate requirements.

Step four: Project development

Purpose

The CSR strategy of a company will be implemented through a series of projects which will have definite beginnings, ends, expected outputs and outcomes as well as budgets associated with it. These projects may be of a short duration (a few months) or multi-year.

A company may choose to implement projects through its in-house teams or in partnership with other agencies or a combination of both. Whatever path it takes, it is important for the project to be developed clearly with distinct baselines, defined activities, 'monitorable' targets and budgets. In the case of multi-year projects, it is important to include a provision to undertake annual reviews which can form the basis to revise the project.

Process

Objective: Developing a feasible project proposal.

Process owners: The implementation agency (the CSR department, company foundation or the NGO partner)

Inputs:

- the CSR policy
- institutional mechanisms
- information from the government sources, previous studies done in the area, etc
- information on programs targeting similar geographies and beneficiary groups or strategies
- monitoring impact measurement reports from any earlier projects

Output(s):

A project proposal that details:

- a project context including the roles of other development actors
- key needs of the target beneficiaries
- project goals, KPIs, baselines and expected end lines
- project milestones for progress monitoring purposes
- activities and timelines to achieve the stated project goals
- budgets along with the basis for estimation
- risks and mitigation strategies
- progress reporting: content, frequency

Activities:

- Developing a framework to identify key stakeholder groups including the local community, the local government or bodies, academia and research institutions, investors, etc.
- Conducting a needs assessment (if required) to assess development priorities. The methodology for this can be participatory processes, surveys or a combination of the two.
- Studying and adopting good practices to address similar challenges based on prior experiences or lessons available from other practitioners and develop the approach.

- Detailing the project: the objectives, the beneficiaries and the impact on the beneficiaries, the assumptions, the expected outputs and outcomes, detailed activities, potential to influence public policy and practice.
- Identifying the indicators of success with the means of verification and establish the baseline for each. This can be commissioned as a separate study or can even be included in the needs assessment stage.
- Estimating the budget and how it will be funded specifying the community contributions, leveraging of the government schemes and contributions from the other donors.
- Indicating the monitoring and evaluation methodologies for impact measurement.

Tools, technical guidance and standards to be used:

- Social return on investments (SROI), the SROI network
- Global impact investing network (GIIN)
- ISO 26000: social responsibility

Step five: Project approval

Purpose

Every project, whether developed by the in-house team or an external agency, must be formally examined and approved. This is to ensure that each project is in line with the CSR strategy and policy, the monitoring indicators are clearly defined and relevant and there is an adequate budget available. Projects that go on for longer durations or demand a larger amount of resources must be scrutinised more carefully than the others.

The CSR committee is ultimately the one responsible for every project. It can, however, choose to delegate authority to a project approval committee consisting of company staff and outside experts with clearly defined roles and responsibilities.

Process

Objective: Approve the project based on the CSR policy objectives, principles and guidelines.

Process owners: The CSR committee or the delegated project approval committee.

Inputs:

- a project proposal
- a due diligence report

Output(s): An approved project proposal including a monitoring process and reporting and responsibility for this.

Activities:

- Determining the delegation of power for the project approval.
- Establishing an evaluation framework for the appraisal of the project concepts and implementing agencies that ensure complete alignment with the CSR policy.
- Establishing tests for the theory of change; whether the concept will be able to deliver the intended results. Establishing tests for the value for money, economy, effectiveness and efficiency.
- Reviewing risks and mitigation measures.
- Identifying resource availability and any specific organisational requirements and constraints.
- Laying down organisational supervision and oversight requirements.

Tools, technical guidance and standards to be used:

- To be tailored as per corporate requirements.

Step six: Finalising the arrangement with the implementing agency

Purpose

While working with an external agency, it is very important to enter into a formal arrangement which is referred to here as a Memorandum of Understanding or MoU. It defines the roles, responsibilities, deliverables, commitments and consequences in case of any breach. This is essentially a formal acknowledgement that all the partners have voluntarily consented to work together to achieve an agreed outcome that requires each one to play their respective roles.

The term MoU is used more generically here to refer to the arrangements between partners which can range from a formal, legally enforceable contract on the one hand to a simple exchange of written documents

on the other. However, what is important for the company to keep in mind is that it is entering into an arrangement with a partner, not a supplier and there is a greater sense of mutuality in this relationship.

It may also be noted that the MoU is relevant only if the project is being implemented by a legal entity other than the company's own CSR department. It must also be executed if the project is being implemented by the company foundation if it is a separate legal entity.

Disbursement scheduling

For a project to deliver the desired results, it should have sufficient funds to carry out the planned activities. At the same time, having excess funds in the bank account is not prudent financial management. Thus, the scheduling of disbursements is important both for the company (to plan its cash flows from the CSR budget) and the implementing agency and hence needs to be detailed in the MOU.

A good practice suggests that the scheduling of disbursements should be linked with the activities planned for the each period; this can be a quarter, six months or a year depending upon the administrative convenience and budget sizes. Thus, the project budget needs to be broken up accordingly and the funds required for the subsequent period should be made available in advance.

Actual disbursements have to then be linked to the progress on the ground. The MoU should also specify the conditions that the implementing agency should fulfil and the documentation it should provide in support of a disbursement request. Typically, these include the status of:

- activities originally planned in the period
- changes and the reasons thereof
- planned and required funds for the period
- utilised funds and bank balances
- net funds required

Process

Objective: Agree upon and sign the MoU with the partner.

Process owners: The CSR department or company foundation

Inputs:

- an approved project proposal
- a due diligence report

Output(s): MoU with the implementing agency including the disbursement schedule.

Activities:

- Developing template MoUs based on the context. Specify the outputs and outcomes, the approach and methodology, the KPIs, key parameters to be monitored and reported, the mode of communication, contract management team, scope of change in management procedures, dispute or conflict resolution mechanisms, inspection and audit requirements, contract closeout requirements, timelines, milestones and deliverables, budgets, process of invoicing and release of payments, etc
- Establishing a process for negotiation of the MoU with the implementing agency.
- Negotiating, agreeing upon and signing the MoU

Tools, technical guidance and standards to be used:

- To be tailored as per corporate requirements.

Step seven: Progress monitoring and reporting

Purpose

Routine progress monitoring serves the following three important purposes:

- It highlights any slippages and helps to determine a corrective action that must be taken if need be.
- It provides an excellent opportunity for learning: what worked and what did not. This can then be immediately applied to other projects.
- This is an essential part of the directors' report as per the CSR clause of the Companies Act, 2013

To ensure objectivity, it is critical that the monitoring is done by someone other than the people directly engaged in the project implementation. In cases where the implementation is done by a partner or corporate foundation, this role can either be outsourced or played by the company's CSR department. In case the CSR department itself is implementing a project, then monitoring should either be outsourced to a third party or the department structure should include an independent monitoring cell. This decision should be taken by the CSR committee.

Process

Objective: Monitoring progress, distilling lessons and forming the basis for reporting.

Process owners: The CSR committee

Inputs:

- The approved project proposal
- Previous monitoring reports

Output(s):

- Determining mid-course corrections
- Recommendations for future project designs
- Project monitoring reports to the CSR committee

Activities:

- Determining the monitoring schedule for each project based on the approved project proposal.
- Obtaining all relevant progress reports from the project, studying them and making a note of the gaps.
- Holding discussions with the implementation team on reasons for slippages (if any) and agreeing on a corrective action. This may be done through a field visit or remotely, based on what has been agreed in the MoU.
- Holding discussions with the implementation team regarding what lessons are emerging and how they can be applied within the project as well as outside.

Tools, technical guidance and standards to be used:

- To be tailored as per corporate requirements.

Step eight: Impact measurement

Purpose

Impacts of the development projects typically take a while to manifest. For instance, a girl child education programme can show an increased enrolment and retention of girls and on a monthly basis, but further impacts such as improved learning levels will take at least a year. So, impact measurement studies have different objectives from project monitoring and typically have to be undertaken after providing sufficient time for them to manifest.

Impact measurement is often quite specialised and needs to be undertaken by an independent team with specific skills depending upon project design. For instance, if a girl child education programme has a strong component for mobilising communities, then the members of the evaluation team must not only understand education but also have knowledge of gender and the community in order to assess the impact.

There are several tools and frameworks for measuring impact. Each has its pros and cons depending upon the nature of interventions, time and budgets available for the study and the availability of people. Thus, selecting the impact measurement methodology is important.

Thus, impact studies have to be carefully planned in terms of team composition, timing and methodology. The process must be driven by the CSR committee which can delegate the day-to-day management of the process to an appropriate structure within the company.

Process

Objective: Measuring the outcome and impact of the projects.

Process owners: The CSR committee

Inputs:

- resource planning
- the project MoU

Output(s):

- impact measurement report
- recommendations for the future project designs

Activities:

- Identifying methods for conducting the impact assessment and outcome measurement suited to the context and the size of the project and budgets available.
- Identifying the skills set required for the impact measurement team and accordingly identifying, selecting and appointing the team.
- Assisting the team to prepare the methodology for selecting a sample, conducting surveys, focus group discussions collecting information on the identified indicators.
- Making the provisions for the site visits by the team, involvement of the agency involved during the baseline and needs assessment.
- Undertaking the impact measurement exercise and preparing the report.
- Identifying the lessons for future interventions.

Tools, technical guidance and standards to be used:

- London Benchmarking Group (LBG) model
- Social return on investments (SROI), The SROI network
- Global impact investing network (GIIN)
- Accountability -: AA 1000, Institute of Social and Ethical Accountability
- ISO 26000: social responsibility
- Public consultation guidelines of Government of India, etc

Step nine: Report consolidation and communication

Purpose

Reporting and communication closes the loop between intent and achievement and is hence a crucial element of the CSR process. In the context of the Companies Act, 2013 this is also a mandatory requirement as it provides crucial inputs to preparing the directors' report.

Project-level reporting forms the base and hence getting it right is critical. Project reports have to be consolidated in programme related reports, aligned with the CSR policy stated by the company as a requirement under the Companies

Act, 2013. The report has to conform to the requirements of CSR rules under the Companies Act, 2013 in terms of form and content as non-compliance attracts penalties. This report will also form a key input into the company's SEBI Business Responsibility Report and sustainability report. The CSR committee may choose to go beyond the requirements of the Companies Act, 2013 and issue a stand-alone CSR report.

Process

Objective: Reporting the CSR at an individual project level, consolidated at a programme level and aligned with the requirements under the Companies Act, 2013 and the CSR committee.

Process owners: The CSR department

Inputs:

- CSR strategy and policy
- the project MoU
- monitoring reports from individual projects

Output(s):

- consolidated CSR reports
- external stakeholder communication

Activities:

- Identifying the recipient of the report: the board of directors, investors, government agencies, beneficiaries, etc.
- Selecting the appropriate reporting framework that is aligned with the requirements of the Companies Act, 2013 and the global best practices.
- Consolidating project reports into programme reports and an overall CSR report.

The reporting format will form a part of the CSR rules being drafted by the Ministry of Corporate Affairs.

Tools, technical guidance and standards to be used:

- SEBI directive on ESG disclosure (if applicable), RBI guidelines on CSR, sustainable development and non-financial reporting (if applicable)
- Clause 135, Companies Act, 2013 (if applicable)

CSR and SMEs



CSR and SMEs

What are SMEs?

Small and medium enterprises (SMEs) significantly contribute towards India's economic growth. These serve independently and also as ancillary to larger units and help generate employment and industrialise the rural and backward regions of India. They employ nearly 40% of India's workforce and contribute around 45% to India's manufacturing output²⁰.

What do they do?

The business activities of SMEs are performed in proximity to the locals. This enables them to be aware of community needs, manage expectations and develop CSR programmes appropriately.

Now that the CSR clause in the Companies Act, 2013 covers companies that have a net profit of five crore INR and above, it is expected that while micro-enterprises will not qualify, many small and medium enterprises (SMEs) will.

SMEs are being treated separately in this handbook because of their distinct features. The CSR activities of these enterprises are driven by the personal interests of promoters who hold a significant financial stake in the business. They tend to be in clusters and engaged in similar business activities. While the quantum of revenue available for CSR with individual SMEs is expected to be small, all eligible companies in a specific geographical cluster, who single handed as well as collectively impact the same community, can pool their resources to create a sizeable CSR fund.

How can SMEs contribute to CSR initiatives?

This section analyses the option of undertaking collaborative CSR activities by SMEs. This collaboration can also be used by other companies to maximise the impact of their CSR initiatives while reducing the operational costs for fund management.

Why collaborate for CSR initiatives?

CSR is for all companies. SMEs in India have participated in CSR activities but these efforts have not been optimally delivered.²¹ One possible reason can be the fact that CSR activities depend on the profits of an SME and any fluctuations in profits can adversely affect their capability to continue their contribution for CSR. Another reason can be the limited human resources available to SMEs which may also result in the lack of a professional approach.

SMEs tend to focus on short-term activities that involve lesser operational costs. A survey conducted by UNIDO in 2008 on five SME clusters in India, found that 31% to 79% of the SMEs in these clusters, preferred charity donations rather than long-term programmes for local communities.

With the introduction of the new Companies Act, 2013, the SME's approach to CSR has to be modified while keeping operational costs low. One viable alternative is to pool resources with other SMEs in the cluster and create joint CSR programmes managed by a single entity. This collaboration can be formed within the units in a cluster as they interact with the same communities and have already established associations that cater to the business needs of the units.

Collaboration has the following advantages:

- **Reduces operational cost:** Individual CSR efforts by a company consist of establishing a CSR department, assessing the needs of local communities, undertaking programmes directly or through an NGO and conducting regular impact assessment studies. A common organisation catering to a number of companies will carry out these activities collectively and thus reduce the operational cost of management.
- **Undertake long-term projects:** A major hindrance in developing long-term projects is the uncertainty in the CSR budget. This is dependent on the financial performance of the company. A fluctuating performance implies that the CSR budget allocations can be unreliable and can jeopardise a programme initiated earlier. Pooling resources addresses this issue to a



20. http://articles.economictimes.indiatimes.com/2013-06-09/news/39834857_1_smes-workforce-small-and-medium-enterprises

21. http://www.business-standard.com/article/sme/smes-to-get-professional-help-on-corporate-social-responsibility-108060501090_1.html



certain extent as the other partners can increase their share in case there is variance in allocation from a certain segment of the cluster. The long-term programmes also have greater impact than the short-term projects. Communities are increasingly realising the importance of the support offered by these programmes in making their lives better. Long-term programmes also lead to better community relations and this ensures avoiding situations of community unrest that hamper business activities.

- **Learning from experiences:** A common entity with multiple participants from the cluster will help assess community needs, undertake relevant programmes based on past experiences and address a greater number of community issues.

Collaboration among the SMEs in a cluster also provides an opportunity to manage social and environmental issues and respond better to the pressure from buyers, who are trying to establish ethical supply chains and gain appreciation from the international community. Collaborations can also be forged amongst larger companies, possibly through industry associations, to enable them to address common issues plaguing a geographical region or an industry.

The process for an SME

The first step involved in collaborating is to create an alliance of interested SMEs. This may be initiated by the cluster association in case of large-scale participation from the cluster. Alternatively, it can be initiated by an individual SME in case there are only a few units interested in undertaking CSR activities in collaboration. Involvement of the cluster association will ensure that the local priorities are given due consideration while developing CSR programmes. In case a sufficient number of SMEs in a cluster do not wish to participate or are not required under the Companies Act, 2013 to spend on CSR activities, the boundary may be extended to other clusters, though this increases complexity.

The alliance should then form a steering committee with the representatives from each SME so as to democratically decide on issues. The steering committee should study the institutional method of implementation, i.e. undertaking activities through an established trust, society, a Section 8 company or forming a new entity or directly managing the funds.

The steps other than the guidelines mentioned by the steering committee in the section “CSR: Planning and strategising” of this handbook, include the following:

- Deciding the thematic areas from Schedule VII of the Companies Act, 2013, beneficiary groups and geographies that it will target based on the inputs from participants.
- Developing internal processes to track individual contribution by members and their utilisation in CSR activities, finalising long-term projects based on projected contributions by members and addressing non-payment by members.

The CSR policy of individual SMEs should be designed to allow for flexibility in case of a collaborative effort to undertake CSR. This implies that the policy, over and above the guidelines mentioned in the section “Step one: Develop CSR strategy and policy”, should allow the following:

- Flexibility in selecting thematic areas from Schedule VII of Companies Act, 2013, beneficiary groups and geographies as per the priorities of the entire association.
- Support to initiate CSR programmes to the extent possible, in case the association is abandoned.

The next steps involved in the due diligence of implementation or the concept development partner are:

- Project development
- Operationalising institutional mechanism
- Contracting
- Budgeting and payments
- Monitoring
- Impact measurement

Reporting and communication are as described in section “CSR: Planning and strategising”

In cases where the total CSR funds are insufficient to cover the cost of collaboration, SMEs can also contribute to the Prime Minister’s National Relief Fund or any other fund set up by the central government or the state governments as per activity ix of the Schedule VII of the Companies Act, 2013.

Appendix 1

Comparative analysis of the three choices for legal entity

Differential factors	Trust	Society	Section 8 company ²² (earlier known as Section 25 company)
Basic document	Trust deed which contains objects of the trust (bye-law)	Memorandum of association Articles of association with rules and regulations	Memorandum of association Articles of association
Formation	Simple	Simple	Slightly difficult
Jurisdiction	Deputy registrar or charity commissioner	Registrar of Societies	Registrar of Companies
Legislation / statute	Relevant state trust act	Societies Registration Act 1860	Companies Act 2013
Objectives	Social benefits and charitable	Literary, charitable, scientific and resource oriented	Nonprofit activities
Re-amendment or modification of objects	Alteration can be undertaken only by the founder or settler	Easy, legal procedures	Complicated, legal procedures
Required members	Minimum = 2, maximum = no limit	Minimum = 7, maximum = no limit	Minimum = 7, maximum = no limit
Registration	As trust with the registrar	As society with society registrar	As per Companies Act under Section 8 (earlier Section 25)
Stamp duty	4% of trust property value will be executed in non judicial stamp paper with the registrar	No stamp paper required for memorandum of association, and rules and regulations	No stamp paper required for memorandum and articles of association
Name	Easy to choose	Easy to choose	Prior approval required from Registrar of Companies
Management board	Trustees	Governing body	Board of directors and management committee
Succession in management	By election	By election	By appointment
Meetings	No provisions	Annual meeting as per law, governing body meeting as per the rules of society,	Quite extensive as per the provision of Company Law
Statutory regulations	Nominal	Limited	Maturable and exhaustive
Membership transfer	Not possible	Not possible	Free or control as per desire
Member admission	Not applicable	Governing body control	General body or board control through issue of capital
Payment to members	As notified in trust deed	Not restricted	As approved by company and state

²² The non-profit organisation formerly known as Section 25 companies are now called Section 8 companies after the introduction of Companies Act, 2013.

Appendix 2

Designing a volunteering programme

As part of their corporate social responsibility efforts, companies encourage their employees to volunteer for a cause (usually pre-selected by corporate human resources or foundations) during work hours under formalised employee volunteering programmes (EVPs). These EVPs involve substantial opportunity cost for employers and therefore must be carefully planned and executed.

Who is a corporate volunteer?

A corporate volunteer is an employee who actively takes on a task, responsibility, or project on his or her own accord without needing to be assigned or told to do so as part of his or her daily job duties. Corporate volunteering is generally considered an altruistic activity and is intended to promote larger social or environmental good or improve the quality of life of a target beneficiary or a community.

Most often, there are no financial gains for the work or service provided by such volunteers. However, sometimes this volunteering involves incentives such as personality or profile development, skill development, socialisation, and fun. In certain areas of volunteering work such as health services, education or emergency rescue volunteers receive training before they can contribute.

However, most volunteers serve on a need basis without any prior educational or work experience of related background.

Several design parameters and related activities need to be considered while developing an EVP:

Design parameter	Activities
<p>Organisation goals: Laying out the overall objective of a company from its EVP.</p>	<ul style="list-style-type: none"> Identify volunteering goals of your organisation.
<p>Employee volunteering mechanism: Developing the institutional framework under which employee volunteerism can be channelled for a larger good.</p>	<ul style="list-style-type: none"> Establish institutional ownership of volunteering programme. Establish volunteer codes of practice. Establish volunteering governing principles. Design volunteer programmes and projects. Draft volunteering agreement including the statement of volunteer rights and responsibilities. Lay out roles and responsibilities of coordinators for the EVP. Ensure continuity in volunteer work.
<p>Recruitment and enrolment: Attracting, screening and selecting qualified individuals for a specific volunteer role.</p>	<ul style="list-style-type: none"> Lay out the volunteer recruitment and enrolment process. Create volunteer roles and writing position descriptions. Segment and target volunteers. Write volunteer advertisements. Process enquiries and applications. Undertake selection and interview process.
<p>Inducting and training: Welcoming new volunteers to the EVP and preparing them for their role. It provides an introduction to the working environment where they will volunteer and available resources. The process will cover volunteer rights, the terms and conditions of volunteering, legal and compliance requirements and health and safety guidance. It also covers any necessary training needs of the volunteers to perform their duties.</p>	<ul style="list-style-type: none"> Design and deliver induction and orientation programmes. Train volunteers.
<p>Mentoring and supervising: Ad hoc assistance by a more experienced and knowledgeable person to help facilitate a less experienced and knowledgeable person to reach his or her individual goals and objectives in the volunteering programme. Supervision involves management of the individual's performance against a prescribed objective on a routine basis and providing actionable feedback.</p>	<ul style="list-style-type: none"> Design and deliver mentoring programme. Assign, supervise and establish key performance indicators for volunteer work. Provide performance feedback to volunteers. Keep volunteers motivated. Manage disputes and grievances.
<p>Rewarding and recognising: Rewards and recognition are given when an organisation wants to motivate volunteers in achieving a goal or organisational objective. Rewards and recognition are designed to distinguish and motivate employees. This is important in the case of volunteering where employees do not have any financial incentives.</p>	<ul style="list-style-type: none"> Make volunteering attractive. Develop awards and recognition framework.
<p>Encouraging diversity: Encouraging employees with unique experiences and backgrounds to work together to increase productivity, effectiveness and responsiveness to changing conditions to enhance their contribution and benefit from the volunteering exercise.</p>	<ul style="list-style-type: none"> Communicate the value of diversity. Develop programmes to encourage diversity. Recruit and enroll volunteers from diverse backgrounds.

Appendix 3

Community engagement

A community can be defined as a homogenous group of individuals bound together geographically, politically, culturally or by certain values, principles or shared characteristics. For the purposes of this discussion, we define community as the collection of stakeholders who reside in the local vicinity of company operations and who rely on or are impacted by its shared resources.

Community engagement is defined as a process in which the needs, priorities and values of various individuals (not directly associated with or dependent on a given company) and that of other external organisations in a community are incorporated into corporate decision-making and management activities.

Tools, technical guidance and standards to be used:

- Participatory rural appraisal
- Focus group discussions
- Door-to-door surveys

Steps for robust community engagement	Key activities
Assess the local context: Understanding the characteristics and complexities of the local landscape and use this information for strategic planning of community engagement.	<ul style="list-style-type: none">• Undertake socioeconomic assessment.• Map local communities and networks.• Map key institutions engaged with local communities.• Identify potential partners.
Involve communities: Support and facilitation of the process of community-driven planning to enable communities to define their own goals, identify opportunities and assets they plan to utilise or share, and prioritise areas of potential engagement with the company and other local development actors.	<ul style="list-style-type: none">• Identify objectives of community engagement and its guiding principles.• Enable community planning, visioning and prioritisation through participatory methods.• Manage community expectations and perceptions.
Identify and categorise key stakeholders: Creation of a list of the individuals, groups, and institutions that could affect or be affected by any community engagement project. This step identifies and generates knowledge about individuals and local organisations in order to understand their behaviours, intentions, inter-relations and interests.	<ul style="list-style-type: none">• Identify and segment various target groups.• Undertake needs assessment.
Set operational parameters: Setting up the scope and target of such an engagement in line with the activities a company will support.	<ul style="list-style-type: none">• Develop a baseline.• Identify the company and any shared assets available.• Identify investment areas and budgets.• Develop key performance indicators.
Project implementation: Identifying the best way to deliver a project in view of several variables, such as the objectives of community engagement, project timeframe, budget and local operating context.	<ul style="list-style-type: none">• Select implementation model: in-house or foundation, implementation partner, multi-stakeholder partnership, any other hybrid model.• Engage and influence key opinion leaders in local community.• Develop community forums.• Invest in capacity building of community.• Co-design detailed development projects with community participation.• Operationalise development projects and manage project cycle.
Measure and communicate results: Monitoring and evaluation to use the information collected in future planning and communicating these results to all stakeholders including the community, the company and other development partners.	<ul style="list-style-type: none">• Document results on key performance indicators.• Calculate social return on investments.• Develop communications strategy to periodically disseminate information to community and other stakeholders.

Appendix 4

CII and Credibility Alliance's guidelines for identifying NGO partners

1. **Identity:** The NGO should exist and be registered under the appropriate law under which it is governed. It should comply with the provisions of the Act and other relevant laws.
 - The organisation has been functioning for a minimum of one year from the date of registration.
 - The physical address given by the organisation is verifiable.
 - The organisation is registered as a trust or society or Section 25 company.
 - Registration certificates and documents issued by the appropriate authority are available upon request.
 2. **Vision, aims, objectives, achievements:** The vision, purpose and aims of the NGO should be explicitly stated and be reflected in the activities being undertaken.
 - A vision, purpose or mission, which drives the organisation, is articulated beyond the registration documents in the form of activities and projects, etc.
 - The organisation has a defined aim and a set of objectives.
 - The organisation is able to show performance through defined indicators against stated objectives.
 3. **Governance:** There must be a clear commitment towards good governance for the NGO to enhance its effectiveness, serve all stakeholders, meet the needs of society and to ensure its accountability towards society in accordance with its charter of objects and purposes.
 - The organisation has a governing board.
 - The organisation follows a consultative and democratic decision-making process.
 - There is disclosure of the details of board members viz, name, age, gender, position and occupation. All family affiliations should be indicated.
 - The board has at least two meetings a year suitably spaced with quorum stipulated in its own articles of association, reviewing the functioning of the NGO, evaluating the projects undertaken by them and discussing the way forward.
 - The organisation is not for profit and its resources are deployed only for accomplishing the objectives for which it has been formed.
 - The organisation has attained recognition under Section 12A of the Income Tax Act. (80G of the Income Tax Act is preferable).
 - Minutes of board meetings are documented and circulated.
 - The board approves programmes, budgets, annual activity reports and audited financial statements.
 - The board ensures the organisation's compliance with applicable laws and statutory regulations.
 - All pending legal disputes are declared.
 4. **Operations:** Operations refer to the capacity to conduct programmes and administrative activities efficiently and effectively in the public interest. The NGO should have norms in respect to the nature of the programme it undertakes, the nature and style of its management; and the roles and responsibilities of its human resources including personnel and volunteers.
 - The activities are in line with the vision, aim and objectives of the organisation.
 - The organisation periodically reviews the progress of programmes.
 - The accounts of the organisation are regularly maintained and those with an annual income above 50,000 INR are audited by the chartered accountant.
 - The roles and responsibilities are defined for all personnel and volunteers.
 - All personnel are issued letters of contract and appointment.
 - An appropriate HR policy is in place.
 5. **Accountability and transparency:** Accountability and transparency are key requirements of good governance and necessary for building trust among stakeholders. This works as a testimony to the fact that the organisation has been working efficiently and effectively.
 - A financial management policy has been developed and is adhered to.
 - Signed audited statements are prepared annually and available on request: balance sheet, income and expenditure statement, receipts and payments account, schedules to these, notes on accounts and the statutory auditor's report.
 - Statement of accounts indicating whether constructed on a cash or accrual basis.
 - There are no serious adverse notes on the veracity of the functioning of the organisation.
 - There are no material transactions involving conflict of interest between a board or staff member and/or adverse comment and observation relating to operational issues or financial dealing in the record of public authority.
 - The organisation's annual report is distributed and communicated to stakeholders and others and is made available upon request every year, within eight months of the end of the organisation's financial year.
 - The annual report contains a description of the main activities, a review of the progress and results achieved in the year and information on board member names, positions, remuneration or reimbursement as well as brief financial details.
 - The NGO shall disclose their funding details i.e. the sources of funds, annual revenue (O&M) and project expenditure. The organisation shall produce timely reports on the use and management of funds which should be made available on request.
 - Dovetailing with government schemes will be preferred.
 - The NGO should give out accurate information regarding their projects i.e. survey reports, target population, location, sustainability of the projects, their success ratio, etc on request.
- The organisation should be ready to submit an affidavit by the authorised signatory attesting to the authenticity of the information given.**

Appendix 5

Illustrative list of NGOs and platforms for information on NGOs prepared by CII

1. **GiveIndia** (<http://www.giveindia.org/>): GiveIndia is a donation platform that allows companies to support a cause of choice from about 200 NGOs that have been scrutinised for transparency and credibility.
2. **Voluntary Action Network India** (<http://www.vaniindia.org/>): Voluntary Action Network India works towards building a society where voluntarism and voluntary organisations play a dominant role in social cohesion, economic empowerment and nation-building.
3. **Charities Aid Foundation** (<http://www.cafindia.org/>): CAF India provides strategic and management support to corporates, individuals and PSUs in order to ensure greater impact of their philanthropic and CSR investments.
4. **Oxfam India** (<http://www.oxfamindia.org/>): The Oxfams are rights-based organisations that fight poverty and injustice by linking grassroots programming (through partner NGOs) to local, national and global advocacy and policy-making.
5. **Confederation of Voluntary Associations** (covanetwork.org/): COVA works in the areas of communal harmony, peace and social justice through sensitisation of all sections of society and empowerment of the marginalised and the poor.
6. **Partners in Change** (<http://www.picindia.org/>): PiC focusses on building sustainable partnerships between the corporate sector and social development initiatives in India. PiC's goal has been to become an organisation that is recognised both by companies as well as civil society as a reliable facilitator for building partnerships for social development.
7. **Credibility Alliance** (<http://credibilityalliance.org/>): Credibility Alliance's mission is to build the credibility of the voluntary sector through the creation and promotion of the norms of good governance and public disclosure.
8. **Samhita** (<http://samhita.org/>): Samhita provides a platform for NGOs to showcase their work and attract donation.
9. **Indian Confederation of NGOs** (<http://www.icongo.in/>): iCONGO is a collective of various credible, transparent and accountable NGO members registered as promoting members and privilege members.
10. **GuideStar India** (<http://www.guidestarindia.org/>): GuideStar India is India's leading provider of NGO information. Their portal provides a fully searchable database of reliable and comparable information on over 3,500 NGOs.

About CII

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the growth of industry in India, partnering industry and government alike through advisory and consultative processes. CII is a non-government, not-for-profit, industry-led and industry-managed organisation, playing a proactive role in India's development process. Founded over 117 years ago, it is India's premier business association, with a direct membership of over 8100 organisations from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 90,000 companies from around 400 national and regional sectoral associations.

CII catalyses change by working closely with government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sectoral consensus building and networking. Emphasis is laid on projecting a positive image of business, assisting industry to identify and execute corporate citizenship programmes. Partnerships with over 120 NGOs across the country carry forward our initiatives in integrated and inclusive development, which include health, education, livelihood, diversity management, skill development and water, to name a few. CII has envisaged a national movement for mainstreaming CSR for sustained inclusiveness as part of its social development agenda. The CII National Committee on Corporate Social Responsibility and Community Development was constituted in 2001 to make CSR an actionable business agenda. The committee develops CSR guidelines and promotes the sharing of CSR experiences and best practices. CII also organises an annual CSR summit to enable stakeholders to review and strengthen the CSR movement. CII development initiatives ensure the continuity of these programmes, particularly with respect to women empowerment, industry-NGO partnership, and persons with disabilities.

With 64 offices, including nine Centres of Excellence, in India, and 7 overseas offices in Australia, China, Egypt, France, Singapore, UK, and USA, as well as institutional partnerships with 224 counterpart organizations in 90 countries, CII serves as a reference point for Indian industry and the international business community.

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