

# Prospects of Environmental Protection and Sustainability through Corporate Social Responsibility (CSR) in India

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## Abstract

Healthy environmental is keys to economic development and growth. Thus, not paying attention to environmental problems sustainability can lead to degradation and depletion of natural resources which could prove detrimental to both the business and the society. The activities which are undertaken by the corporate and business houses for the welfare of people and society and also for ensuring healthy environment fall under the ambit of Corporate Social Responsibility (CSR). In past CSR activities were taken in philanthropic and charity mode. However, the recently enacted Companies Act, 2013 made the CSR obligatory with clear cut guidelines for its implementation. The Section 135 of Schedule VII of the Companies Act, 2013 as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 became effective from April 1, 2014. Along with other provisions, the act has provided the list CSR activities to be undertaken by companies and guidelines for its implementation. One of the activities is about environmental protection and sustainability and includes elements like 'ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water'. Incorporation of environmental issues in CSR activities is positive step and if implemented properly it can be of great help for maintaining healthy environment. Different environmental elements of CSR activities are discussed with reference to environmental protection and sustainability.

**Key words:** Corporate Social Responsibility (CSR): The Companies Act, 2013; Environmental protection and sustainability.

## Introduction

Sustainable development of business is closely linked to public welfare and development of the society and the environment. Long term neglect of the needs of society may attract public wrath which may prove detrimental to the successful operation of the business. Similarly, not paying attention to environmental problems and neglecting the environmental sustainability can lead to degradation and depletion of natural resources which could also prove detrimental to both the business and the society. On the other hand, if a company invests in the development of the society and environment, it is rewarded in many ways (IFC, 2002). Thus, the activities undertaken by corporate for the well fare of the society and environment benefit business and ensure its sustainability. Hence, it is the responsibility of the corporate and business houses in their own interest to contribute a certain amount of their profit and undertake activities towards welfare of the society and sustainability of the environment.

All those activities which are undertaken by the corporate and business houses for the welfare of people and society and also for ensuring environmental sustainability fall under the domain of Corporate Social Responsibility (CSR). In this article we have discussed environmental obligations of corporate under the recently enacted Companies Act, 2013 and Companies (Corporate Social Responsibility Policy) Rules, 2014. The key elements of CSR activities with reference to environmental protection and sustainability have been discussed in this article.

## Corporate Social Responsibility (CSR)

The Corporate Social Responsibility (CSR) is not a new concept. Rather, it is in practice for long time throughout the world including in India as a philanthropic activity (CII, 2013). The CSR is also known by a number of other names such as corporate responsibility, corporate accountability, corporate ethics, corporate citizenship or stewardship, responsible entrepreneurship etc.

It has been the practice of many corporate houses to contribute to the society by building schools and colleges, hospitals, charitable trust etc. These activities were taken voluntarily by major corporate houses without having legal requirements to do so. The companies set aside funds for such activities to meet the desired CSR objectives such as promotion of education and healthcare facilities by building schools and hospitals, providing medical and sanitation facilities, and empowering the villagers by way of providing vocational training and skill and other similar activities. Protection of environment by way of planting trees and increasing green cover, creating environmental awareness, protecting wildlife etc. has also been undertaken under CSR, in recent years.

The Companies Act, 2013 defines the CSR as 'activities that promote poverty reduction, education, health, environmental sustainability, gender equality, and vocational skills development'. The ISO 26000 Working Group on Social Responsibility defines CSR as the 'responsibility of an organization for the impacts of its decisions and activities on society and the environment through transparent and ethical behaviour that is

consistent with sustainable development and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the organization' (ISO 26000). Thus, the essence of CSR comprises of philanthropic, corporate, ethical, environmental and legal as well as economic responsibility. In other words, CSR works on the triple bottom line approach i.e. People, Planet and Profit (Global CSR Summit, 2013).

#### **Legal framework and CSR under the Company Act, 2013**

In pre-independent India, the earliest piece of legislation relating to companies was the Act of 1857, which was superseded by subsequent Companies Act, 1866; Companies Act, 1882; and Companies Act, 1913. After independence, following the recommendations of the company law committee set up in 1950, the Indian Companies Act, 1956 was enacted. Then, nearly after sixty years the Ministry of Corporate Affairs, Government of India, last year, brought into effect a new Companies Act, 2013 replacing the Company Act, 1956. The Act received the assent of the President of India on the 29th August, 2013 and was notified in the gazette of India on 30<sup>th</sup> August, 2013 for general information and implementation.

The Companies Act, 2013 has introduced several provisions for establishing and doing business in India. One such provision of the act is regarding Corporate Social Responsibility (CSR) to be undertaken by Indian Corporate of certain categories. The CSR, which has largely been voluntary contribution by corporate has now been included in the law and became mandatory provision. In Section 135 of Schedule VII of the Companies Act, 2013 the provisions of CSR are incorporated. The CSR provision was notified on 28<sup>th</sup> February 2014 under the Companies (Corporate Social Responsibility Policy) Rules, 2014 and made effecting from 1<sup>st</sup> April, 2014.

#### **Formulation of CSR Policy and Implementation**

Section 135 of the Companies Act, 2013 requires companies to constitute a CSR Committee consisting of at least three directors, including an independent director. The committee shall be responsible for formulation of CSR policy of the company and its implementation. However, CSR Rules exempts unlisted public companies and private companies from having an independent director as a part of their CSR Committee and stipulates that the Committee for a private company and a foreign company need to have a minimum of only two members.

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 Board of Directors of the company shall, after taking into account the recommendations of CSR Committee, approve the CSR Policy for the company and disclose contents of such policy in its report and the same shall be displayed on the company's website, if any. The CSR Committee shall institute a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the company.

#### **Applicability and Contribution**

As per the clause 135 of the Companies Act, 2013, the CSR provisions shall be 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 an annual net profit of five crore INR and more.

The company can implement its CSR activities directly on its own, through its own non-profit foundation set-up so as to facilitate this initiative, through independently registered non-profit organizations that have a record of at least three years in related activities. The company can collaborate or pool resources with other companies. The CSR activities undertaken in India only will be taken into consideration. However, the activities meant exclusively for employees and their families will not qualify under CSR. Contribution to any political party will not be also considered to be a CSR activity. The CSR activities should not be undertaken in the normal course of business and must be with respect to any of the activities mentioned in Schedule VII of the Companies Act, 2013. The CSR rules, effective from 1<sup>st</sup> April 2014, encourages companies to spend at least 2% of their average net profit in the previous three years on CSR activities. Out of this up to 5% can be spent for capacity building for implementation of CSR. The CSR committee can also ensure that all kinds of income accrued to the company by way of CSR activities should be credited back to the CSR corpus (Companies Act, 2013).

According to the Indian Institute of Corporate Affairs, of the 1.3 million companies in India, about 6,000-7,000 companies have a minimum net worth of Rs. 500 crore, turnover of Rs. 1,000 crore or net profit of Rs. 5 crore and thus are covered under the new CSR rule. If these companies contribute 2% of their net profit in CSR activities, it is estimated that an amount between Rs. 20,000 to 27,000 crore will flow for various CSR activities (CII, 2013; Sharma, 2013). Accordingly, a good amount is expected to be spent on activities related to environmental protection and sustainability.

#### **Activities under CSR**

The Ministry of Corporate Affairs, Government of India notified schedule VII which outlines various activities that can be taken under the CSR by corporate operating in India (Schedule VII of the Companies Act, 2013 and Amendment 2014). Companies can choose which area to invest in, or contribute the amount to central or state government funds earmarked for socio-economic and environmental development (The Companies Act, 2013). Of different CSR activities proposed in schedule VII, the item iv) includes activities those are directly related to

environmental protection and sustainability (Schedule VII of The Companies Act, 2013 and Amendment 2014). Various CSR activities listed in schedule VII are mentioned below:

- i) eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation and making available safe drinking water;
- ii) promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects;
- iii) promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;
- iv) **ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water;**
- v) protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts;
- vi) measures for the benefit of armed forces veterans, war widows and their dependents;
- vii) training to promote rural sports, nationally recognized sports, paralympic sports and Olympic sports;
- viii) contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Caste, the Scheduled Tribes, other backward classes, minorities and women;
- ix) contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government;
- x) rural development projects.

#### **Elements of Environmental Protection and Sustainability under CSR**

Out of ten major areas of CSR activities, the item iv) refers to activities directly relevant to environment and environmental sustainability. The broad areas include 'ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water'. This is the most positive feature among other scheduled activities under the CSR. These activities are going to contribute in a significant way for the betterment of environment. Different listed areas appear distinct but in fact are interrelated and thus the benefit of good performance in one area may contribute to others. Various elements of environmental protection and sustainability are elaborated in following sections of this article for a better understanding and implementation of CSR provisions.

**Environmental Sustainability:** Environmental sustainability is a broad term and is a key pillar of sustainable development. It is about meeting human needs without compromising the ability of the environment to support life and render goods and services on a long-term basis. Morelli (2011) defines environmental sustainability as a condition of balance, resilience, and interconnectedness that allows human society to satisfy its needs while neither exceeding the capacity of its supporting ecosystems to continue to regenerate the services necessary to meet those needs nor by our actions diminishing biological diversity.

Environmental sustainability involves making decisions and taking action that are in the interests of protecting the natural world, with particular emphasis on preserving the capability of the environment to support human life. Everything which is done to keep the integrity of the environment comes under environmental sustainability however there is no common guidance about what it means at an operational level (UNDAF, 2009). Dimensions of environmental sustainability may vary from place to place and with time. Hence, while undertaking CSR activities there is need for identification of issues that are relevant to the area and working on those. Currently issues such mitigation of adverse effects of climate change, generation and supply of clean energy, augmentation of water resources and its supply, public health, sustainable consumption and production of resources, environment friendly transport facility, conservation and management of natural resources etc. are some of the issues relating to environmental sustainability. CSR can be of great help in ensuring environmental sustainability, also by developing the knowledge and skills of people, helping in implementation of programs promoting environmental innovation, monitoring the environmental impacts and actions for mitigation of impacts, promoting an environmentally sustainable and responsible culture etc.

**Ecological balance:** Ecological balance is a state of adaptation, harmony and unity between organisms and their environment. Ecological balance is essential for proper functioning of various ecosystems and maintenance of healthy environment. It facilitates uninterrupted flow of environmental goods and services for the welfare of human beings, flora and fauna. If ecological balance is somehow disturbed the normal functioning of ecosystems is disrupted leading to different types of environmental problems. Overexploitation and utilization of resources, environmental pollution, and inappropriate management of waste, population growth are some of the major causes of disturbance in ecological balance.

**Protection of Flora and fauna:** Flora is basically the plant life that is present in a particular region or habitat whereas fauna refers to different forms of animal life. Deforestation, environmental degradation, habitat loss and fragmentation, infrastructure development, logging and poaching, illegal trade and unethical practices of human beings are some of the important factors affecting the existence of flora and fauna. As a result, many species of plants and animals are threatened and at the verge of extinction. Various in-situ and ex-situ conservation measures are required to protect flora and fauna. Identification of site specific activities for protection of flora and fauna in terrestrial and aquatic ecosystems and their implementation can be a priority area of CSR.

**Animal welfare:** Animal welfare refers to the physical and mental well-being of animals. An animal is in a good state of welfare if it is healthy, comfortable, well nourished, safe, able to express innate behaviour, and if it is not suffering from unpleasant states such as pain, fear and distress. Good animal welfare requires disease prevention and veterinary treatment, appropriate shelter, proper food and nutrition, humane handling and humane slaughter/killing. Thus, the activities such as constructing shelter houses, providing ambulance services for distressed animals, birth control and immunization of stray animals, relief to animals during natural calamities etc. can be undertaken under this broad activity.

**Agroforestry:** Agroforestry is a land use system which integrates trees and shrubs on farmlands and rural landscapes to enhance productivity, profitability, diversity and ecosystem sustainability. Agroforestry provides opportunity for employment and income generation and offers food and fodder, timber, fuel wood and various other natural resources to local population. It also has the potential to mitigate the effects of climate change through carbon sequestration and regulating microclimatic conditions. Thus, agroforestry is important in meeting the ever increasing demand of timber, food, fuel, fodder, fertilizer, fibre, and other agroforestry products; increasing the tree cover; conserving the natural resources and forest; protecting the environment and providing environmental security. CSR activities can encourage tree plantation in rural areas by establishing nurseries and developing the capacity of the people in related activities.

**Conservation of Natural Resources:** Natural resources (NR) are materials or substances which in its basic form are found in nature. Wide range of NR, both non-renewable and renewable such as water, soil, forest resources, plants, animals, fossil fuels, minerals etc. are needed to ensure the survival of human race and support its various activities. It has taken many thousands and millions of years to form and accumulate these resources in nature. However, unprecedented growth of human population, industrialization, urbanization, modern way of life based on consumerism, and degradation in ethical values are putting severe pressure on our natural resource base. Unsustainable use of some natural resources have degraded and depleted them to a serious level. Thus, there is need for conservation of NR in order to make the resources available for present and future generation. Some of the measures to conserve natural resources include promoting judicious use and prudent management of natural resources, protection from degradation and depletion, augmentation by involving technology, encouraging the use of environment friendly products and practices saving energy and others resources, and minimization of waste and its proper disposal. These can be achieved by strengthening institutions and policies for natural resource conservation, by developing the operational and management capacities, raising awareness on importance of natural resources and its conservation, developing technologies for NR conservation, promoting sustainable practices at various levels and by undertaking other similar activities.

**Maintaining quality of air, water and soil:** Maintenance of environmental quality is essence of requirement for improving quality of life leading to sustainable development. Unprecedented population growth, industrialization, urbanization, expansion of agriculture and fast rate of resource consumption have resulted in deterioration of quality of air, water, soil and other environmental components. Most of our air, water and soil have become contaminated with different types of pollutants. In air we have added unprecedented amount of carbon dioxide and other GHGs by burning fossil fuel and industrial activities. During last two hundred years the level of carbon dioxide in our atmosphere has increased from 280 ppm to more than 400 ppm. Pollution of air has resulted not only different human health problems but also is responsible for global warming and climate change leading to rise in temperature of the globe, melting of glaciers and ice in polar region, rise in sea level, increase in frequency of natural disasters, reduced agricultural productivity, spread of new diseases, extreme weather conditions etc.

Deterioration of water quality is another major problem of modern society. Factors affecting water quality include release of untreated sewage in our water bodies, agricultural activities and industrial processes, human activities such as open defecation and disposal of waste and other materials, interaction of water with polluted air and soil etc. The polluted water negatively affects human health, flora and fauna, ecosystems and environment, and agriculture and industrial activities. The quality of soil has also deteriorated in many parts of the country. Contamination of soil with toxic chemicals, acidification, depletion of top soil by erosion, loss of soil flora and fauna, loss of nutrients and fertility are some common problems of soil. Intensive agriculture and use of agrochemicals, combustion of fossil fuels, dumping of waste, mining, flooding, contamination with sewage and polluted water etc. are major causes of deterioration of soil quality. This has resulted in decrease in agricultural productivity, pollution of water and degradation of aquatic resources, and also overall degradation of the



environmental quality. Pollution of water and soil has threatened the life of millions by contaminating the water and food chain and the environment (Singh, 2006).

Some of the areas which can be covered under CSR to achieve above mentioned goals include migration and control of pollution, harnessing renewable energy, supporting R&D activities in environment, making people environmentally sensitive and by imparting environmental education, awareness and communication, reduction of waste and waste management, treatment of water and wastewater, saving energy and its efficient use, conservation of natural resources, supply of safe drinking water, rainwater harvesting and construction of reservoirs such as pond, tank, check dam and cleaning and rejuvenation of water bodies.

### **Conclusion**

The healthy environment is central to economic activity and growth. It provides the resources economy needs to produce goods and services, and it absorbs and assimilates unwanted by-products in the form of pollutants and wastes. Normally it is believed that economy and environment are contrasting to each other. In fact, it is not true and both can flourish simultaneously if corporate, people and governments act in a responsible manner. Incorporating environmental elements in CSR activities in the Companies Act 2013 and making it obligatory for the companies are significant positive steps in saving environment. If implemented properly the CSR can be of great help in protecting environment and achieving environmental sustainability. There is need for sensitizing corporate and business houses towards regarding the importance of the three pillars of sustainable development i.e. economic, social and environmental. For better performance of CSR, it is also required that all stakeholders such corporate, civil society, academia, technocrats and regulatory agencies should work in cohesion by making valuable contributions in their respective domains.

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