

Corporate Social Responsibility and Sustainability Policy of Indian Railway Finance Corporation Ltd (IRFC)

CSR and Sustainability Policy

Introduction

Indian Railway Finance Corporation (IRFC) is the dedicated funding arm of Indian Railways. IRFC is responsible for meeting the Extra Budgetary Resources (EBR) requirements of the Ministry of Railways through market borrowings. IRFC enjoys a strategic relationship with the Ministry of Railways who happens to be its main client and sole owner.

As part of its Corporate Social Responsibility and Sustainability Policy (CSR & Sustainability Policy) IRFC is to remain a responsible corporate entity aware of its responsibilities to all stakeholders including customers, shareholders, employees, local community and society at large and contribute towards inclusive growth and equitable development in the society, mainly through empowerment of the marginalized and underprivileged sections. It would support environmentally sustainable activities and conduct business in an economically, socially and environmentally sustainable manner.

The Government of India enacted the Companies Act 2013 in August 2013. Section 135 of the Companies Act 2013 (hereinafter referred to as 'the Act') deals with the subject of Corporate Social Responsibility (CSR). The activities which may be included by companies in their CSR policies are listed in Schedule VII of the Act.

The Ministry of Corporate Affairs has formulated CSR Rules (hereinafter referred to as the 'CSR Rules'), under the provisions of the Act and issued the same on 27.2.2014. The CSR Rules are applicable to all companies, including CPSEs w.e.f. 1.4.2014.

The Act enjoins all companies to have a CSR policy, and the information which needs to be furnished in the CSR policy is specified in the CSR Rules. There is to be no deviation from the mandatory provisions of the Act and the CSR Rules in this regard

In terms of the Act every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

The Board of every company shall ensure that the company spends in every financial year at least two percent of the average net profits of the company during the three immediately preceding financial years in pursuance of its Corporate Social Responsibility Policy.

All CPSEs shall have to comply with the provisions of the Act and the CSR Rules. Any amendment notified by the Ministry of Corporate Affairs in the CSR Rules, or in Schedule VII of the Act will also be binding on the CPSEs.

Prior to the notification of CSR Rules, DPE Guidelines on CSR and Sustainability issued in December 2012, were applicable to CPSEs w.e.f. 01.04.2013. However new guidelines have now been issued by Department of Public Enterprises DPE vide their OM F no 15(13)/2013-DPE (GM) dated 21st October 2014 (hereinafter referred to as the Guidelines) on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises (CPSEs) which has been made effective from 1st April, 2014.

It has been clarified by DPE that the Guidelines do not supersede or override any provision of the Act, or Schedule VII of the Act, or the CSR Rules, but will only supplement them. Further as per DPE in case of any perceived conflict between the CSR Rules and the Guidelines, the former shall prevail in all circumstances.

In the Guidelines the need for taking sustainability initiatives is emphasized in addition to the requirement of mandatory compliance with the CSR Rules. As per DPE, the Guidelines are aimed at providing an over arching framework of Sustainability within which CSR is firmly embedded. Therefore, CPSEs have been advised to read the CSR Rules together with the Guidelines to clearly understand what is expected of them by the stakeholders.

Further in terms of the Guidelines, CSR policy document of a CPSE should also include a vision and mission statement of how the CPSE proposes to comply with the Guidelines. The broad sustainability initiatives which a CSPE intends to undertake should also find mention therein. In the Guidelines it has been brought out that since CSR and Sustainability issues are complementary in nature, and both are to be mentioned in the policy document, it is suggested that it may be referred to as 'CSR and Sustainability' policy.

IRFC Policy on CSR and Sustainability has been framed keeping in view the Act, the CSR Rules and Guidelines for Central Public Sector Enterprises (CPSEs).

As per DPE Guidelines selecting CSR activities / projects from the activities listed in Schedule VII of the Act, CPSEs should give priority to the issues which are of foremost concern in the national development agenda, like safe drinking water for all, provision of toilets especially for girls, health and sanitation, education, etc. The main focus of CSR and Sustainability policy of CPSEs should be on sustainable development and inclusive growth, and to address the basic needs of the deprived, under privileged, neglected and weaker sections of the society which comprise of SC, ST, OBCs, minorities, BPL families, old and aged, women / girl child, physically challenged, etc.

For CPSEs to fully exploit their core competence and mobilize their resource capabilities in the implementation of CSR activities / projects, they have been advised to align their CSR and Sustainability policy with their business policies and strategies to the extent possible, and select such CSR activities / projects which can be better monitored through in-house expertise.

If the CPSEs feel the necessity of taking up new CSR activities / projects during the course of a year, which are in addition to the CSR activities already incorporated in the CSR and Sustainability Policy of the company, the Board's approval of such additional CSR activities would be treated as amendment to the policy.

Vision

To make Corporate Social Responsibility an important element of the working of the company thereby addressing social, economic and environmental concerns of the society and country in a sustainable manner.

Mission

IRFC envisions supporting the cleanliness initiatives of the government and promoting renewable energy in collaboration with other public sector undertakings and government agencies, in a sustainable and scalable manner and thereby set a foundation for a clean, green, educated and capable India.

Administrative Structure and Mechanism:

The CSR Committee of IRFC will comprise of the Managing Director, Director Finance and one Independent Director. The Committee would be chaired by the Independent Director.

The Committee shall—

- i. formulate and recommend to the Board, a Corporate Social Responsibility and Sustainability Policy which shall inter-alia, include the following namely:
 - (a) a list of CSR and Sustainability projects or programs which IRFC plans to undertake falling within the purview of the Schedule VII of the Act, specifying modalities of execution of such project or programs and implementation schedules for the same;
 - (b) monitoring process of such projects or programs
- ii. recommend the amount of expenditure to be incurred on the activities
- iii. monitor the Corporate Social Responsibility and Sustainability Policy of the company from time to time.

The Board of IRFC shall after taking into account the recommendations made by the Corporate Social Responsibility Committee:

- i. approve the Corporate Social Responsibility and Sustainability Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, as per the particulars specified in the CSR Rules.
- ii. ensure that the activities as are included in Corporate Social Responsibility and Sustainability Policy of IRFC are undertaken by IRFC and are related to the activities included in Schedule VII of the Act.
- iii. Ensure that the company spends in every financial year at least two per cent of the average net profits of the company made during the three immediately preceding financial years.
- iv. Provided further that if the company fails to spend such amount, the Board shall, in its report specify the reasons for not spending the amount.

Below Board level a fairly senior Officer in the rank of General Manager and above would be the Nodal Officer. The Nodal Officer to be assisted by an officer of at least Assistant Manager level.

CSR and Sustainability Initiatives:

- i. Considering the small size of the Company in terms of manpower, the Company shall endeavor to take up short term CSR & Sustainability activities which can be completed within a financial year.

- ii. In case of long term projects, if any, the same shall be divided into annual plans and targets.
- iii. IRFC shall wherever possible contribute to large projects by sharing a part of pool of resources with other Railway PSUs / Central PSUs for greater social, economic and environmental impact. However the activities may be conducted in such a manner that the CSR Committee of the company is in a position to report separately on such projects or programs in accordance with the CSR Rules..
- iv. Since IRFC is a finance company it has no local area which is directly impacted by the company's commercial operations / activities and therefore IRFC shall take up projects in any part of the country.
- v. IRFC shall give due importance to CSR & Sustainable projects which are peripheral to activities of Indian Railways.

Selection and Implementation:

- i. Project / Activities Selection shall be in line with the Act and its Schedule VII, CSR Rules and Guidelines on CSR and Sustainability for CPSEs issued by the Government from time to time.
- ii. The CSR activities shall be undertaken by IRFC as per its stated CSR Policy as projects programs or activities (either new or ongoing) excluding activities undertaken in pursuance of its normal course of business.
- iii. The nodal officer and his team shall obtain suitable proposals from various sources and as far as possible restrict the same from Ministry of Railways, other Central or State Government/Agencies/Departments and PSUs and put up these proposals for suitable selection and recommendation of the CSR Committee for approval by BOD.
- iv. IRFC being a finance company has no expertise in implementing projects. Therefore CSR and Sustainability Activities would be taken up by IRFC for implementation through outside agencies.
- v. Since IRFC does not have a registered trust or a registered society or a company established by IRFC or its holding or subsidiary or associate company under section 8 of the Act or otherwise the entity selected shall have an established track record of three years in undertaking similar programs or projects.
- vi. To the extent possible, the Company would endeavor to appoint Central or State Government/Agency/Department or PSU to implement the project(s)

- vii. Further IRFC will specify the project or programs to be undertaken through these entities, the modalities of utilization of funds on such projects and programs and the monitoring and reporting mechanism.
- viii. As far as possible IRFC would take up CSR and Sustainability activities in project, which entails planning the stages of execution in advance by fixing targets at different milestones, with pre-estimation of quantum of resources required within the allocated budget, and having a definite time span for achieving desired outcomes.
- ix. IRFC may build CSR capacities of their own personnel as well as those of their implementing agencies through institutions with established track records of at least three financial years but such expenditure shall not exceed five percent of the total CSR expenditure of the company in one financial year.
- x. As and when considered appropriate, the CSR Committee of the Board, may also consider appointment of suitable professional agencies to assist it in areas like project selection, project monitoring and evaluation and advise on CSR Policy. The scope, mandate etc. will be decided by the CSR Committee of Board.
- xi. IRFC if considered desirable may get a baseline/ need assessment survey done prior to the selection of any CSR activity.
- xii. IRFC may get an impact assessment study done by external agencies of the CSR activities / projects undertaken by IRFC.
- xiii. Impact assessment would be mandatorily done by IRFC for mega projects, the threshold value of which would be Rs 5 crore or more.

Resources and Funding:

- i. IRFC may earmark a portion of the annual budget on CSR and Sustainability towards contribution to 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 Castes, the Scheduled Tribes, other backward classes, minorities and women.
- ii. Major portion of the amount earmarked for CSR and Sustainability activities, would be spent by IRFC on implementation of activities under the project mode and balance under programs etc.
- iii. CSR and Sustainability expenditure incurred on need / impact assessment study, if any, undertaken by IRFC or any other agency shall be counted as part of the expenditure on CSR and Sustainability. The expenditure incurred on baseline

survey and impact assessment study would be within the overall limit of 5% of administrative overheads of CSR spend as provided for under the CSR Rules.

- iv. In case the company has failed to spend the two per cent of the average net profit of the last three financial years or any part thereof, the company shall provide the reasons for not spending the amount in its Board report.
- v. In terms of DPE guidelines mere reporting and explaining the reasons for not spending this amount in a particular year would not suffice and the unspent CSR amount in a particular year would not lapse. It would instead be carried forward to the next year for utilization for the purpose for which it was allocated.
- vi. Surplus arising out of the CSR projects or programs or activities shall not form part of the business profit of the company.

Reporting and Disclosure:

- i. The progress report of the activities undertaken shall be reported as under:
 - a. Quarterly report to CSR Committee.
 - b. Half Yearly Report of CSR and Sustainability to Board of Directors.
- ii. The Board's Report shall include an annual report on CSR containing particulars as prescribed in the CSR Rules.
- iii. The Board of Directors of IRFC 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 as per the particulars specified in the CSR Rules.
- iv. The Board's Report would also include a brief narrative on the action taken for the implementation of the Guidelines so that the stakeholders are informed of not only the CSR activities but also of the sustainability initiatives taken by IRFC.
- v. IRFC may also to prepare an Annual Sustainability Report, which would go a long way in imparting greater transparency and accountability to the company's operation, apart from improving the brand image.

Miscellaneous:

This policy will override the earlier policy on CSR &SD of IRFC approved by Board. The amendments to the CSR Policy provisions in the Act and CSR Rules shall automatically form part of this policy.
