

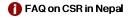


# Frequently Asked Questions Corporate Social Responsibility in Nepal

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### **Contributors**

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## Overview

Certain industries are mandated to allocate a minimum of 1% of their annual net profits toward corporate social responsibility (CSR) initiatives each fiscal year. This Frequently Asked Questions (FAQ) provides a comprehensive overview of the legal provisions regarding requirement of such fund allocation in the name of CSR and its associated procedural compliances.

This fund allocation is subject to certain conditions, including the requirement that at least 50% of the CSR spending is directed toward communities affected by the industry. CSR initiatives must also align with designated categories, such as disaster relief, health and education support, environmental conservation, and infrastructure development, ensuring they are implemented in collaboration with local government entities.

Furthermore, industries are required to formulate annual CSR plans and submit them to the Industry Registering Authority within 6 (six) months following the end of each fiscal year. Non-compliance may result in fines, with escalating penalties for repeated violations.

This FAQ serves as a guide to help ensure compliance with these obligations, providing a structured approach to CSR fund allocation, planning, implementation, and reporting. Please note that this FAQ sets out the regulations regarding the CSR by the industries falling under the ambit of the Industrial Enterprise Act, 2076 (IEA) only. This FAQ does not deal with the requirements of the CSR to be performed by other businesses including banks and financial institutions.

## 1. What is Corporate Social Responsibility (CSR) for businesses?

Corporate Social Responsibility, or CSR, is a requirement for certain businesses to contribute a portion of their annual net profits to activities that benefit society. This includes efforts to support health, education, environmental conservation, infrastructure, and other community–focused initiatives. CSR aims to ensure that businesses make a positive impact on society, especially in areas affected by their operations.

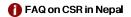
## 2. What are the relevant laws and legislations governing CSR in Nepal?

The relevant laws and legislations governing CSR in the context of industries of Nepal are:

- a) Industrial Enterprises Act, 2076 ("IEA")
- b) Industrial Enterprises Rules, 2078 ("IER")

# 3. Which businesses are required to carry out CSR activities?

According to relevant laws, medium and large industries, as well as small or cottage industries (collectively "**industry**" or "**business**") with an annual turnover exceeding Rs. 15 Crore, must perform CSR. These industries are required to allocate a portion of their profits to CSR initiatives. Please refer to Annex I for the definition of medium, large, cottage and small industry.



### 4. How much do businesses need to allocate for CSR?

Eligible businesses must allocate at least 1% of their annual net profits toward CSR initiatives every fiscal year. This amount is also deductible for income tax purposes, helping ease the financial impact on industries.

# 5. Where should businesses focus their CSR spending?

At least 50% of the CSR funds should be spent on communities and areas directly affected by the business. Additionally, activities should align with specific categories such as disaster relief, health services, education, environmental conservation, and support for marginalized communities. This focus ensures that the funds are used in meaningful ways that address local needs and enhance community well-being.

# 6. What kind of CSR activities are businesses encouraged/required to undertake?

CSR activities can cover a wide range of areas, including:

- Disaster relief and emergency support
- Health services, including medical equipment donation and health awareness
- Environmental projects like pollution control and waste management
- Education and scholarships for community schools and universities
- Infrastructure projects such as community buildings, roads, and parks

These projects should be implemented with the local government's coordination and must not be designed to generate direct profit for the business. A detailed list is provided in the table in Annex–II of this FAQ.

## 6. Do businesses need to create a plan for their CSR activities?

Yes, businesses must create annual CSR plans detailing how they will use their allocated funds for the year. This plan must be submitted to the Industry Registering Authority (the "**Authority**") for record–keeping, but it does not require formal approval of such Authority for implementation.

## 7. How do businesses report on their CSR activities?

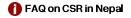
At the end of each fiscal year, businesses are required to submit a report to the Authority detailing the CSR programs they completed and the funds spent on each. This report must be submitted within six months after the fiscal year's end.

## 8. What happens if a business fails to meet CSR requirements?

Non-compliance with CSR requirements can lead to penalties. Industries may face fines of 1.5% of their annual net profits, with additional penalties of 0.5% per year for continued non-compliance. The Ministry of Industry, Commerce, and Supplies is responsible for enforcing these penalties.

#### 9. How is CSR beneficial for businesses and communities?

CSR allows businesses to contribute positively to society, creating goodwill and supporting sustainable growth in their local communities. It helps businesses

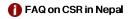


demonstrate a commitment to social responsibility, which can enhance their reputation, foster community support, and lead to long-term economic and social benefits.

## 10. What are the procedural aspects of CSR as a whole?

- a) <u>Allocation of Fund:</u> The industry must allocate at least one percent of its annual net profits in each fiscal year for the purpose of performing CSR (Section 54(1) of *IEA*). This amount is deductible for income tax purposes (Section 54(4) of *IEA*).
- b) <u>Formulation of Annual Plans and Programs</u>: The industry must prepare annual plans and programs for the expenditure of the funds allocated for CSR. (Section 54 (2) of the IEA/Rule 43(2) of the IER) From a practical and logical perspective, the allocation of funds and formulation of annual plans should be done after the completion of the annual audit so that annual net profit is ascertained.
- c) <u>Presentation of Annual Plans and Programs to the Industry Registering Authority:</u>
  The Industry must present its annual plans and programs to the respective Authority. It is to be noted that this is not a requirement of approval but merely for notification purposes.
- d) Implementation of CSR: The Industry may undertake its CSR initiatives in the sectors outlined by *rule 41(3)* of the IER ensuring that at least 50% of the annual amount of the CSR fund is *spent towards the areas affected by the industry* and the Authority must be informed. Additionally, the CSR initiatives are to be carried out in coordination with the local level government of the area where the initiatives are carried out. Please note that CSR initiatives performed by the industries should not be for the purpose of attaining direct profit from such expenses or programs or spent on social or professional organisations in which the Industry has investment or interest. The amount allocated for CSR must ordinarily be utilised in the same Fiscal Year.
- e) <u>Completion Reporting of CSR Initiatives:</u> The details of completion of CSR initiatives of the Industry must be presented to the Authority. (*Rule 43(4) of IER*)
- f) <u>Submission of Annual Plans and Programs Completed:</u> The Industry must shall submit details on the programmes completed in each fiscal year and amounts spent in such programmes to the Authority within six months after the end of the fiscal year.

For convenience, the entire legal framework has been summarised in tabular form in Annex-II of this FAQ.



#### **Disclaimer**

This FAQ is meant for informational purposes only and should not be considered a substitute for legal consultation. Given the potential for changes in laws and regulations, this FAQ may not remain updated as of the date of this FAQ. It is crucial to provide proper citation to this FAQ if any part of this document is to be used as an information source. This document is not intended for advertising or promotional use and is designed to provide general guidance only.

#### Contributors

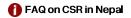
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Mr. Chaulagain is a distinguished legal professional of Nepal with more than 18 years of experience in the legal sector. His first-hand expertise lies on matters concerning project finance, energy and infrastructure projects, mergers and acquisitions, legal due diligence, and legal reforms. As a corporate and litigation expert, his profound understanding of legal matters is an invaluable asset, and his contributions significantly benefit those seeking professional legal guidance.

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Mr. Joshi joined Infinity & Partners as a Research Associate in early 2022 and has been serving as an Associate since early 2024. His expertise lies in Commercial Law and Dispute Resolution, with a strong focus on Taxation, including its criminal law aspects like Revenue Leakage. He has consistently supported this firm in Taxation, Corporate Law, and Commercial Litigation, contributing through legal opinions, case law research, drafting court petitions, and representing clients in various courts and tribunals. Sudridh also actively coaches and mentors in moot court competitions.



### ANNEX - I: DEFINITION OF INDUSTRY

Section 17 of the IEA has defined industry as follows:

- a. **Cottage industry**: An industry in the following condition is considered to be a cottage industry:
  - 1. based on traditional skills and technology;
  - 2. labor-oriented and based on specific skills or local raw materials and local technology, arts and culture;
  - 3. with the capacity of electric energy to be consumed by the engine, equipment or machine, if any, used being up to fifty KW;
  - 4. any industry mentioned in Schedule-2.
- b. **Small industry**: An industry with the fixed capital not exceeding one hundred fifty million rupees, other than a micro enterprise and cottage industry.
- c. <u>Medium industry</u>: An industry with the fixed capital exceeding one hundred fifty million rupees but not exceeding five hundred million rupees
- d. **Large industry**: An industry with the fixed capital exceeding five hundred million rupees.



## ANNEX — II: LEGAL PROVISIONS RELATING TO CSR

S.N.	Particulars	Legislative	Description	Remarks				
		Provision						
<i>A.</i>	General Conditions							
1.	Requirement	Section 54 (1) of IEA	<ul> <li>Medium Industry; or</li> <li>Large Industry; or</li> <li>Cottage or small industry with annual turnover of more than Rs. 15 Crore</li> </ul>	Please refer to Annex I for the definition of medium, large, cottage and small industry.				
2.	Coordination	Rule 43 (4) of the IER	CSR is required to be operated by coordinating with the local level.	The details of completion must be presented to the Industry Registering Authority.				
3.	Purpose	Rule 43 (5) of the IER	CSR done by an industry should not be for the purpose of attaining direct profit from such expenses or programs or spent on social or professional organizations in which the industry has investment or interest.					
В.	Contribution							
4.	Rate	Section 54 (1) of IEA	At least 1% (one percent) of its annual net profits in each fiscal year.					
5.	Minimum contribution to be made to the affected area by industry	Rule 43 (3) of the IER	At least 50% of the annual amount of the CSR is required to be spend towards area affected by the industry.	The Industry Registering Authority must be informed.				
C.	Annual Plans and Programs							
6.	Formulation	Section 54		The plans and programs				
	of Annual Plans and Programs	(2) of the IEA/Rule 43(2) of the IER	spent by formulating annual plans and programs.	must be presented to the Industry Registering Authority.				
7.	Annual Plans and Programs Categories	Rule 43 (1) of the IER	<ul> <li>i. Disaster Reduction, Control and Relief Works;</li> <li>ii. Distribution of medicine and medical equipment to community health organizations, health awareness, health centers</li> </ul>					

			operation related health			
			related works;			
			iii. Promotion and protection of			
			art, culture and ancient			
			heritage;			
			iv. Skill based and income-			
			based programs form			
			marginalized community,			
			rural women, physically			
			disabled individuals;			
			v. Scholarship, distribution of			
			education equipment and			
			object to community school			
			and university;			
			vi. Pollution control, waste			
			·			
			plantation, water source conservation, alternative			
			,			
			energy promotion related			
			environment conservation;			
			vii. Campaigns against Social			
			Evils, and Social			
			Backwardness;			
			viii. Construction and			
			maintenance of drinking			
			water project, road,			
			sewerage, old age home,			
			playground, religious site,			
			community building etc.,			
			construction of orphanage,			
			construction of park,			
			construction of meditation			
			center, construction of bus			
			park and bus stand. Physical			
			infrastructure used for			
0			benefits.			
8.	Submission	Section 54	Industry is required to submit — (i)			
	of Annual	(3) of the	details of the programs			
	Plans and	IEA	completed, and (ii) amounts			
	Programs		spent in each fiscal year to the			
9.	Completed	Continu 51	Industry Registering Authority.			
٦.	Timeline for	Section 54	The timeline for submission is 6			
	Submission	(3) of the				
<b>D</b>	Conocaucas	IEA	year.			
D.	Consequences for Non-Compliance					

November 11, 2024

10.	Fine	on	Section	Fine of 1.5% of the yearly net	Fine may be imposed by
	Industry		47(3) of the	profits of industry; additional fine	Ministry of Industry,
			IEA	at rate of 0.5% of yearly net	Commerce, and Supplies
				profits for each year of non-	
				compliance	