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Corporate Social Responsibility (CSR) Obligations under the Companies Act, 2013: Law and Practice

BHUSHAN MADHUKAR KATHAR¹

ABSTRACT

The concept of Corporate Social Responsibility (CSR) has evolved from being a voluntary philanthropic initiative to becoming a statutory obligation for certain companies in India. With the introduction of the Companies Act, 2013, India took a pioneering step by embedding CSR into its legal framework, making it the first country to mandate CSR spending through legislation. Section 135 of the Act, along with the Companies (CSR Policy) Rules, 2014, laid down a clear roadmap for qualifying companies to allocate at least 2% of their average net profits from the past three financial years toward social development initiatives. This paper delves into the legal framework governing CSR in India, exploring the origin, structure, and evolution of statutory obligations. It examines the key provisions of the law, the roles and responsibilities of the CSR Committee, and the categorization of permissible CSR activities under Schedule VII of the Act. The paper further analyses the major amendments brought through the Companies (Amendment) Acts of 2019 and 2020, which shifted CSR from a "comply or explain" model to a stricter "comply or face consequences" regime, introducing penalties for non-compliance and mandates for unspent CSR funds. Beyond the legal text, the paper investigates how these obligations are practiced on the ground. In addition, the paper discusses the judicial and regulatory interpretations that have shaped CSR implementation, particularly the role of regulatory bodies like SEBI and the Ministry of Corporate Affairs in clarifying ambiguous provisions. The paper concludes by reflecting on whether the legal mandate truly fosters a culture of corporate responsibility or risks turning CSR into a box-checking exercise. Suggestions are made to enhance the effectiveness of the regime, such as incentivizing high-impact projects, improving monitoring mechanisms, and aligning CSR with broader sustainability goals and ESG frameworks.

Keywords: Corporate social responsibility, Companies Act, 2013, CSR compliance, CSR law and practice in India: Section 135-CSR obligations

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I. INTRODUCTION

The concept of Corporate Social Responsibility (CSR) in India has evolved from being an informal philanthropic exercise to a legally mandated corporate obligation. Historically, Indian companies particularly those with strong family or community ties were known to engage in charitable activities, such as establishing schools, hospitals, and places of worship. These acts were driven by moral values, religious beliefs, and social consciousness rather than statutory compulsion. However, with India's integration into the global economy, the role and responsibilities of corporations began to attract increased public scrutiny. As economic liberalisation in the 1990s accelerated corporate growth, it also widened social and environmental disparities. Concerns began to emerge regarding environmental degradation, labour exploitation, income inequality, and the social impacts of unchecked corporate expansion. It became evident that voluntary CSR mechanisms, though noble in intent, were insufficient to address systemic social issues or hold businesses accountable for their broader societal impacts. In response to these challenges and in an effort to integrate business responsibility into national development, India became the first country in the world to legislate CSR through its Companies Act, 2013.

This historic shift marked a paradigm change in corporate governance, legally obligating companies that meet specific financial thresholds to contribute to social welfare initiatives. Section 135 of the Act, along with the Companies (CSR Policy) Rules, 2014, lays out a clear framework: companies with a net worth of ₹500 crore or more, or a turnover of ₹1,000 crore or more, or a net profit of ₹5 crore or more in any financial year are required to spend at least 2% of their average net profits from the previous three years on CSR activities. These activities are outlined in Schedule VII of the Act and encompass areas such as education, healthcare, gender equality, environmental sustainability, poverty alleviation, and rural development, among others. The rationale behind this legislative move was multifaceted. On one hand, it aimed to formalise and streamline corporate contributions to nation-building efforts, aligning them with government priorities. On the other, it was designed to instil a sense of accountability and transparency in how businesses engage with the communities in which they operate. By mandating board-level oversight through the CSR Committee and requiring public disclosure of CSR policies and expenditures, the law sought to elevate CSR from mere charity to a strategic and measurable business function. This legislative intervention reflects a broader philosophical shift—from shareholder capitalism to stakeholder capitalism where businesses are expected to consider the interests of not just investors, but also employees, consumers, local communities, and the environment. Despite its progressive

intent, the law has prompted significant debate.

While some hail it as a transformative policy that bridges corporate power and social responsibility, others critique it for encouraging tokenism and fostering a compliance-driven mindset rather than genuine community engagement. In practice, CSR implementation has been uneven across sectors and regions. Several companies have gone beyond the minimum threshold, innovating with high-impact projects and long-term partnerships. However, many firms struggle with challenges such as identifying eligible projects, measuring impact, engaging credible implementing partners, and aligning CSR efforts with core business goals. Geographic concentration of CSR spending in industrialised states like Maharashtra, Gujarat, and Tamil Nadu has also raised concerns about regional inequity. Moreover, issues such as lack of third-party audits, weak monitoring mechanisms, and inconsistent disclosure practices have diluted the potential of CSR to bring about structural change. The government has responded to these challenges through progressive amendments, notably the Companies (Amendment) Act, 2019, and the CSR Policy Amendment Rules, 2021. These reforms introduced penalties for non-compliance, mandated transfer of unspent CSR funds to designated government accounts, and emphasised impact assessment and disclosure. These changes reflect a shift from a "comply or explain" approach to a stricter "comply or face consequences" model. In this context, the present study aims to undertake a comprehensive examination of the CSR obligations enshrined under the Companies Act, 2013 and assess how they are being operationalised by Indian corporations. The primary objective of the study is to analyse the legal and regulatory framework that governs CSR, focusing on its evolution, key provisions, and subsequent amendments. Further, the study seeks to evaluate how these legal obligations are translated into actual practice by Indian companies examining patterns of CSR spending, selection of thematic areas, and challenges in execution. A critical lens is applied to assess whether the current legal regime facilitates meaningful corporate participation in sustainable development or inadvertently reduces CSR to a legal formality.

The paper also explores the regulatory and judicial perspectives on CSR compliance, including the role of the Ministry of Corporate Affairs, SEBI, and relevant court rulings. Finally, the study offers a brief comparative outlook by situating India's legal framework in the global context, examining how countries like the United States, United Kingdom, and members of the European Union approach CSR through either voluntary norms or disclosure-based regulations. Through this inquiry, the study aims to bridge the gap between law and practice, offering insights into how CSR can be better leveraged as a tool for equitable development and corporate accountability in India's unique socio-economic landscape.

II. EVOLUTION OF CSR IN INDIA

The concept of Corporate Social Responsibility (CSR) in India has undergone a gradual but significant transformation, moving from a traditional philanthropic approach to a structured and legally mandated framework. Its evolution reflects the socio-economic changes, policy reforms, and growing public awareness regarding the role of businesses in contributing to societal development. Historically, CSR in India was deeply rooted in cultural and religious values. Ancient Indian scriptures and ethical philosophies, including the Vedas and the teachings of religions like Hinduism, Jainism, and Buddhism, emphasized the importance of *dāna* (charity) and *seva* (service). Indian merchants and wealthy families often engaged in community welfare by funding temples, schools, water tanks, and dharamshalas (rest houses). This tradition of voluntary giving was further strengthened during the colonial period by business pioneers like the Tatas, Birlas, and Bajajs, who institutionalized philanthropic foundations and trusts for social development, long before any formal policy required such contributions. In the post-independence era, especially during the 1950s to 1980s, India's economic system was largely state-driven under a socialist framework. During this time, the private sector played a relatively limited role in public welfare, as the government assumed primary responsibility for health, education, and infrastructure. Nonetheless, some corporations continued philanthropic activities through family-run charitable trusts, albeit in an unregulated and informal manner. CSR remained voluntary, driven by a mix of altruism and reputational concerns.

The economic liberalisation of the 1990s marked a turning point in the CSR landscape. With the liberalisation of trade policies and an increase in foreign investment, the private sector expanded rapidly, leading to higher corporate profits and growing disparities in income and access to basic services. These changes prompted both civil society and the government to place greater expectations on corporate India to contribute meaningfully to social development. At the same time, there was an increasing recognition, globally and domestically, of the concept of triple bottom line people, planet, and profit where corporations are expected to be accountable not only financially but also socially and environmentally. In response to these shifts, the Ministry of Corporate Affairs (MCA) began formalising CSR policy discourse². In 2009, the MCA issued the Voluntary Guidelines on CSR, encouraging companies to incorporate CSR into their business strategies. This was followed by the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of

² Ministry of Corporate Affairs, Corporate Social Responsibility Voluntary Guidelines (2009), available at <https://www.mca.gov.in>.

Business (NVGs) in 2011, which laid down principles for responsible business conduct, although still non-binding.

During this time, several large companies began publishing CSR and sustainability reports, aligning their practices with international frameworks such as the Global Reporting Initiative (GRI) and the United Nations Global Compact (UNGC). The most significant milestone in the evolution of CSR in India came with the enactment of the Companies Act, 2013,³ which for the first time made CSR a legal obligation for certain classes of companies. Section 135 of the Act mandated that companies meeting specific financial thresholds (net worth of ₹500 crore, turnover of ₹1,000 crore, or net profit of ₹5 crore or more) must spend at least 2% of their average net profits over the preceding three years on CSR activities. This was accompanied by the Companies (CSR Policy) Rules, 2014, and a list of eligible activities under Schedule VII, such as eradicating hunger, promoting education, ensuring environmental sustainability, and contributing to the PM National Relief Fund⁴. India's move to make CSR mandatory was groundbreaking, attracting global attention as the first legislation of its kind. Initially based on a "comply or explain" model, companies were expected either to meet the CSR spending requirement or to disclose reasons for not doing so. Over time, further amendments such as those introduced in the Companies (Amendment) Act, 2019 and the CSR Policy Amendment Rules, 2021 strengthened compliance mechanisms, mandated the transfer of unspent CSR funds to designated accounts, and introduced impact assessment for large CSR projects.

Thus, the evolution of CSR in India reflects a journey from informal charity to formalised responsibility, from moral duty to legal obligation. It mirrors the broader trend of increasing corporate accountability and recognition of businesses as key stakeholders in the country's socio-economic development. While challenges remain in terms of implementation, monitoring, and ensuring equitable distribution of CSR benefits, the statutory framework has undoubtedly succeeded in bringing CSR into the strategic and governance agenda of Indian corporations.

III. LEGAL FRAMEWORK UNDER THE COMPANIES ACT, 2013

The legal framework governing Corporate Social Responsibility (CSR) in India was formalised with the enactment of the Companies Act, 2013, making India the first country in the world to introduce a statutory mandate for CSR spending by corporations. Prior to this, CSR activities were largely voluntary and unregulated, guided by philanthropic traditions and

³ Companies Act, No. 18 of 2013, § 135, Acts of Parliament, 2013 (India).

⁴ Companies (Corporate Social Responsibility Policy) Rules, 2014, Gazette Notification, Ministry of Corporate Affairs, available at <https://www.mca.gov.in>.

stakeholder expectations. The inclusion of Section 135 in the 2013 Act represented a paradigm shift in corporate law, reflecting the government's intent to integrate social responsibility into the core functions of corporate governance.

According to Section 135(1) of the Act, CSR obligations apply to every company, including its holding or subsidiary, and foreign companies having a branch office or project office in India, which meets any one of the following financial thresholds during a financial year: (a) a net worth of ₹500 crore or more; (b) a turnover of ₹1,000 crore or more; or (c) a net profit of ₹5 crore or more.⁵ Companies falling under this threshold are legally required to spend, in every financial year, at least 2% of the average net profits made during the three immediately preceding financial years on CSR activities listed in Schedule VII of the Act.⁶ A key institutional mechanism under this legal framework is the CSR Committee of the Board, which is required to consist of at least three directors, including one independent director. In the case of private companies and foreign companies, specific exemptions and flexibility exist regarding the number and composition of directors.⁷ The CSR Committee is responsible for formulating the company's CSR Policy, recommending the amount to be spent on CSR, and monitoring its implementation. The Board of Directors, in turn, must approve the policy, ensure its disclosure, and oversee the actual deployment of funds in accordance with the prescribed guidelines.⁸ The Companies (Corporate Social Responsibility Policy) Rules, 2014 operationalised Section 135 and laid down detailed procedures, including the definition of CSR activities, the manner of implementation, and the disclosure requirements. As per Rule 2(1)(d), CSR includes activities such as eradicating hunger, promoting education, gender equality, environmental sustainability, and rural development projects, but excludes activities undertaken in the ordinary course of business, political donations, and benefits to employees.⁹

To prevent tokenism and improve accountability, the law mandates that if a company fails to spend the prescribed amount, it must disclose the reasons for not doing so in its Board's Report. Initially, this was part of a "comply or explain" approach. However, through the Companies (Amendment) Act, 2019, the government tightened the framework by making it mandatory to transfer unspent CSR amounts to a designated fund under Schedule VII within six months of the end of the financial year, or, in the case of ongoing projects, to a special "Unspent CSR Account" within 30 days.¹⁰ These amounts are required to be spent within three

⁵ Companies Act, No. 18 of 2013, Sec. 135(1), Acts of Parliament, 2013 (India).

⁶ Id.

⁷ Companies (CSR Policy) Rules, 2014, Rule 5.

⁸ Companies Act, No. 18 of 2013, Sec 135(2)– (4).

⁹ Companies (CSR Policy) Rules, 2014, Rule 2(1)(d).

¹⁰ Companies (Amendment) Act, 2019, No. 22 of 2019, § 21; see also Companies Act, § 135(6).

years, failing which they are transferred to a central government fund. Non-compliance now attracts monetary penalties for the company and its officers. Further strengthening came through the Companies (CSR Policy) Amendment Rules, 2021, which introduced several new compliance requirements. These include the registration of implementing agencies on the MCA21 portal, mandatory impact assessments for companies having an average CSR obligation of ₹10 crore or more, and stricter norms for disclosure in the annual CSR report. Additionally, companies are now expected to conduct CSR in project or program mode rather than through one-off donations or sponsorships. Administrative overheads are capped at 5% of the total CSR expenditure, and any surplus arising out of CSR activities must be ploughed back into CSR initiatives. The permissible areas of CSR spending are laid out in Schedule VII of the Companies Act. This list, though illustrative and interpreted liberally by the Ministry of Corporate Affairs, includes a wide range of activities from education, health care, and sanitation to promotion of sports, protection of heritage sites, environmental sustainability, and disaster relief. Importantly, contributions to the Prime Minister's National Relief Fund, Clean Ganga Fund, and other government-backed initiatives are also permitted.

The legal framework is reinforced by administrative guidance through General Circulars issued by the Ministry of Corporate Affairs. For example, during the COVID-19 pandemic, the MCA clarified that expenses related to pandemic relief such as contributions to the PM-CARES Fund, the provision of oxygen concentrators, or the setting up of quarantine facilities would qualify as valid CSR activities.¹¹

IV. IMPLEMENTATION AND COMPLIANCE IN PRACTICE

The implementation and compliance of Corporate Social Responsibility (CSR) obligations under the Companies Act, 2013 have evolved significantly since the law's inception. While the legal mandate has brought CSR into boardroom discussions and enhanced corporate accountability, the practical application of the statutory provisions has been marked by both progress and challenges. Several empirical trends, sectoral patterns, and regulatory interventions provide insight into how companies interpret and fulfil their CSR responsibilities on the ground. Since CSR became mandatory in 2014, corporate spending on social development in India has witnessed a notable increase. According to data published by the Ministry of Corporate Affairs (MCA), companies spent over ₹24,000 crore between FY 2014–15 and FY 2020–21 on various CSR initiatives.¹² The sectors that have received the

¹¹ Ministry of Corporate Affairs, General Circular No. 10/2020, Treatment of COVID-19-related CSR Activities (Mar. 23, 2020), available at <https://www.mca.gov.in>.

¹² Ministry of Corporate Affairs, National CSR Data Portal, <https://csr.gov.in> (last accessed June 2025).

largest share of CSR investments include education, health care, skill development, sanitation, rural development, and environmental sustainability. Education consistently tops the list, receiving approximately 30–35% of annual CSR funds, followed by healthcare and sanitation projects, especially during and after the COVID-19 pandemic.¹³ However, compliance has not been uniform across the corporate spectrum. Large listed companies, especially those in sectors such as IT, banking, manufacturing, and oil & gas, have demonstrated higher levels of CSR compliance, often exceeding the minimum 2% threshold. On the other hand, many smaller and mid-sized firms have faced challenges in identifying suitable CSR projects, executing them efficiently, and ensuring compliance with the increasingly complex regulatory framework. A recurring issue for many companies is the lack of internal CSR expertise and the dependence on third-party implementing agencies. Recognising this, the CSR Amendment Rules of 2021 now mandate that all implementing partners must register with the MCA, ensuring a baseline standard for accountability and transparency.¹⁴ A significant concern has been the geographic concentration of CSR funds. Research indicates that a disproportionately large share of CSR spending is directed toward industrialised states like Maharashtra, Gujarat, Karnataka, and Tamil Nadu, primarily due to the concentration of company headquarters and manufacturing facilities in these regions.¹⁵ In contrast, aspirational and backward districts, including those in the North-Eastern states and central India, receive relatively less attention. This spatial imbalance runs counter to the broader developmental objective of the CSR mandate. The government has responded by encouraging companies to align their CSR strategies with national development priorities and local needs through district-level consultations and collaborations with local authorities. From a governance perspective, the CSR Committee and the Board of Directors play a central role in overseeing compliance. Companies are required to disclose detailed information in their annual Board Reports and on their websites, including the composition of the CSR Committee, the amount spent or unspent, the nature of projects undertaken, and reasons for any shortfall. The format of annual CSR reports, as specified by the Companies (CSR Policy) Rules, 2021, standardises disclosures and enhances transparency. Non-compliance with CSR spending obligations now attracts penal consequences under Section 135(7), which imposes fines on the company and

¹³ KPMG India, India's CSR Reporting Survey 2022, <https://home.kpmg/in/en/home/insights/2022/12/india-csr-reporting-survey.html>.

¹⁴ Companies (CSR Policy) Amendment Rules, 2021, G.S.R. 40(E), Rule 4(2), Ministry of Corporate Affairs (India).

¹⁵ Samhita & India Development Review, CSR in the Times of COVID-19: A Nationwide Study, 2021, <https://www.idronline.org>.

responsible officers.¹⁶ These changes have heightened the importance of CSR as a compliance function, requiring alignment between legal, finance, and CSR teams within corporations. Another development is the rise of impact assessment and audit mechanisms. Companies with an average CSR obligation of ₹10 crore or more in the three preceding financial years are now required to conduct independent impact assessments for CSR projects having an outlay of ₹1 crore or more. This shift signals a movement from input/output-based reporting to outcome and impact-based evaluations, thus improving the quality of CSR engagement. Companies are increasingly hiring third-party auditors, consultants, and academic institutions to conduct such assessments and identify metrics for social return on investment (SROI). Nonetheless, several practical and ethical challenges persist. There are instances of superficial compliance, wherein companies spend exactly 2% on generic or low-impact projects without long-term community engagement. Some firms are criticised for treating CSR as a tick-box exercise rather than a tool for sustainable development. The opacity around the effectiveness of projects, lack of community participation, and weak grievance redressal mechanisms further undermine the transformative potential of CSR. Moreover, the COVID-19 pandemic, while catalysing CSR towards health and relief measures, also exposed the fragility of implementation structures and the over-reliance on short-term crisis interventions.¹⁷

To address these issues, policy experts and regulators have advocated for better integration between CSR and Environmental, Social, and Governance (ESG) frameworks. There is a growing call for companies to move beyond mere compliance and adopt a strategic CSR approach that aligns with their core values, stakeholder expectations, and sustainable business models. Some leading companies have adopted innovative CSR models such as shared value initiatives, incubator programs for social enterprises, and long-term rural development partnerships that reflect a deeper commitment to impact and scale.

V. CHALLENGES AND CRITIQUE OF THE CURRENT REGIME

Despite the progressive vision behind Section 135 of the Companies Act, 2013, the current legal framework on Corporate Social Responsibility (CSR) in India has attracted considerable academic, administrative, and practical critique. While the statutory regime has ensured greater visibility and accountability in corporate philanthropy, its effectiveness is impeded by several structural, procedural, and philosophical limitations that merit critical examination. One of the most prominent challenges is the compliance-driven mindset that many companies

¹⁶ Companies Act, No. 18 of 2013, § 135(7), as amended by Companies (Amendment) Act, 2019.

¹⁷ Ministry of Corporate Affairs, General Circular No. 10/2020, COVID-19-related CSR Expenditure (Mar. 23, 2020), <https://www.mca.gov.in>.

have adopted. The statutory requirement of spending 2% of average net profits has, in several cases, reduced CSR to a quantitative obligation, with minimal emphasis on quality, sustainability, or community participation. Instead of pursuing high-impact, transformative projects, many companies are seen to "tick the box" by selecting safe and short-term projects that satisfy legal formalities but fall short of meaningful impact.¹⁸ This compliance-oriented approach undermines the original objective of embedding social responsibility into the DNA of corporate governance. A related concern is the urban and industrial bias in the allocation of CSR funds. Data from the National CSR Portal consistently shows that a significant portion of CSR expenditure is concentrated in industrialised and urbanised states such as Maharashtra, Karnataka, Gujarat, and Tamil Nadu, where most corporate headquarters or operational facilities are located.¹⁹ Conversely, aspirational districts and underserved regions especially in the North-East, central India, and hilly terrains receive disproportionately less funding. This geographical skew defeats the purpose of inclusive growth and reflects an implementation gap between statutory intent and actual execution.

Further, there is an absence of sectoral diversity in CSR activities. While education and health care are justifiably popular CSR themes, sectors such as disability rights, climate adaptation, biodiversity conservation, and judicial access receive limited attention.²⁰ Companies often avoid complex or politically sensitive areas due to risk aversion, lack of capacity, or limited understanding. This results in project homogeneity and duplication, particularly in metro cities, rather than strategic and innovative interventions based on local needs assessments. The lack of internal expertise and over-reliance on external implementing agencies is another major structural weakness. Many companies do not have dedicated CSR teams and delegate implementation to NGOs or consultants. While this is legally permitted, it raises concerns regarding due diligence, accountability, and alignment with corporate values. Though the 2021 Amendment Rules now require registration of implementing agencies and impose impact assessment obligations for large projects,²¹ the ecosystem of monitoring and evaluation remains underdeveloped. There are few standardised frameworks for measuring CSR outcomes, and most companies focus on inputs and outputs rather than long-term societal impact. On the governance front, the penalty-based approach introduced by the Companies

¹⁸ Anirudh Agrawal & Poonam Puri, *Corporate Social Responsibility in India: Hindrance or Catalyst*, 29 *Nat'l L. Sch. India Rev.* 89 (2017).

¹⁹ Ministry of Corporate Affairs, *CSR Statistics by Geography*, National CSR Data Portal, <https://csr.gov.in> (last visited June 2025).

²⁰ KPMG, *India's CSR Reporting Survey 2022*, available at <https://home.kpmg/in/en/home/insights/2022/12/india-csr-reporting-survey.html>.

²¹ Companies (CSR Policy) Amendment Rules, 2021, G.S.R. 40(E), Rules 4(2) & 8(3), Ministry of Corporate Affairs (India).

(Amendment) Act, 2019 has raised normative questions about the use of coercion in philanthropy. Critics argue that penalising non-spending may deter innovation, discourage experimentation, and push companies toward risk-free and bureaucratic models of giving.²² CSR, by nature, should ideally stem from ethical commitment and not be reduced to statutory compulsion. The balance between motivation and mandate remains a subject of legal and ethical debate. Moreover, ambiguities in legal definitions and procedural requirements continue to cause confusion. For instance, the exclusion of activities undertaken in the "ordinary course of business" from CSR eligibility has been inconsistently interpreted. During the COVID-19 pandemic, special circulars were issued to clarify the scope of health-related business initiatives qualifying as CSR,²³ but such ad hoc clarifications reveal underlying drafting and interpretative gaps in the framework. Similarly, restrictions on overseas CSR spending, except in limited cases such as training for Indian sports personnel, may hinder Indian multinationals from contributing to global developmental goals. Disclosure and transparency also remain weak links in the compliance chain. While the CSR Policy Rules mandate detailed reporting in Board Reports and on company websites, the actual quality of disclosure varies significantly across companies. Many companies provide vague or template-style information, making it difficult to assess project impact, budget utilisation, or alignment with national priorities such as the SDGs. Independent third-party audits or social impact assessments are rarely published, and stakeholder feedback is almost entirely absent from official disclosures.²⁴ Philosophically, the Indian CSR model remains state-centric and prescriptive, as opposed to being market-driven or innovation-led. This approach may have helped in standardising minimum compliance but risks stifling creativity and deterring genuine stakeholder partnerships. For instance, there is little regulatory emphasis on employee volunteering, in-kind contributions, or cross-sector collaborations, which are essential elements of vibrant CSR ecosystems in jurisdictions like the EU and the USA.

Finally, the fragmented ecosystem of CSR regulation managed by the Ministry of Corporate Affairs, monitored through disclosures, but without a dedicated CSR tribunal or ombudsman leaves room for both under-enforcement and overreach. In the absence of a specialised grievance redressal or dispute resolution mechanism, cases of misreporting, poor project execution, or misuse of CSR funds are rarely escalated or adjudicated.

²² Bibek Debroy, CSR Penalties A Regressive Step, *The Economic Times* (Aug. 23, 2019), <https://economictimes.indiatimes.com>.

²³ Ministry of Corporate Affairs, General Circular No. 10/2020, Treatment of COVID-19-related CSR Expenditure (Mar. 23, 2020), <https://www.mca.gov.in>.

²⁴ Aseem Prakash & Nives Dolšák, India's Mandatory CSR Law: Has It Delivered?, 60 *Stanford Soc. Innov. Rev.* (2021)

VI. REGULATORY AND JUDICIAL PERSPECTIVES

The regulatory and judicial perspectives on Corporate Social Responsibility (CSR) in India have significantly shaped the interpretation, enforcement, and evolution of Section 135 of the Companies Act, 2013. While the legislative mandate for CSR has provided a structural foundation, it is the regulatory clarifications issued by the Ministry of Corporate Affairs (MCA) and the interpretative positions taken by the judiciary that have refined the practical understanding of CSR obligations in India.

A. Regulatory perspectives: ministry of corporate affairs

The Ministry of Corporate Affairs (MCA), as the primary regulatory authority, has issued several notifications, general circulars, FAQs, and amendment rules to clarify and operationalise the CSR framework. Notably, the MCA has adopted a liberal and facilitative approach in interpreting Schedule VII of the Act, emphasising that the list of CSR activities is to be construed broadly to allow flexibility in implementation.²⁵ The Ministry has stated that companies may undertake projects in areas “similar” or “closely aligned” to those listed in Schedule VII, thereby encouraging innovation and contextualisation.

A significant regulatory intervention occurred during the COVID-19 pandemic, when the MCA issued multiple circulars clarifying that expenditures related to pandemic relief such as distribution of masks, setting up temporary hospitals, and contributions to the PM-CARES Fund would qualify as valid CSR activities under items (i) and (xii) of Schedule VII.²⁶ This highlighted the adaptive regulatory posture in times of national crisis and underscored the government's expectation that CSR obligations contribute to public emergency responses.

The MCA has also refined the procedural framework through subordinate legislation, particularly the Companies (CSR Policy) Rules, 2014, and its subsequent amendments. These rules mandate disclosures, registration of implementing agencies, impact assessments, and categorisation of “ongoing projects.”²⁷ The CSR Policy Amendment Rules, 2021, introduced prescriptive reporting formats and enhanced the scrutiny of fund utilisation and project execution.²⁸ These measures signal the regulator's shift from a “light-touch” disclosure model to a compliance-intensive, audit-driven model.

Furthermore, the National CSR Data Portal and the MCA21 online interface have enhanced

²⁵ Ministry of Corporate Affairs, General Circular No. 21/2014, Dated June 18, 2014, <https://www.mca.gov.in>

²⁶ Ministry of Corporate Affairs, General Circular No. 10/2020, COVID-19 related CSR expenditure, <https://www.mca.gov.in>

²⁷ Companies (CSR Policy) Rules, 2014, Rule 4, Ministry of Corporate Affairs

²⁸ Companies (CSR Policy) Amendment Rules, 2021, G.S.R. 40(E), Jan. 22, 2021.

transparency by providing access to company-wise CSR spending data, project descriptions, and geographies covered. However, the absence of a dedicated regulatory authority or tribunal for CSR means that enforcement continues to rely on disclosures, inspections under the Companies Act, and prosecutions initiated by the Registrar of Companies (RoC).

B. Judicial perspectives

Judicial intervention in CSR matters under the Companies Act has been limited but evolving. Courts have generally deferred to the legislative and regulatory framework, viewing CSR as a domain-specific obligation falling within the policy discretion of the executive. However, certain rulings have clarified procedural and interpretive ambiguities in CSR law and its interaction with other statutory frameworks.

In *TechnipFMC India Ltd. v. Registrar of Companies*, the Delhi High Court upheld the MCA's jurisdiction to initiate penal action against companies for non-compliance with Section 135, noting that CSR obligations, once triggered, create enforceable statutory duties, and failure to comply whether spending or disclosure may attract penal consequences under Section 134(8) and Section 135(7) of the Act.²⁹

Similarly, in *National Highways Authority of India v. CIT*, the Income Tax Appellate Tribunal held that CSR expenses, although statutorily mandated, are not incurred "wholly and exclusively" for the purpose of business or profession under Section 37 of the Income Tax Act, 1961, and hence are not eligible for tax deductions unless specifically covered under Section 80G or related provisions.³⁰ This judgment clarified the tax treatment of CSR expenses, reinforcing that CSR is a statutory social obligation and not a deductible business expenditure unless expressly provided.

Moreover, courts have encouraged companies to take a responsible and transparent approach to CSR governance. In a public interest litigation filed before the Bombay High Court seeking directions for greater oversight over the deployment of CSR funds, the court observed that while judicial intervention in corporate spending decisions must be minimal, the Board's fiduciary duty under corporate law includes ensuring transparency, community engagement, and lawful implementation of CSR activities.³¹

Judicial bodies have also taken CSR principles into account while adjudicating matters of environmental compliance and licence renewals. In *Sterlite Industries (India) Ltd. v. Tamil Nadu Pollution Control Board*, while deciding on environmental clearances and community

²⁹ *TechnipFMC India Ltd. v. Registrar of Companies*, (2022) SCC OnLine Del 3831

³⁰ *National Highways Authority of India v. CIT*, (2021) 125 taxmann.com 325 (ITAT Delhi).

³¹ *Bharat Sewa Sansthan v. Union of India*, PIL No. 342 of 2020, Bombay High Court.

opposition, the National Green Tribunal observed that companies benefiting from public resources or impacting local ecology have a greater onus to contribute to surrounding communities through CSR and sustainable development programs.³²

These judicial insights, although not always binding in CSR-specific contexts, suggest a converging view across courts and tribunals that CSR obligations are not merely symbolic but enforceable corporate responsibilities aligned with broader constitutional values under Articles 21 and 48A of the Constitution of India.

VII. RECOMMENDATIONS AND THE WAY FORWARD

The statutory CSR framework under Section 135 of the Companies Act, 2013 has marked a pioneering legislative step in embedding corporate responsibility into the legal obligations of Indian businesses. However, the journey from compliance to commitment remains ongoing. To enhance the efficacy, inclusivity, and transformative potential of Corporate Social Responsibility in India, several reforms both legal and institutional must be considered. These recommendations aim to align CSR law more closely with national development goals, global best practices, and stakeholder-centric approaches.

A. Promote impact-based CSR over spend-based compliance

The current framework predominantly evaluates CSR performance on the basis of financial outlay (i.e., 2% of net profits), rather than impact or outcomes. A shift in emphasis from expenditure to measurable social return on investment (SROI) would encourage companies to focus on quality and long-term sustainability of interventions. This could be achieved by developing sector-specific impact assessment guidelines, introducing public benefit indicators, and creating an independent CSR Impact Evaluation Council under the Ministry of Corporate Affairs (MCA).

B. Incentivise CSR in underserved and aspirational regions

To address the geographical imbalance in CSR funding, the government should incentivise companies to invest in aspirational districts, tribal regions, and underdeveloped states by offering recognition-based benefits or tax incentives, without compromising the philanthropic nature of CSR. A CSR mapping mechanism linked to district-level development indices could guide companies to align projects with local priorities and SDG targets.

³² Sterlite Industries (India) Ltd. v. Tamil Nadu Pollution Control Board, Appeal No. 46 of 2013, NGT (Southern Zone), Chennai.

C. Clarify ambiguities through a comprehensive CSR code

Despite numerous circulars and amendments, ambiguities remain in definitions such as “ongoing projects”, “ordinary course of business”, and permissible administrative expenses. A comprehensive CSR Code of Conduct or Handbook on CSR Law, with practical examples, frequently asked questions (FAQs), and judicial interpretations, should be published by the MCA in consultation with stakeholders. This would reduce compliance uncertainty and improve legal clarity.

D. Strengthen institutional infrastructure and monitoring

Presently, the implementation and enforcement of CSR norms rely primarily on disclosures, self-reporting, and MCA inspections. The establishment of a National CSR Authority with quasi-regulatory powers can enhance oversight, maintain a repository of best practices, and ensure grievance redressal for communities affected by poorly implemented CSR projects. Moreover, an AI-based CSR Data Intelligence Dashboard can detect anomalies in fund flows, project duplication, and regional disparities in real time.

E. Foster public-private-community partnerships (PPCPs)

CSR efforts can be amplified through collaboration between companies, local governments, and civil society organisations. The MCA may encourage cluster-based CSR models, where multiple companies operating in a region co-invest in a shared social infrastructure such as health clinics, skilling hubs, or biodiversity parks thus achieving economies of scale and deeper community engagement. This approach fosters social capital creation rather than scattered charity.

F. Integrate ESG frameworks with CSR law

Globally, Environmental, Social, and Governance (ESG) metrics are emerging as the benchmark for responsible business conduct. India should consider harmonising CSR disclosures with ESG reporting standards, such as the BRSR (Business Responsibility and Sustainability Reporting) mandated by SEBI for top listed companies. This integration will ensure that CSR is not a siloed function but part of a broader sustainable corporate governance paradigm.

G. Enable and recognise innovative CSR models

Regulators should encourage companies to go beyond the minimum 2% spend through innovative models such as social business incubation, employee volunteering, green supply chains, and shared value creation. The MCA and NITI Aayog may jointly institute National

CSR Excellence Awards to reward innovation, inclusivity, and measurable impact in CSR practices, especially in partnership-driven and tech-enabled formats.

H. Enhance capacity building and knowledge sharing

One of the key bottlenecks in CSR implementation is the lack of in-house expertise, particularly in MSMEs and newly eligible companies. The government, through public sector institutions like IICA (Indian Institute of Corporate Affairs), should offer certification programs, webinars, and toolkits for CSR professionals. Additionally, a national CSR knowledge portal should be developed to showcase case studies, success stories, legal updates, and evaluation tools.

I. Strengthen the role of stakeholders and communities

CSR should not be a top-down imposition. Beneficiary communities, local panchayats, and grassroots organisations must be engaged during project design, monitoring, and impact assessment. The law should mandate community consultation processes for CSR projects above a specified threshold, especially in ecologically and socially sensitive areas. This will reinforce participatory development and social accountability.

J. Create legal flexibility for strategic global philanthropy

While the CSR law currently restricts overseas spending except for training Indian sports personnel, Indian multinational companies with global operations should be given limited scope for strategic international CSR particularly for projects aligned with India's global commitments, such as climate resilience, SDG financing, or diaspora engagement. Such flexibility, with appropriate disclosures, would reflect India's global leadership in responsible capitalism.

VIII. CONCLUSION

The enactment of Section 135 of the Companies Act, 2013 marked a transformative moment in India's corporate governance landscape, establishing a legal foundation for Corporate Social Responsibility (CSR) that is unparalleled globally. By mandating CSR spending and institutionalising compliance obligations, India became the first country to shift CSR from a voluntary philanthropic activity to a statutory corporate duty. Over the past decade, this legal regime has significantly influenced how Indian companies engage with societal challenges, contribute to national development, and align their operations with broader environmental, social, and ethical considerations. However, the evolution from compliance to commitment remains incomplete. While the law has succeeded in increasing financial outlays toward social

causes and bringing CSR into boardroom agendas, several challenges persist. These include a narrow spend-focused approach, regional and sectoral imbalances, limited community engagement, insufficient impact assessment, and ambiguities in legal definitions. Moreover, the over-reliance on third-party implementing agencies, weak monitoring frameworks, and an absence of specialised grievance redressal mechanisms limit the transformative potential of CSR as envisaged by the legislation. The regulatory and judicial responses have been largely facilitative but are increasingly moving toward stricter enforcement. Amendments such as the 2019 and 2021 Rules have introduced penalties for non-compliance, registration requirements for implementing agencies, and mandates for impact assessments. These developments indicate a maturing legal ecosystem that expects corporates to treat CSR not merely as a statutory line item but as a strategic, ethical, and participatory process aligned with India's constitutional values under Articles 21, 48A, and 51A(g). Looking ahead, the future of CSR in India must rest on a framework that values quality over quantum, inclusivity over convenience, and partnership over prescription. The law must continue to evolve by promoting innovation, supporting under-served regions, integrating ESG principles, and embedding CSR into a company's core strategy. Regulatory simplification, stakeholder consultation, and capacity building especially for smaller companies will be critical in making CSR not only legally compliant but socially relevant. Ultimately, CSR in India is not just about the redistribution of profits but about redefining the role of business in a just society. As corporations are increasingly seen as moral agents with public responsibilities, CSR provides a constitutional and legal bridge between private enterprise and public good. Strengthening this bridge through policy reforms, judicial guidance, and ethical leadership will determine whether India's pioneering CSR legislation becomes a global model for responsible capitalism or remains a compliance checkbox in the statute books.
