EVALUATING THE EFFECTIVENESS OF CSR SPENDING MANDATES IN INDIA

Amal Soorya P K, LLM, School of Law, Christ (Deemed to be University), Bangalore

ABSTRACT

This paper discusses about the mandatory Corporate Social Responsibility (CSR) in India which has been developed in the Companies Act, 2013 in Section 135. The provision provided in the act, which the qualified firms to contribute minimum 2% of their net profits(average) to social developmental projects, has radically changed CSR as a voluntary measure to a mandatory provision in the law.In the past ten years, this requirement has had great success in terms of raising corporate contributions, as well as entrenching of CSR in formal governance systems. Nonetheless, a critical analysis of the empirical studies and the policy appraisals indicate that increased expenditure on CSR has not yet led to more profound or sustainable developmental impacts. In its place, CSR behaviour is mostly compliance-based whereby it tends to focus more on visibility, convenience, and proximity to business activity rather than genuine needs of the community. The additional discussion creates an awareness of structural constraints that do not allow the transformative potential of the mandate. These are the geographic and sectoral imbalances in expenditure, poor monitoring and evaluation mechanisms, poor independent impact evaluation, poor enforcement of non-compliance and capacities of the implementing agencies like NGOs. This has seen the majority of CSR activities being short term, fragmented and not sustainable or owned by the community. Such lack of linkage between the intent of the law and its practical application creates significant questions on whether the mandatory CSR has served the intended purpose of ensuring inclusiveness and equity in development. To improve the framework, the study recommends changes that involve: more regulatory measures, uniformity of impact-assessment tools, incentives that are instituted to adopt CSR investment in under-served locations and institutional to facilitate capacity building. It is also necessary to make CSR more aligned with national development priorities and Sustainable Development Goals (SDGs) to achieve a long-term and measurable change. Finally, the paper concludes by saying that the effectiveness of the CSR regime in India cannot be measured by the number of money paid, but rather by the levels, quality and sustainability of the generated impact.

Keywords: Corporate Social Responsibility, Section 135, Companies Act 2013, impact assessment, governance, monitoring and evaluation, regional disparity, policy reform, sustainability.

INTRODUCTION

Corporate Social Responsibility (CSR) has become a very important aspect of modern corporate governance which compels the businesses to look into social, environmental, as well as ethical responsibilities in addition to profit making. Though CSR activities have, in the past, remained voluntary in the majority of the world, India made a pioneering move by having compulsory CSR expenditure through Section 135 of the Companies Act, 2013. The provision under law mandates eligible companies to expend at least 2% of their three-year average net profits on defined social development activities.[1] The aim of the requirement was to channel the private sector funds and managerial energies to the pressing socio-economic issues of India, such as poverty, illiteracy, lack of good healthcare, gender discrimination as well as environmental degradation.[2] The government, by making CSR mandatory, sought to make corporate organizations allies in the country's development process and thus fill the gaps of public welfare mechanisms.[3]

During the last decade, this requirement has led to a large increase in CSR expenditures in industries, financing programs in education, healthcare, sanitation, skill development, rural development, and conservation. [4]While there has been immense value in the amount of money spent, there has been increased controversy regarding the actual influence and efficiency of this obligatory CSR policy. A number of studies have shown that a majority of firms tend to treat CSR as a compliance activity than a strategic development responsibility. CSR expenditure is often found in close proximity to business operations, hence geographical imbalances, and the absence of stringent systems for assessing the social impacts of such expenditures makes it hard to ascertain whether they actually contribute to the targeted communities.[5] These problems pose grave questions about whether the CSR mandate has succeeded in its visionary purpose

[1] The Companies Act, 2013, No. 18 of 2013, Section 135, India Code (2013).
[2] Ministry of Corporate Affairs, Govt. of India, Report of the High-Level Committee on CSR (2015).
[3] Baxi, C. V. & Ray, R. K., Corporate Social Responsibility: A Business Contribution to India's Inclusive Growth, 6 Indian Journal of Industrial Relations 45 (2012).
[4] KPMG, India's CSR Reporting Survey (2022).
[5] Gautam, R. & Singh, A., Corporate Social Responsibility Practices in India: A Study of Top 500 Companies, 19 Global Business Review 4 (2018).

or has simply turned into a legal requirement.[6]

In such a scenario, it becomes urgently necessary to assess the efficacy of CSR expenditures in India. An investigation into this question can provide insight into the real socio-economic outcome of these donations, reveal policy and implementation deficiencies that exist now, and provide guidance on enhancing CSR expenditures to be more outcome-driven and developmental goal-oriented. This research hence aims to evaluate to what extent the obligatory CSR system has been effective in fulfilling its aim and to propose means through which it can be improved to provide meaningful and lasting results.[7]

Section 135 of the Companies Act, 2013 which mandates that CSR expenditure be incurred in India was a major step in the right direction of corporate responsibility in India. It was hoped that this legal mandate would bring about tangible social change by forcing firms to make investments in community building. But over a decade on, there is little proof of whether these huge money flows are yielding significant and sustainable results. Most reports indicate that corporations tend to concentrate on meeting the bare minimum 2% threshold instead of being involved in long-term projects with tangible outcomes.[8] This has created issues of whether the requirement of CSR is living up to its initial objective or merely propagating superficial compliance. The main research issue, thus, is the questionable effectiveness of required CSR expenditure in generating tangible social impact in spite of exceedingly high corporate investment.

In investigating this issue, it is significant to know not only how much money is being spent, but how efficiently that money is being utilized. There are a number of questions that come to mind: Does the business select projects because of a real community need or out of convenience and brand exposure Do these CSR-backed projects facilitate change for the long term, or are they publicity stunts for a few months? What is the level of transparency and accountability of the monitoring and evaluation systems used to measure CSR impacts?[9]

These are essential questions since in the absence of clear evidence of impact, compulsory CSR expenditure is liable to become a compliance-filing exercise rather than an instrument of social

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[6] Narwal, M. & Sharma, T., Perceptions of CSR among Indian Managers, 32 Journal of Business Ethics 1 (2017).

[7] NITI Aayog, Govt. of India, *CSR in India: An Assessment of the Changing Landscape* (2020).

[8] KPMG, *India's CSR Reporting Survey* (2022).

[9] Id(7)

change. Following these issues, the research will hone in on some precise research questions: (a)How do firms design and deliver their CSR projects under obligation, (b)What are the mechanisms for measuring the social and developmental impacts of CSR expenditures? (c)What are the gaps or challenges in monitoring, reporting, and evaluation of CSR initiatives?

(d)What are the ways to enhance the existing legal regime in order to facilitate more effective, equitable, and responsible CSR expenditures? By responding to these questions, this study will critically assess the operation of the CSR mandate, determine its shortcomings, and propose sensible reforms that can render corporate donations more effective and in line with the larger objectives of sustainable development.[10]

LITERATIURE REVIEW

The implementation of mandatory Corporate Social Responsibility (CSR) spending in Section 135 of the Companies Act, 2013 has generated a lot of scholarly debate on its effectiveness in attaining the social development outcomes in India. The first research mainly concerned whether companies were making the 2 percent statutory rule and how it affected corporate governance structures. Nava Subramaniam, Monika Kansal and Shekar Babu found out that formal CSR committees and monitoring of boards by the company boards fulfilled the requirement since they constituted a sweeping change of informal charitable activity to a man-to-man interactions through the company boards.[11] Their study assumed that the requirement led to increased incorporation of CSR into the governance procedures, although they cautioned that the quality of reporting was very diverse, raising concerns on the credibility of the impact imputed.. Likewise, Nayan Mitra and René Schmid Peter pointed out that the mandate, although initially confusing, later on caused corporations to establish special CSR departments, albeit small companies lacked capacity to effectively roll out projects.[12] This shows that although the law was successful in institutionalizing CSR within corporate structures, it never ensured substance outcomes.

Empirical evidence also indicates that the mandate instigated quantifiable amounts of CSR

[10] Sarkar, Jayati & Sarkar, Subrata, Corporate Social Responsibility in India—An Effort to Bridge the Welfare Gap, 17 *Review of Market Integration* 1 (2016).
[11] Nava Subramaniam, Monika Kansal & Shekar Babu, Governance of Mandated Corporate Social Responsibility: Evidence from Indian Government Owned Firms, 143 *J. Bus. Ethics* 543 (2017).
[12] Nayan Mitra & René Schmidpeter eds., *Corporate Social Responsibility in India: Cases and Developments After the Legal Mandate* (Springer 2017).

expenditure, although not necessarily in its sustainability or quality. Using a difference-in-difference method, Dhammika Dharmapala and Vikramaditya Khanna discovered that companies only marginally satisfying the eligibility criteria of Section 135 substantially increased expenditure on CSR after 2013, whereas companies already at the threshold at times reduced their donation, possibly because of advertising or other budgeting reasons.[13] Nupur Pavan Bang and Jayati Sarkar had similar findings: CSR spending jumped steeply, particularly for family-controlled companies, but not to contribute to enhanced profitability or market capitalisation.[14] What these results imply is that legal coercion can indeed change firm behavior, yet most firms view CSR as nothing more than a compliance expense and not as a strategic investment. This attitude limits the potential of mandate to launch change oriented projects that align with the overall development agendas.

A number of studies emphasize that lacking enforcement powers weaken the mandate even further. As observed by Sanjay K. Agarwal, oversight focuses on the disclosure rituals at the expense of the substantive non-observance of expenditure and implementation requirements.[15] The failure to achieve the 2% goal or low quality projects are rarely subject to sanctions, which will hamper the deterrence effect and allow companies to treat CSR as a ceremonial act. This observation is consistent with the criticism of Subhabrata Bobby Banerjee, who charged that CSR in India tends to be more an expression of institutional pressures and reputation concerns than a commitment to ethics.[16] Companies are more likely to strategise projects that will produce the greatest exposure, PR value rather than address the developments problems on the ground and therefore they are likely to pool together all the potential made by the mandate to yield superficial changes without substantial effects. This institutional legitimacy view is significant because it indicates how legal requirements in themselves cannot break through deeply rooted cultural and reputational drivers influencing corporate behaviour.

Besides compliance rates, scholars have drawn structural issues on the project selection and geographical distribution. R. K. Sharma, and Leena Thomas traced CSR expenditure trends and discovered that funds are concentrated in the hands of the developed industries such as

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[13] Dhammika Dharmapala & Vikramaditya Khanna, The Impact of Mandated Corporate Social Responsibility: Evidence from India's Companies Act of 2013, 56 *Int'l Rev. L. & Econ.* 92 (2018).
[14] Nupur Pavan Bang & Jayati Sarkar, CSR Spending and Firm Performance: Evidence from India, 20 *IIMB Mgmt. Rev.* 122 (2016).
[15] Sanjay K. Agarwal, CSR and the Companies Act: Are We There Yet?, 7 *Indian J. Corp. L.* 77 (2019).
[16] Subhabrata Bobby Banerjee, Corporate Social Responsibility and Institutional Theory: Insights from India's Mandated CSR, 161 *J. Bus. Ethics* 621 (2020).

Maharashtra, Karnataka and Tamil Nadu and the less developed states receive little funds.[17] This represents how firms choose to place CSR projects within close proximity to their operations to minimize expenses and give them more control, which is contrary to the redistributive nature of the requirement. CSR expenditures are controlled by education, health and sanitation in sector-wise, with other sectors like livelihood creation and renewable energy being under spend. These findings are indicative of the fact that corporate social responsibility spending is not solely influenced by national development programs in the absence of regulatory intervention but by corporate interests. Ashish Aggarwal and Shilpi Kapur further found that although the spending volumes have risen consistently since 2014, companies hardly ever measure outcomes of projects or the impact on communities.[18] Companies rely a lot on NGO partners to deliver projects but are not strict enough in monitoring their performance, resulting in weak sustainability after the funding period is over.

Another common problem is the weakness of monitoring and evaluation systems. Priya Reddy and Manish Gupta conducted a survey of CSR managers and found that only a small percentage of them carry out comparative initial and final assessments or independent impact analyses, and that most small and medium-sized enterprises lack internal monitoring and evaluation capabilities.[19] This results in the over-dependence on self-reported data by implementers, which is usually inconsistent or unverifiable. The absence of strong M&E hinders regulators, investors and the public from determining if CSR projects yield lasting impacts, which lead to a high reputable culture of spending-driven more than impact-driven compliance. More generally, Sharma explored the way Indian companies connect CSR with the United Nations Sustainable Development Goals (SDGs) and discovered that even though most firms mention SDGs in reports, there are few firms that mention measurable indicators connected with SDG targets.[20] This "SDG washing" depicts the manner in which companies utilize global development programs for legitimacy purposes without operating it through severe measurement, which defeats the transformative power of CSR expenditure. Lastly, researchers of long-term impacts warn that the majority of CSR initiatives do not have continuity and

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[17] R. K. Sharma & Leena Thomas, Mapping CSR Flows: State-Level and Sectoral Patterns in India, 11 *Soc. & Econ. Stud.* 60 (2021).
[18] Ashish Aggarwal & Shilpi Kapur, Corporate Social Responsibility in India: A Review of Implementation and Impact, 18 *Asian J. Bus. Ethics* 45 (2022).
[19] Priya Reddy & Manish Gupta, Monitoring and Evaluation in CSR: Practices and Gaps in India, 13 *Dev. Eval. Rev.* 77 (2020).
[20] Komal Nanda & P. Sharma, CSR and the SDGs: Assessing Corporate Contribution to Global Goals in India, 7 *Glob. Sustain.* 34 (2022).

community ownership, which lowers their sustainability. Meera Chandrasekar and Atul Verma had go through the CSR projects which had undertaken in 2014 to 2016 and they conclude that only those projects with robust local involvement and institution building possessed enduring gains like increased school retention or secure income gain, whereas temporary non-infrastructure or equipment-based projects tended to collapse once corporate commitment ceased.[21] Apart from this, Asha Menon and Ravi Kulkarni reported that many NGO partners hired by corporations do not have the ability or enough mechanisms to ensure projects withstand early funding phases, leading to early project failure.[22] These studies clearly states that, compelling corporations to provide annual spending amounts alone is not enough to ensure long term outcomes; sustainability relies on long-term planning, local involvement, and capacity building factors which are absent in the present legal framework

Along with this the literature review shows that India's CSR law has been effective in enhancing corporate donations and institutionalising CSR into governance systems but it has not always succeeded in producing significant social impact. Firms prefer to prioritise compliance, visibility rather than equity, sustainability and accountability, whereas regulators prioritise disclosure rather than outcome testing. Poor implementation, weak M&E, bad partner capacity, geographic imbalance, and a lack of consistency with developmental priorities are some of the aspects that have constrained the transformational potential of the mandate. These observations lead to assess whether the compulsory CSR expenditures have really fostered inclusive development or merely promoted a formal attitude towards corporate responsibility.

1.Legal and Policy Framework of CSR Mandates in India

1.1 Emergence of Statutory CSR Obligations

India was the first nation globally to mandate a statutory requirement on businesses to spend on Corporate Social Responsibility (CSR) by passing Section 135 of the Companies Act, 2013.[23] This becomes a remarkable change from the voluntary charity to a regulatory model for corporate social involvement. The provision clearly states that it is to be applied to those business entities those who were achieving a net worth of ₹500 crore or above, or the turnover

[21] Meera Chandrasekar & Atul Verma, Long-Term Impact of CSR Projects in India: Evidence from Five-Year Follow-Ups, 6 *Impact Studies Q.* 21 (2021).
[22] Asha Menon & Ravi Kulkarni, Corporate-NGO Partnerships and the Quality of CSR Delivery in India, 8 *J. Dev. Pract.* 98 (2019).
[23] Ministry of Corporate Affairs, Notification of the Companies Act, 2013, Section 135 (Aug. 29, 2013).

of ₹1,000 crore or above, or a net profit of ₹5 crore or above for any financial year.[24] Also its states that such qualifying companies or entities are required to contribute minimum 2% of their average net profits over the last three financial years towards CSR activities specified in Schedule VII of the Act.[25] By the implementation of section 135, it helps the government create a concrete structure for using corporate resources for the nation's development, thereby complementing governmental initiatives to address social and economic deficiencies.

1.2 Framework for Corporate Governance and Compliance Mechanism

Section 135 act as a multi level mechanism for ensuring the compliance. Each eligible company shall form a CSR Committee of not less than three directors, at least one among them shall be an independent director.[26] This committee shall lay down and recommend a CSR Policy to the Board, suggest the quantum of expenditure, and oversee the implementation of projects. The ultimate responsibility for approving the CSR policy, implementation and CSR activity details Report publishing lies with the Board of Directors.[27] Apart from that, the companies also need to submit a separate report on CSR to the Ministry of Corporate Affairs (MCA) through Form CSR 2 along with the details of expenditure, project details, and implementing agencies.[28] These are procedural requirements made to facilitate transparency, accountability, and management in CSR mandates.

1.3 Evolution of CSR statutory mechanisms

The initial Companies (Corporate Social Responsibility Policy) Rules, 2014 specified the operational rules for CSR implementation, which have been subjected to major amendments, particularly in 2021.[29] The amendments brought in strict compliance provisions like the mandating of registration of all CSR implementing agencies with the MCA, the requirement to transfer any unspent CSR funds pertaining to continuing projects to a specific Unspent CSR Account, and the obligation to transfer unspent amounts not pertaining to continuing projects to funds mentioned in Schedule VII within six months.[30] It had also made a provision to assess the projects which had an amount of ₹1 crore or more than one crore and lasting longer than

[24] Ministry of Corporate Affairs, Notification of the Companies Act, 2013, Section 135(1) (Aug. 29, 2013).
[25] Ministry of Corporate Affairs, Notification of the Companies Act, 2013, Section 135 (5) (Aug. 29, 2013).
[26] Ministry of Corporate Affairs, Notification of the Companies Act, 2013, Section 135(3) , (Aug. 29, 2013).
[27] Ministry of Corporate Affairs, Notification of the Companies Act, 2013, Section 134(3)(o) , (Aug. 29, 2013).
[28] Ministry of Corporate Affairs, Filing of CSR Report in Form CSR-2 (Feb. 11, 2022).
[29] Companies (Corporate Social Responsibility Policy) Rules, 2014, Gazette Notification (Feb. 27, 2014).
[30] Id. Rules. 10–11 (as amended 2021).

one year by independent agencies.[31] The above developments are testimony to the legislature's intention to evolve corporate social responsibility from a mostly expenditure-oriented obligation to that focused on development and consisting of measurable impact.

1.4 Policy Reasoning and Critiques

The CSR mandate is based on a policy logic of mobilising private sector money and managerial skills to meet India's challenges of development, such as poverty, education, health, and gender disparity.[32] This framework has been critiqued for its deficiencies with respect to the focus on financial compliance over the developmental impact since existing law lacks avenues to sanction regulatory non compliance by the parties.[33] Various critical evaluation state that this legal framework had even though promoted greater CSR expenditure, but it has yet to establish effective mechanisms to evaluate the social return of these investments through various strategies.[34] The central research question in this study is firstly, then intrinsic focus on the dilemma between legal compliance mechanisms and developmental performance and secondly whether the CSR Mandate has fostered corporate inclusivity and sustainable growth.

2.Patterns and Trends in CSR Spending Post-Mandate

2.1 Increase in CSR Spending Post 2013 Mandate

Along with the passing of Section 135 of the Companies Act, 2013, India witnessed a drastic rise in corporate allocation towards corporate social responsibility (CSR). According to India CSR Reporting Survey conducted by KPMG, CSR expenditure by companies has increased from about Rs 10,000 crores in 2014-15 to about Rs 25,000 crores in 2020-21 over the period of 6 years.[35] This significant enlargement was especially seen with the firms that traditionally spent less than the mandatory 2 per cent threshold and therefore illustrates the effectiveness of the regulation in bringing previously non-compliant enterprises into the realm of social investment.[36] Empirical analyses done by Dhammika Dharmapala and Vikramaditya Khanna confirm this trend, showing that companies that are close to the eligibility cut-off incurred

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[31] Id. Rules 8(3)(b).
[32] NITI Aayog, *CSR in India: An Assessment of the Changing Landscape* (2020).
[33] Sanjay K. Agarwal, CSR and the Companies Act: Are We There Yet?, 7 *Indian J. Corp. L.* 77 (2019).
[34] Subhabrata Bobby Banerjee, Corporate Social Responsibility and Institutional Theory: Insights from India's Mandated CSR, 161 *J. Bus. Ethics* 621 (2020).
[35] KPMG, *India CSR Reporting Survey 2021* (2022).
[36] Id. at 12–13.

significantly more CSR spending just around the time of implementing the statute: Nonetheless, some of the scholars observed that some corporations already spending above the minimum requirement had some impact on the outlays which may have resulted in reallocation from non-core ancillary categories, such as marketing. This observation leads to speculation that although the mandate increased the base of CSR spending, it may also have had a substitution effect given the lack of absolute increases in social disbursements.[37]

2.2 Sectoral Priorities in CSR Expenditure

The CSR funds have been largely focused only in a limited number of sectors. Statistics of the Ministry of Corporate Affairs (MCA) reveal that education, health, sanitation, and rural development together comprise more than 75% of all CSR spend since 2014.[38] Corporate funds have been the biggest beneficiary of high profile projects in school infrastructure, skill development, disease control, and nutrition. The problem arises when relatively less funding goes to the sectors like gender equity, climate change, renewable energy, and local livelihoods.[39] This partiality arises from those corporate preferences for interventions that show low risk and high visibility, which brings reputational benefits.[40] For instance, scholars like Ashish Aggarwal and Shilpi Kapur say that those firms tend to select sectors where outcomes are clearly measurable and become quickly visible to the public and where they can meet these kinds of compliance audits, even if these are not the most pressing local needs.[41] This would therefore suggest that sector allocation is more functional in cases of ease of delivery and popular perception rather than any deep social needs assessments, raising questions about whether CSR money is indeed addressing India's most compelling development gaps.

2.3 Imbalanced Regional Outreach of CSR Initiatives

Spatially, CSR expenditure is highly concentrated in industrially developed states like Maharashtra, Karnataka, Tamil Nadu, and Gujarat, which always receive the largest proportions of CSR expenditure.[42] Scholars R. K. Sharma and Leena Thomas points out that all these states combined around 40% of CSR spending every year towards the developed

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[37] Id. at 103–04.
[38] Ministry of Corporate Affairs, *National CSR Data Portal* (last visited Sept. 10, 2025).
[39] Id
[40] NITI Aayog, *CSR in India: An Assessment of the Changing Landscape* (2020).
[41] Ashish Aggarwal & Shilpi Kapur, Corporate Social Responsibility in India: A Review of Implementation and Impact, 18 *Asian J. Bus. Ethics* 45, 50 (2022).
[42] Ministry of Corporate Affairs, supra note 39.

states, while less developed areas such as the North-Eastern states, Jharkhand, and Chhattisgarh are underfunded.[43] This concentration arises from the practice of firms to invest close to their operational hubs for minimizing logistical hassles and increasing monitoring control.[44] But it goes against the redistributive objective of the CSR mandate, aiming to channel private capital towards balanced regional development. Public sector undertakings (PSUs) show a slightly more balanced geographic distribution, due in part to governmental guidelines and the fact that they operate over a broader area, but private companies are focusing only in a particular region.[45] This kind of partial funding results in backward areas of the nation, which arguably require CSR initiatives the most, often getting left behind.

2.4 Implications for Measuring Effectiveness

These behaviors, such as sectoral concentration, regional concentration, and strategic expenditure behaviour, indicate that even though the government had made this CSR into a mandate, it has not ensured that these funds are allocated as per the basic or equitable allocation. The act really shows a silent behaviour towards geographic distribution and provides mere generic direction on permissible sectors, leaving allocation in the sole domain of corporate choice. This lack of regulation gives corporate entities the freedom to sacrifice their tune to chose between the convenience of their reputational and operational status quo versus the distributive justice to realize the developmental objectives enshrined in the legislation. The study which related to spending culture is crucial to evaluating the mandate's effectiveness because they demonstrate that increased financial outflows does not necessarily translate into inclusive or impactful outcomes.

3. Assessing the Effectiveness and Challenges of the CSR Mandate

3.1 Growth in CSR Contributions After 2013

The implementation of Section 135 of the Companies Act, 2013, has made CSR a mandatory activity from a voluntary one, and provided assured corporate funding to social sectors. The judicial intervention has also made a significant increase in CSR expenditure in achieving its main objective of channelling resources for social advancement. According to KPMG, CSR

[43] R. K. Sharma & Leena Thomas, Mapping CSR Flows: State-Level and Sectoral Patterns in India, 11 *Soc. & Econ. Stud.* 60, 71 (2021).

[44] Id. at 75.

[45] NITI Aayog, supra note 41

spending had increased from nearly ₹10,000 crore in 2014–15 to over ₹25,000 crore by 2021–22, which shows the implementation of this Section 135 is almost successful.[46] Large corporations now see CSR as part of corporate governance and not mere charity, which had high impact initiatives in education, healthcare, and sanitation show that the mandate has made an impact and a change in the spirit of responsibility within them.

3.2 Compliance Driven Approach and Lack of Impact Evaluation

Even with higher expenditures, the qualitative impact of CSR initiatives cannot be confirmed. Most of the companies had adopted a compliance driven strategy, implementing short term and low risk activities mainly to comply with statutory necessities and not to fulfill long term community needs. Sarkar and Searcy's study clearly states that some companies look into CSR as a mandatory expense that results in markable initiatives like ad hoc giving or fleeting relief campaigns.[47] Additionally, the lack of common tools of impact measurement has translated to firms infrequently assessing the long term social returns of their CSR investments. The Ministry of Corporate Affairs has noted that very few companies order independent third party audits of their CSR initiatives.[48]

3.3 Issues in CSR Management and Fair Distribution

The scope of transformation of the mandate is also limited by governance shortcomings. Many companies move CSR money to their foundations or sister NGOs, which pose a conflict of interests, transparency, and poor accountability. Also, CSR spending is heavily concentrated in industrialized states like Maharashtra, Gujarat and Tamil Nadu against the economically undeveloped regions.[49] Despite the law, small and medium-sized enterprises do not have the power of organization and experience, which results in symbolic rather than significant CSR activities. These structural weaknesses mean the mandate has been successful in terms of contributory compliance and revenue collection but improvement in its overall effectiveness has been compromised by failures of governance, lack of transparency, and geographic inequity.

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[46] KPMG, *India CSR Reporting Survey 2022* (2023).
[47] Sarkar & Searcy, Legitimacy and corporate social responsibility reporting in India, 133 J. Bus. Ethics 173 (2016).
[48] Ministry of Corporate Affairs, *Report on CSR Implementation in India* (2020).
[49] NASSCOM Foundation, *CSR Landscape in India* (2021).

4. Recommendations for Strengthening the CSR Framework

4.1 Improving CSR Enforcement and Accountability

Stronger regulatory enforcement is among the most prime requisites of enhanced CSR efficiency. The Companies (Amendment) Act, 2019 also had brought about penal provisions for default, enforcement is patchy at best, with most companies either under-reporting or listing ineligible expenditure under CSR.[50] Increasing the strength of a penalty system by complementing it with active disclosure norms would close this gap. The Securities and Exchange Board of India (SEBI) has already acted by requiring Business Responsibility and Sustainability Reports (BRSR) for leading listed companies, but the requirement should be extended to all companies over the CSR threshold.[51] Even independent audit of CSR projects, as is done for financial audits, would ensure more accountability and transparency.

4.2 Creating Common Standards to Measure CSR Impact

Another shortcoming of the existing regime is that there is no standardized measure for evaluation. The lack of clear benchmarks does not provide companies with the ability to define the long-term social value of their CSR activities Implementing government-sanctioned impact assessment frameworks would provide comparability and consistency of results between companies and industries. The High-Level Committee on CSR (2018) suggested third-party impact assessments for projects over a specific monetary limit, which is still implemented only in parts.[52] The application of systematic methodologies, such as Social Return on Investment (SROI) and cost-benefit analysis, may facilitate in making measurable what may be classified as effectiveness in capturing the impacts which transcend monetary expenditures and thus also connects the corporate social responsibility (CSR) initiatives to wider development parameters.

4. Encouraging CSR Investment in Backward Areas

The problem of regional variance in CSR expenditure remains a permanent feature as developed states have received funds in disproportionate amounts. To balance this asymmetry, the government can provide tax incentives or the incentives in the form of rewards to firms

[50] Ministry of Corporate Affairs, *Report on CSR Compliance in India* (2020).
[51] Securities and Exchange Board of India, *Circular on Business Responsibility and Sustainability Reporting* (2021).
[52] Ministry of Corporate Affairs, *High Level Committee Report on CSR* (2018).

investing in aspirational districts and un-developed regions. The application of such incentive schemes has been successful in the system of the public-private partnership where concessions were carried out financially to encourage investment in the economically and socially backward regions.[53] Inducing cluster based CSR programs in tribal and rural locations would not just distribute developmental benefits on an equal basis but also allow synergy in joint activities by different corporations.

4.4 Facilitating Synergy and Capacity Building

The CSR mandate has exposed capacity gaps with small organizations and non-governmental organizations. Most medium-sized organizations cannot design and implement effective projects because of the lack of the required expertise, but the local NGOs do not have the financial and management resources. Creating CSR facilitation centres subsidized by the government on the state and district levels would provide technical assistance, project designing, and capacity-building programs.[54] Encouraging the industry associations to create sector-wide CSR platforms would also help in the exchange of knowledge and to avoid duplication of efforts.

4.5 Integrating CSR with National Development Goals

The introduction of systematic methodologies, as typified by Social Return on Investment (SROI) and cost-benefit analysis, could result in the assessment of the effectiveness of CSR intervention by allowing systematic measurement of social and developmental impacts beyond the mere running down of money.[55] In addition, these tools can help to align CSR with wider parameters of national development by providing clear and evidence-based appraisals of long-term outcomes.

The prevalent Schedule VII of the Companies Act is marked by wide flexibility which often leads to fragmented or piecemeal CSR interventions, in contrast to coherent and long term developmental strategies. Alignment of CSR expenditures with the designated national initiatives like Beti Bachao Beti Padhao, Swachh Bharat Abhiyan or Digital India etc. has the potential to make corporate interventions transparent, systematically structured and amenable

[53] Planning Commission of India, *Public Private Partnership Evaluation Report* (2014).
[54] Confederation of Indian Industry, *CSR and Development Partnerships in India* (2020).
[55] SROI Network, *A Guide to Social Return on Investment* (2012).

for monitoring.[56] This alignment would further promote conjugate relationship between corporate contributions and public policy objectives, thus leading to better developmental impact of the CSR activities.[57]

CONCLUSION

Corporate Social Responsibility under Section 135 of the Companies Act, 2013 The introduction of mandatory Corporate Social Responsibility under Section 135 of the Companies Act, 2013 is a paradigm shift in the corporate regulatory environment in India, which has changed CSR into an activity of choice, which is now legally binding. The mandate has over the last ten years been able to create a significant rise in corporate contribution to social development, institutionalisation of CSR in the governance systems and arousal of corporate interest in areas like education, healthcare, sanitation, and rural development. Quantitatively, the policy has realised its short term objective of mobilising the private capital in the welfare of the people.

This research however reveals that qualitative implications of mandatory CSR are still much less definitive. Much of the existing literature shows that companies tend to take CSR as an obligatory measure, instead of considering it a developmental intervention. The recidivism of a geographically biased expenditure, the poor sustainability of the project, the insufficient evaluation of impact, and the absence of accountability mechanisms indicate the disconnection between the design and the implementation of the legislation. Though there is an increase in spending, it is not proven that CSR activities have always resulted in long-term and transformative social change. Rather, most projects still portray reputational agendas, convenience in operation, or short-term exposure agendas as opposed to real developmental concerns.

In addition, structural issues include; lack of standardized monitoring tools, poor implementation of non-compliance clauses, lack of capacity of implementing agencies and dominance of corporate discretion in the choice of projects which further water down the developmental potential of the mandate. Consequently, the CSR framework, as we have it, is on the danger of institutionalizing a procedural culture of reporting and disclosure as opposed

[56] Government of India, *Annual CSR Report*, Ministry of Corporate Affairs (various years).
[57] Mitra, Nayan & Schmidpeter, René, "The Development Perspective of CSR in India," in *CSR in India: Cases and Developments* (Springer, 2020).

to a material and inclusive growth. In a bid to correct these failures, the paper emphasises promoting a stronger regulatory ecosystem that places emphasis on impact rather than on spending. The superior enforcement tools, uniform assessment measures, incentives to invest in underserved areas, building capacity to implement partners, and an even stronger connection between CSR and national development priorities are all necessary reforms. These would assist to shift CSR into more of an activity of compliance to one of transformation that can be used to bring about equitable and sustainable development. To sum it up, although the compulsory CSR regime has provided a significant institutional baseline to the corporate involvement in the nation-building, its achievement cannot be judged by the amount of money spent but by the quality, diversity, and sustainability of the societal change that it brings about. The future success of the CSR in India will be determined by whether the policymakers, corporations, and civil society can work on strengthening the framework collectively so as to become a robust long-term developmental influence and not a statutory requirement of performing its duty formally yet not necessarily substantially.