REGULATORY GOVERNANCE OF ONGOING CSR PROJECTS AND UNSPENT CSR FUNDS UNDER THE COMPANIES ACT, 2013

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ABSTRACT

Corporate Social Responsibility (CSR) has become an integral component of contemporary corporate governance frameworks across the world. India occupies a distinctive position in this field as it is among the few jurisdictions that impose statutory CSR obligations through company law. Section 135 of the Companies Act, 2013 introduced mandatory CSR expenditure regime requiring qualifying companies to allocate a prescribed percentage of their profits toward socially beneficial activities. While the legislative framework initially focused on annual CSR spending, practical challenges soon emerged in relation to the implementation of long-term development initiatives that require multi-year planning and sustained investment. To address these operational constraints, regulatory amendments introduced the concept of ongoing CSR projects and established a structured mechanism for the management of unspent CSR funds. These reforms significantly reshaped the governance architecture of CSR implementation by introducing enhanced financial accountability and monitoring obligations. This paper undertakes a doctrinal analysis of the legal framework governing ongoing CSR projects under the Companies Act, 2013 and the Companies (Corporate Social Responsibility Policy) Rules, 2014. It examines statutory provisions relating to multi-year CSR initiatives, the regulatory treatment of unspent CSR funds, and the governance responsibilities imposed upon corporate boards and CSR committees. The paper also analyses the broader jurisprudential foundations of corporate responsibility within Indian law and identifies regulatory challenges affecting CSR implementation. The study concludes by proposing policy measures aimed at strengthening transparency, accountability, and impact assessment within India's CSR regulatory framework.

Keywords: Corporate Social Responsibility, Companies Act 2013, CSR Governance, Ongoing CSR Projects, Unspent CSR Funds.

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I. Introduction

Corporate Social Responsibility has evolved from a voluntary ethical practice into an increasingly institutionalised component of corporate governance. Traditionally, corporate entities were viewed primarily as economic institutions whose primary objective was the maximisation of shareholder wealth. Over time, however, social expectations concerning corporate conduct have expanded significantly. Businesses are now expected not only to generate economic value but also to contribute positively to social welfare, environmental sustainability, and community development. This transformation reflects the emergence of stakeholder-oriented models of corporate governance, which recognise that corporate activities have wide-ranging impacts on employees, consumers, communities, and the environment. Consequently, governments and regulatory authorities across the world have increasingly encouraged corporations to engage in socially responsible initiatives.

India represents a distinctive model in the global CSR landscape. Unlike many jurisdictions where CSR initiatives remain voluntary, India adopted a legislative approach by incorporating CSR obligations directly within company law through the Companies Act, 2013. Section 135 [2]of the Act introduced mandatory CSR expenditure requirements for companies meeting

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[2] The Companies Act, 2013 S. 135. *Corporate Social Responsibility-*

(1) Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during [the immediately preceding financial year] shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.
[Provided that where a company is not required to appoint an independent director under sub-section (4) of section 149, it shall have in its Corporate Social Responsibility Committee two or more directors.]

(2) The Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.

(3) The Corporate Social Responsibility Committee shall,—

(a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company (in areas or subject, specified in Schedule VII);

(b) recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and

(c) monitor the Corporate Social Responsibility Policy of the company from time to time.

(4) The Board of every company referred to in sub-section (1) shall,—

(a) after taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and

(b) ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.

(5) The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years [or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years][1], in pursuance of its Corporate Social Responsibility Policy:
Provided that the company shall give preference to the local area and areas around it where it operates,

specified financial thresholds. The introduction of statutory CSR obligations reflects a broader policy objective of aligning corporate economic activity with national development priorities.[3] By mandating corporate contributions toward socially beneficial initiatives, the legislature sought to mobilise private sector resources to complement governmental efforts in addressing socio-economic challenges.

However, the implementation of CSR obligations soon revealed practical challenges. Many CSR initiatives involve complex development projects such as the construction of educational infrastructure, environmental conservation programmes, rural development initiatives, and healthcare delivery systems. These initiatives often require sustained implementation over multiple years. The requirement that CSR expenditure be incurred within a single financial year therefore created limitations in undertaking long-term projects.

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for spending the amount earmarked for Corporate Social Responsibility activities: Provided further that if the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount [and, unless the unspent amount relates to any ongoing project referred to in sub-section (6), transfer such unspent amount to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year][2] [Provided also that if the company spends an amount in excess of the requirements provided under this sub-section, such company may set off such excess amount against the requirement to spend under this sub-section for such number of succeeding financial years and in such manner, as may be prescribed.][3]: Explanation.—For the purposes of this section "net profit" shall not include such sums as may be prescribed, and shall be calculated in accordance with the provisions of section 198.

(6) Any amount remaining unspent under sub-section (5), pursuant to any ongoing project, fulfilling such conditions as may be prescribed, undertaken by a company in pursuance of its Corporate Social Responsibility Policy, shall be transferred by the company within a period of thirty days from the end of the financial year to a special account to be opened by the company in that behalf for that financial year in any scheduled bank to be called the Unspent Corporate Social Responsibility Account, and such amount shall be spent by the company in pursuance of its obligation towards the Corporate Social Responsibility Policy within a period of three financial years from the date of such transfer, failing which, the company shall transfer the same to a Fund specified in Schedule VII, within a period of thirty days from the date of completion of the third financial year.

(7) If a company is in default in complying with the provisions of sub-section (5) or sub-section (6), the company shall be liable to a penalty of twice the amount required to be transferred by the company to the Fund specified in Schedule VII or the Unspent Corporate Social Responsibility Account, as the case may be, or one crore rupees, whichever is less, and every officer of the company who is in default shall be liable to a penalty of one-tenth of the amount required to be transferred by the company to such Fund specified in Schedule VII, or the Unspent Corporate Social Responsibility Account, as the case may be, or two lakh rupees, whichever is less.

(8) [The Central Government may give such general or special directions to a company or class of companies as it considers necessary to ensure compliance of provisions of this section and such company or class of companies shall comply with such directions.][4]

(9) Where the amount to be spent by a company under sub-section (5) does not exceed fifty lakh rupees, the requirement under sub-section (1) for constitution of the Corporate Social Responsibility Committee shall not be applicable and the functions of such Committee provided under this section shall, in such cases, be discharged by the Board of Directors of such company."

Note: * 1 and 2- Inserted by the Companies (Amendment) Act of 2019- it is yet to be notified.
3-Inserted by the Companies (Amendment) Act of 2020- become effective from 22 January, 2021
4- Inserted by the Companies (Amendment) Act of 2019- yet to be notified.

[3] Ministry of Corporate Affairs, Corporate Social Responsibility under Section 135 of the Companies Act, 2013

Recognising these constraints, regulatory reforms introduced the concept of ongoing CSR projects and established mechanisms governing the management of unspent CSR funds. These developments significantly expanded the scope of CSR implementation while strengthening corporate accountability.

II. Evolution of CSR Regulation in India

The concept that corporate entities possess responsibilities extending beyond the pursuit of profit is not unfamiliar within the Indian socio-economic context. Long before the formalisation of Corporate Social Responsibility (CSR) through statutory provisions, several prominent Indian business houses engaged in philanthropic activities rooted in ethical traditions, community welfare, and the broader philosophy of trusteeship. Industrial pioneers such as Jamsetji Tata and Ghanshyam Das Birla promoted the idea that wealth generated through business should contribute to the advancement of society. Their initiatives included the establishment of charitable trusts, educational institutions, hospitals, and social welfare organisations aimed at addressing community needs.

Despite this longstanding tradition of corporate philanthropy, CSR activities in India historically remained voluntary and largely unregulated. Corporate engagement in social development was typically driven by individual leadership values or organisational culture rather than formal legal obligations. As a result, CSR practices varied widely across companies in terms of scope, scale, and transparency. While some corporations undertook substantial philanthropic initiatives, others made only limited contributions toward social development. The absence of a uniform regulatory framework also meant that there were no standardised mechanisms for monitoring CSR expenditure or evaluating the impact of such initiatives on communities.

The increasing scale and economic influence of corporate entities in India gradually prompted policymakers to consider whether corporations could play a more structured role in addressing social and developmental challenges. Rapid industrialisation, economic growth, and expanding corporate profitability created an environment in which the potential contribution of corporate resources toward national development became increasingly significant. Consequently, policymakers began exploring mechanisms to institutionalise CSR within corporate governance structures in order to ensure more systematic and accountable corporate participation in social welfare initiatives.

This policy objective was ultimately realised through the enactment of the Companies Act, 2013, which introduced one of the first statutory CSR regimes in the world. The legislation marked a significant shift in the regulatory philosophy governing corporate responsibility by transforming CSR from a purely voluntary activity into a structured legal obligation applicable to certain qualifying companies.

Under Section 135 of the Act, companies meeting specified financial thresholds relating to net worth, turnover, or net profit are required to undertake CSR activities as part of their corporate governance responsibilities. The provision mandates the constitution of a CSR Committee of the Board, responsible for formulating and recommending the company's CSR policy and overseeing the implementation of CSR initiatives. In addition, qualifying companies are required to allocate at least two percent of their average net profits from the preceding three financial years toward CSR activities falling within the categories specified under Schedule VII of the Act.

The operational framework governing the implementation of CSR obligations was further elaborated through the Companies (Corporate Social Responsibility Policy) Rules, 2014 issued by the Ministry of Corporate Affairs.[4] These rules provide detailed guidelines relating to the constitution and functions of CSR committees, the formulation of CSR policies, permissible CSR activities, and reporting requirements. By introducing these procedural mechanisms, the regulatory framework sought to ensure that CSR initiatives were implemented in a transparent and accountable manner.

Subsequent legislative reforms further strengthened the CSR regulatory regime. In particular, the Companies (Amendment) Act, 2019 introduced important compliance mechanisms designed to address concerns regarding ineffective implementation of CSR obligations. Among the most significant reforms were provisions governing the treatment of unspent CSR funds and the recognition of ongoing CSR projects extending across multiple financial years. These amendments introduced greater financial accountability by requiring companies to transfer unspent CSR amounts to designated accounts and by establishing time-bound utilisation requirements for CSR funds.

Collectively, these legislative developments reflect the gradual evolution of CSR regulation in

[4] The Companies (Corporate Social Responsibility Policy) Rules, 2014

India from voluntary philanthropic initiatives to a structured statutory framework integrated within corporate governance systems. By embedding CSR obligations within company law, the Indian regulatory regime seeks to ensure that corporate entities contribute meaningfully to broader social and developmental objectives while maintaining transparency and accountability in the utilisation of corporate resources.

III. Literature Review

Scholarly discussion on corporate social responsibility in India has expanded significantly following the introduction of mandatory CSR provisions under the Companies Act, 2013. Dharmapala and Khanna[5] analyse the economic implications of India's statutory CSR mandate and argue that the legislation represents a significant regulatory experiment aimed at integrating corporate resources with social development objectives.[6] Their empirical analysis suggests that the CSR mandate has influenced corporate spending patterns and encouraged companies to engage more actively in socially oriented initiatives.

Banerjee provides a broader theoretical perspective on corporate social responsibility, emphasising that CSR regulation must be examined within the context of corporate accountability and stakeholder governance.[7] According to Banerjee, effective CSR frameworks require not only corporate commitment but also strong institutional mechanisms that ensure transparency and accountability.

Similarly, Baxi and Prasad[8] examine the evolution of CSR practices in India and highlight the growing role of corporate governance structures in ensuring the responsible utilisation of CSR funds.[3] Their work emphasises that CSR policies must be integrated into broader corporate governance frameworks in order to generate sustainable social impact.

Despite the growing body of scholarship on CSR in India, relatively limited attention has been devoted to the legal and regulatory mechanisms governing ongoing CSR projects and the treatment of unspent CSR funds. Existing studies primarily focus on patterns of CSR expenditure rather than examining the governance structures that regulate the implementation

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[5] Dharmapala D. and Khanna V., *"The Impact of Mandated Corporate Social Responsibility: Evidence from India's Companies Act of 2013."*

[6] Karnani A.,*"Corporate Social Responsibility Does Not Avert the Tragedy of the Commons."* (2010) 89 *California Management Review*.

[7] Banerjee S.B., . *"Corporate Social Responsibility: The Good, the Bad and the Ugly* (Edward Elgar)*."*

[8] Baxi C.V. and Prasad A., "*Corporate Social Responsibility: Concepts and Cases*."

of long-term CSR initiatives. The present study seeks to address this gap by analysing the statutory framework governing ongoing CSR projects and evaluating its implications for corporate governance and regulatory compliance.

IV. Research Methodology

This study adopts a doctrinal research methodology based on the analysis of statutory provisions governing CSR in India. Primary sources include the Companies Act, 2013, the Companies (Corporate Social Responsibility Policy) Rules, 2014, and subsequent amendments issued by the Ministry of Corporate Affairs. Secondary sources such as academic books, peer-reviewed journal articles, and policy reports have also been consulted to understand the broader legal and theoretical context of CSR governance. The research also examines judicial decisions and policy reports to understand the broader jurisprudential context of corporate social responsibility in India. The research employs qualitative legal analysis to interpret statutory provisions and identify regulatory challenges associated with ongoing CSR projects and unspent CSR funds.

V. Statutory Framework Governing Corporate Social Responsibility in India

The legal framework governing Corporate Social Responsibility (CSR) in India is primarily established under Section 135 of the Companies Act, 2013, which introduced a statutory CSR regime applicable to certain qualifying companies. Unlike many jurisdictions where CSR initiatives remain voluntary, the Indian legislature adopted a regulatory approach requiring eligible companies to allocate a portion of their profits toward socially beneficial activities. The introduction of this provision reflects the evolving understanding that corporate entities possess responsibilities that extend beyond the maximisation of shareholder wealth and must contribute to broader social and developmental objectives.

Section 135 applies to companies that satisfy specific financial thresholds during a financial year. These include companies having a net worth of ₹500 crore or more, turnover of ₹1000 crore or more, or net profit of ₹5 crore or more. Companies meeting any of these criteria are required to comply with the CSR provisions prescribed under the Act. The establishment of these thresholds ensures that CSR obligations are imposed primarily on financially capable corporations possessing sufficient resources to undertake social development initiatives without adversely affecting their business operations.

Companies falling within the scope of Section 135 are required to constitute a Corporate Social Responsibility Committee of the Board. The committee generally consists of at least three directors, including an independent director where applicable. The CSR Committee plays an important role in institutionalising CSR governance within corporate structures. Its primary responsibilities include formulating and recommending a CSR policy to the Board, identifying appropriate CSR activities to be undertaken by the company, recommending the amount of expenditure to be incurred on CSR initiatives, and monitoring the implementation of such activities. Although the committee performs an advisory and supervisory role, the Board of Directors retains ultimate responsibility for ensuring compliance with CSR obligations and approving the CSR policy formulated by the committee.

One of the most distinctive features of the Indian CSR framework is the statutory requirement that qualifying companies spend at least two percent of the average net profits earned during the preceding three financial years on CSR activities. This expenditure requirement ensures that companies allocate a proportionate share of their profits toward social development initiatives. The calculation of CSR expenditure is based on the average net profits of the company over the three immediately preceding financial years, thereby ensuring that the financial obligation corresponds with the company's overall economic performance.

The nature of activities that qualify as CSR initiatives is specified under Schedule VII of the Companies Act, 2013. The Schedule provides a broad and flexible list of permissible activities that companies may undertake as part of their CSR obligations. These include initiatives aimed at eradicating hunger and poverty, promoting education and vocational training, ensuring gender equality and women's empowerment, supporting healthcare and sanitation programmes, protecting the environment, promoting rural development, and providing disaster relief. The broad scope of Schedule VII[9] allows companies to design CSR programmes that

[9] SCHEDULE VII (See section 135) Activities which may be included by companies in their Corporate Social Responsibility Policies Activities relating to:—
[(i) eradicating hunger, poverty and malnutrition, [promoting health care including preventive health] and sanitation [Including contribution to the Swatch Bharat Kosh set-up by the Central Government for the promotion of sanitation] and making available safe drinking water; (ii) promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects; (iii) promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups; (iv) ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water [including contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of river Ganga]; (v) protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art;

align with their organisational capabilities while addressing pressing social needs within the communities in which they operate.

The CSR framework also emphasises transparency and accountability in the utilisation of CSR funds. Companies subject to CSR obligations are required to disclose detailed information regarding their CSR activities within the Board's Report forming part of their annual financial statements. These disclosures typically include information regarding the composition of the CSR Committee, the CSR policy adopted by the company, the amount allocated and spent on CSR activities during the financial year, and details of CSR projects undertaken. Where companies fail to spend the prescribed CSR amount, they must provide an explanation for such failure in the report. These disclosure requirements enable regulators, shareholders, and the public to evaluate the effectiveness and sincerity of corporate engagement in CSR initiatives.

The statutory CSR framework established under the Companies Act therefore represents an important step in integrating social responsibility within corporate governance structures. By mandating financial contributions toward socially beneficial activities and establishing governance mechanisms for their implementation, the legislation seeks to encourage corporations to participate actively in national development efforts while maintaining transparency and accountability in the utilisation of CSR resources.

setting up public libraries; promotion and development of traditional arts and handicrafts; (vi) measures for the benefit of armed forces veterans, war widows and their dependents, [Central Armed Police Forces (CAPE) and Central Para Military Forces (CPMF) veterans, and their dependents including windows]; (vii) training to promote rural sports, nationally recognised sports, paralympic sports and Olympic sports; (viii) contribution to the Prime Minister's National Relief Fund or [Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES Fund) or] any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; [(ix) (a) Contribution to incubators or research and development projects in the field of science, technology, engineering and medicine, funded by Central Government or State Government or Public Sector Undertaking or any agency of the Central Government or State Government; and (b) Contributions to public funded Universities; Indian Institute of Technology (IITs); National Laboratories and autonomous bodies established under Department of Atomic Energy (DAE); Department of Biotechnology (DBT); Department of Science and Technology (DST); Department of Pharmaceuticals; Ministry of Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homoeopathy (AYUSH); Ministry of Electronics and Information Technology and other bodies, namely Defense Research and Development Organisation (DRDO); Indian Council of Agricultural Research (ICAR); Indian Council of Medical Research (ICMR) and Council of Scientific and Industrial Research (CSIR), engaged in conducting research in science, technology, engineering and medicine aimed at promoting Sustainable Development Goals (SDGs)] (x) rural development projects.] [(xi) slum are development. Explanation.— For the purposes of this item, the term 'slum area' shall mean any area declared as such by the Central Government or any State Government or any other competent authority under any law for the time being in force.][(xii) disaster management, including relief, rehabilitation and reconstruction activities.]

VI. Jurisprudential Foundations of Corporate Social Responsibility in India

Although statutory CSR obligations were formally introduced through the Companies Act, the broader idea of corporate responsibility toward society has deep roots in Indian constitutional and environmental jurisprudence. Indian courts have consistently emphasised that economic development must be balanced with environmental protection and social welfare. In ***Vellore Citizens Welfare Forum v. Union of India***[10], the Supreme Court recognised the doctrine of sustainable development as an integral part of Indian environmental law. The Court held that economic growth must occur in a manner that does not compromise environmental protection or the welfare of future generations.

Similarly, in ***M. C. Mehta v. Union of India***[11], the Supreme Court developed the principle of absolute liability for hazardous industries and emphasised that corporations must ensure that their operations do not harm the environment or public health.

These decisions significantly expanded the scope of corporate accountability within Indian law. Although the cases primarily addressed environmental regulation, they reinforced the broader principle that corporations must operate responsibly and consider the social consequences of their activities. The statutory CSR framework introduced by the Companies Act may therefore be viewed as a legislative extension of these judicial principles, translating the concept of corporate responsibility into a structured regulatory framework.

VII. Legal Concept of Ongoing Corporate Social Responsibility Projects

The recognition of ongoing Corporate Social Responsibility (CSR) projects constitutes one of the most significant regulatory developments in the evolution of CSR governance in India. While the Companies Act, 2013 introduced the concept of mandatory CSR expenditure, the initial framework largely assumed that CSR activities would be undertaken and completed within a single financial year. In practice, however, many socially beneficial initiatives require sustained engagement, long-term investment, and coordination among multiple stakeholders. Consequently, the need for a regulatory mechanism allowing multi-year CSR initiatives became increasingly evident.

[10] 1996 Supp.(5) S.C.R. 241
[11] AIR 2004 SC 40

The concept of ongoing projects was therefore incorporated through amendments to the Companies (Corporate Social Responsibility Policy) Rules, 2014, issued by the Ministry of Corporate Affairs. Under the amended rules, an ongoing CSR project refers to a multi-year project undertaken by a company in fulfilment of its CSR obligations, with a duration not exceeding three financial years excluding the year in which the project commenced.[12]

This regulatory recognition was designed to address the practical limitations associated with annual CSR expenditure requirements. Development projects involving infrastructure creation, community welfare programmes, environmental conservation initiatives, and public health interventions frequently require extended implementation periods. For instance, the construction of rural educational institutions, establishment of healthcare centres, watershed development initiatives, or renewable energy projects may involve extensive planning, procurement, regulatory approvals, and community participation.

The introduction of the ongoing project mechanism therefore allows companies to adopt a strategic and developmental approach to CSR implementation rather than limiting CSR activities to short-term philanthropic donations. By facilitating multi-year initiatives, the regulatory framework encourages corporations to engage in projects capable of producing sustainable social impact.

However, the classification of a CSR initiative as an ongoing project is not automatic. The regulatory framework requires companies to obtain formal approval from the Board of Directors based on reasonable justification regarding the duration and implementation requirements of the project. The Board must be satisfied that the project genuinely requires multi-year implementation and that appropriate monitoring mechanisms are in place.

In addition, companies must provide detailed disclosures regarding ongoing CSR projects within their annual reports. These disclosures generally include the nature of the project, its objectives, the implementation timeline, the amount allocated for the project, and the expenditure incurred during the relevant financial year. Such transparency requirements play a crucial role in ensuring regulatory oversight and enabling stakeholders to evaluate the progress and effectiveness of CSR initiatives.

Another important aspect of ongoing CSR projects concerns the monitoring and evaluation of

[12] Rule 2 clause (i) of The Companies [Corporate Social Responsibility] Rules,2014

project outcomes. Given that these initiatives extend over multiple years, companies must establish internal governance mechanisms capable of assessing project performance on a periodic basis. Monitoring mechanisms may include periodic progress reports, independent audits, and impact assessment studies.

Furthermore, companies often collaborate with non-governmental organisations, charitable institutions, and local community groups in implementing ongoing CSR projects. These partnerships are particularly important in ensuring that CSR initiatives align with local development needs and produce measurable social outcomes. The recognition of ongoing CSR projects thus reflects a shift toward development-oriented CSR governance, where corporations are encouraged to adopt long-term strategies aimed at addressing structural social challenges.

VIII. Regulation of Unspent CSR Funds

The treatment and management of unspent Corporate Social Responsibility (CSR) funds has emerged as one of the most significant and debated aspects of India’s statutory CSR framework. When CSR obligations were initially introduced under the Companies Act, 2013, the law adopted a relatively flexible regulatory approach toward CSR expenditure. Companies that failed to spend the prescribed amount on CSR activities during a financial year were only required to disclose the reasons for such failure in their annual reports. This approach was commonly referred to as the “comply or explain” mechanism, under which companies were expected either to comply with the spending requirement or explain the reasons for non-compliance.

Although this framework provided operational flexibility to companies, it soon attracted criticism from policymakers, scholars, and civil society organisations. Critics argued that the absence of strict enforcement mechanisms allowed companies to repeatedly report unspent CSR funds without undertaking meaningful CSR initiatives. In several cases, corporations disclosed unspent CSR amounts in successive financial years without significant improvement in their CSR engagement. Such practices raised concerns regarding the effectiveness of the statutory CSR regime and whether the legislative objective of promoting corporate participation in social development was being adequately achieved.

In response to these concerns, the legislature introduced significant reforms through the

Companies (Amendment) Act, 2019, which substantially strengthened the regulatory framework governing CSR expenditure and the treatment of unspent funds. The amendments introduced a more structured mechanism designed to ensure that CSR allocations are ultimately utilised for socially beneficial purposes rather than remaining unspent within corporate accounts.

Under the amended provisions of Section 135, companies that fail to spend the prescribed CSR amount relating to ongoing projects are required to transfer the unspent amount to a designated Unspent Corporate Social Responsibility Account within thirty days from the end of the relevant financial year. This account must be maintained with a scheduled bank and is specifically created for the purpose of holding funds earmarked for CSR activities. The funds deposited in this account may only be utilised for the implementation of approved CSR projects and cannot be diverted for other corporate purposes.

The law further provides that the funds transferred to the Unspent CSR Account must be utilised within a period of three financial years from the date of transfer. This time-bound utilisation requirement ensures that companies implement CSR projects within a reasonable timeframe while still allowing sufficient flexibility for projects that require multi-year implementation. If the company fails to utilise the funds within the prescribed period, the remaining amount must be transferred to a fund specified under Schedule VII of the Companies Act. These funds generally include government-notified social welfare funds such as the Prime Minister's National Relief Fund and other public welfare funds designated by the central government for developmental purposes.

The introduction of this mechanism represents a significant strengthening of the CSR regulatory framework. By requiring companies to maintain a separate account for unspent CSR funds and by establishing clear timelines for their utilisation, the law enhances transparency and accountability in the management of CSR resources. This framework ensures that funds allocated for CSR activities are ultimately directed toward socially beneficial initiatives rather than remaining unused within corporate financial reserves.

In addition to these procedural requirements, the amended framework also introduces penalties for non-compliance with CSR obligations. Companies that fail to transfer unspent CSR amounts or otherwise violate CSR provisions may be subject to monetary penalties imposed by regulatory authorities. Such enforcement measures reinforce the seriousness of CSR

obligations and emphasise that CSR compliance is not merely a symbolic gesture but a legally enforceable component of corporate governance.

The regulation of unspent CSR funds therefore represents an important transition in India's CSR regime. By moving beyond the earlier disclosure-based approach and introducing structured accountability mechanisms, the legislature has strengthened the effectiveness of CSR regulation and ensured that corporate contributions are meaningfully directed toward social development initiatives.

IX. Corporate Governance Responsibilities in CSR Implementation

Corporate governance plays a fundamental role in ensuring that CSR obligations are implemented effectively and in accordance with statutory requirements. The CSR framework established under the Companies Act integrates CSR responsibilities within the broader structure of corporate governance by assigning specific roles to the CSR Committee and the Board of Directors. Through this governance structure, the law seeks to ensure that CSR activities are not treated as peripheral corporate initiatives but are incorporated into the strategic and managerial decision-making processes of the company.

The CSR Committee functions as the primary institutional mechanism responsible for guiding and supervising the company's CSR initiatives. The committee is entrusted with the responsibility of formulating the CSR policy of the company, which identifies priority areas of social engagement and outlines the strategy through which CSR initiatives will be implemented. In developing this policy, the committee must consider the nature of the company's operations, the needs of the communities in which it operates, and the broader objectives of sustainable development.

Beyond policy formulation, the CSR Committee is responsible for recommending specific CSR projects and programmes to the Board of Directors and advising on the allocation of financial resources required for their implementation. The committee must also monitor the progress of CSR initiatives and ensure that funds allocated for such projects are utilised in accordance with the approved policy and statutory provisions. Periodic review of ongoing CSR projects forms an important component of this monitoring function, as it allows the committee to evaluate the effectiveness of projects and address implementation challenges where necessary.

Despite the important role played by the CSR Committee, the ultimate responsibility for CSR compliance remains with the Board of Directors. The Board must approve the CSR policy recommended by the committee and ensure that the company allocates adequate financial resources for CSR initiatives in accordance with the statutory spending requirement. In addition, the Board is responsible for reviewing the implementation of CSR programmes and ensuring that the company adheres to the regulatory framework governing CSR activities.

Transparency and accountability constitute essential components of corporate governance in CSR implementation. Companies subject to CSR obligations are required to include comprehensive information regarding their CSR activities within their annual reports. These disclosures typically include details relating to the composition of the CSR Committee, the CSR policy adopted by the company, the amount allocated and spent on CSR activities, the progress of ongoing CSR projects, and the reasons for any unspent CSR funds. Such reporting obligations play a critical role in ensuring that stakeholders are able to evaluate the sincerity and effectiveness of corporate CSR initiatives.

The disclosure requirements also facilitate regulatory oversight by enabling authorities to monitor compliance with CSR provisions and identify potential irregularities in the utilisation of CSR funds. In addition, transparent reporting practices enhance the credibility of corporate CSR initiatives and strengthen public trust in corporate social engagement.

In recent years, CSR governance has increasingly been integrated within broader Environmental, Social, and Governance (ESG) frameworks[13] adopted by many corporations. ESG reporting provides a comprehensive approach to evaluating corporate sustainability by examining not only financial performance but also environmental stewardship, social responsibility, and governance practices. Through ESG disclosures, companies are able to communicate their sustainability strategies, environmental initiatives, and social development programmes to investors, regulators, and other stakeholders.

The integration of CSR initiatives within ESG frameworks reflects a broader transformation in corporate governance philosophy. Modern corporate governance increasingly recognises that responsible corporate behaviour and sustainable business practices contribute not only to social welfare but also to the long-term success and resilience of corporations. As investors and

[13] Organisation for Economic Co-operation and Development (OECD), *Corporate Governance and Sustainability* (OECD Publishing 2020)

stakeholders place greater emphasis on sustainability and ethical governance, CSR initiatives are increasingly viewed as an integral component of corporate strategy rather than merely a regulatory obligation.

Consequently, the effective governance of CSR initiatives requires companies to adopt structured monitoring mechanisms, transparent reporting practices, and strategic alignment between CSR objectives and broader organisational goals. By embedding CSR responsibilities within corporate governance structures, the statutory framework seeks to ensure that corporate social responsibility becomes a meaningful and sustainable aspect of corporate operations.

X. Regulatory Challenges and Policy Recommendations

Although the statutory framework governing Corporate Social Responsibility (CSR) in India represents a significant advancement in integrating corporate participation within the broader framework of social development, several regulatory and practical challenges continue to affect the effective implementation of CSR initiatives. While the provisions introduced under the Companies Act have successfully institutionalised CSR obligations within corporate governance structures, the operationalisation of these provisions has revealed certain gaps that require further regulatory clarification and policy refinement.

One of the principal challenges concerns the ambiguity surrounding the classification and management of ongoing CSR projects. The Companies (Corporate Social Responsibility Policy) Rules, 2014 provide a general definition of ongoing projects as multi-year initiatives extending beyond a single financial year. However, the rules do not clearly specify comprehensive criteria or procedural standards for determining whether a particular initiative should legitimately qualify as an ongoing CSR project. In the absence of detailed regulatory guidelines, companies may adopt differing interpretations regarding the classification of projects, which may result in inconsistencies in reporting practices and potential compliance challenges. Furthermore, such ambiguity may also complicate the monitoring responsibilities of regulatory authorities responsible for overseeing CSR implementation.

Another significant challenge relates to the evaluation and measurement of the actual social impact generated through CSR activities. Existing CSR reporting mechanisms primarily emphasise financial expenditure and disclosure of funds allocated toward CSR initiatives. While financial transparency is an essential component of accountability, expenditure alone

does not necessarily reflect the effectiveness or sustainability of the projects undertaken. Without clearly defined mechanisms for evaluating outcomes and long-term social impact, it becomes difficult to assess whether CSR funds are producing meaningful improvements in areas such as education, healthcare, environmental sustainability, or community development. The absence of structured impact assessment frameworks may therefore limit the ability of stakeholders to evaluate the true developmental contribution of corporate CSR initiatives.

In addition to regulatory ambiguities and impact assessment limitations, practical challenges also arise from differences in institutional capacity among companies required to comply with CSR obligations. While large corporations often possess dedicated CSR departments and access to professional expertise in development projects, smaller companies that fall within the CSR threshold may lack the organisational resources or technical expertise necessary to design and implement complex social initiatives. As a result, such companies may rely heavily on external implementing agencies or adopt relatively limited CSR programmes that may not generate significant developmental outcomes.

To address these challenges, it is necessary for policymakers and regulatory authorities to introduce clearer operational guidelines and structured evaluation mechanisms within the CSR framework. One important reform could involve the development of standardised CSR impact assessment mechanisms that allow companies to measure the effectiveness of their initiatives through objective indicators. Such frameworks may incorporate measurable parameters related to educational outcomes, environmental sustainability, healthcare accessibility, community infrastructure development, and livelihood generation. The adoption of uniform assessment standards would significantly enhance transparency and enable regulators, investors, and the public to evaluate the social value created through CSR initiatives.

In addition, regulatory authorities may consider issuing detailed procedural guidelines regarding the classification and implementation of ongoing CSR projects. Clearly defined criteria relating to project duration, implementation stages, monitoring requirements, and financial allocation would reduce interpretational ambiguity and ensure greater consistency in CSR compliance practices across companies.

Another important policy measure involves encouraging greater collaboration between corporate entities, governmental institutions, and civil society organisations. Such partnerships can enhance the effectiveness of CSR initiatives by ensuring that projects are aligned with local

development priorities and implemented through institutions possessing expertise in community engagement and social programme management. Collaborative frameworks can also facilitate the sharing of knowledge, resources, and best practices in CSR implementation.

Furthermore, the integration of CSR initiatives within broader sustainability and Environmental, Social, and Governance (ESG) frameworks may also strengthen the long-term effectiveness of corporate social responsibility programmes. By aligning CSR strategies with sustainability objectives, companies can ensure that their initiatives contribute not only to short-term social assistance but also to long-term developmental and environmental goals.

Addressing these regulatory and operational challenges is therefore essential for ensuring that the statutory CSR framework achieves its intended objective of promoting meaningful corporate participation in national development efforts.

XI. Conclusion

The statutory CSR framework introduced under the Companies Act, 2013 represents a pioneering legislative initiative aimed at institutionalising corporate participation in social and developmental activities. By mandating certain qualifying companies to allocate a portion of their profits toward socially beneficial initiatives, the legislation has significantly transformed the nature of corporate social responsibility in India. What was once largely regarded as a voluntary philanthropic activity has now evolved into a structured and regulated component of corporate governance.

The regulatory provisions relating to CSR committees, mandatory expenditure requirements, permissible CSR activities, and disclosure obligations have collectively contributed to creating a comprehensive framework that encourages corporate accountability and transparency in the utilisation of CSR funds. In particular, the introduction of mechanisms governing ongoing CSR projects and the regulation of unspent CSR funds has strengthened the governance structure surrounding CSR implementation and ensured that allocated funds are directed toward meaningful social initiatives.

These reforms have enabled corporations to engage in long-term development programmes addressing critical social challenges such as education, healthcare, environmental protection, and community development. By allowing multi-year CSR projects and establishing financial

accountability mechanisms, the regulatory framework has provided companies with both the flexibility and responsibility required to undertake sustainable development initiatives.

However, the continued success of India's CSR regime will depend upon the ability of policymakers and corporate institutions to address existing regulatory gaps and operational challenges. Issues relating to the classification of ongoing CSR projects, the measurement of social impact, and the implementation capacity of companies must be addressed through clearer guidelines, improved monitoring systems, and enhanced collaboration among stakeholders.

Strengthening impact assessment mechanisms, developing comprehensive regulatory standards, and promoting partnerships between corporations, government agencies, and civil society organisations will be crucial in enhancing the effectiveness of CSR initiatives. Such measures can ensure that CSR programmes are not limited to financial compliance but contribute substantively to the achievement of broader developmental objectives.

Ultimately, the long-term success of the CSR framework will depend upon the extent to which corporate entities integrate social responsibility into their core governance practices and business strategies. By fostering responsible corporate behaviour and ensuring that CSR resources are utilised efficiently, the statutory framework has the potential to play a significant role in advancing sustainable development and improving the welfare of communities across India.