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Beyond Mandatory CSR Spending: Examining Corporate Accountability for the Social Impact of CSR Projects in India

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***Abstract*—India was the first country to turn corporate philanthropy into a statutory duty, and a decade on, the headline numbers look impressive. What the law checks, however, is mostly money: whether the prescribed two per cent was budgeted, spent, or parked in the right account. Whether a school, a water scheme or a livelihood programme actually changed anything for the people it was meant to serve is a question the law asks only in limited and largely procedural ways. This paper uses the doctrinal method to examine that gap. It reads Section 135 of the Companies Act, 2013, the Companies (Corporate Social Responsibility Policy) Rules, 2014 as amended in 2021, the 2019 amendments, the securities-market disclosure regime and the pending 2026 reform proposals alongside the directors' duties in Section 166 and the Supreme Court's jurisprudence on corporate responsibility for social harm. The paper argues that Indian law secures expenditure accountability, offers uneven process accountability, and leaves impact accountability largely to corporate goodwill. It closes with a calibrated set of reforms: wider and publicly disclosed impact assessment, due diligence over implementing agencies, community consultation and grievance channels, and liability for knowingly false impact reporting.**

***Key Words*—Accountability, Companies Act 2013, Corporate Social Responsibility, Impact Assessment, Implementing Agencies, Section 135, Social Impact**

I. INTRODUCTION

When Parliament enacted Section 135 of the Companies Act, 2013, India became, as commentators often remind us, the first country to make corporate social responsibility (CSR) spending a matter of statutory obligation [1], [2]. The scheme looked simple on paper. Companies above prescribed financial thresholds would set aside at least two per cent of their average net profit of the three preceding years for activities listed in Schedule VII, and the board would stand behind that commitment [1], [3]. What had been a matter of reputation and goodwill, the philanthropic layer of corporate responsibility in Carroll's well-known pyramid [4], became a line item with a legal consequence attached.

A decade on, the money is no longer modest. Figures drawn from the National CSR Portal and reported in the trade press put total CSR spending for 2023-24 at roughly ₹34,909 crore across more than 27,000 companies [5]. By the usual yardstick the mandate has worked: companies are spending, and most are doing so on time. Yet a quieter question has trailed that success story from the beginning. Spending is not the same thing as doing good.

Picture a manufacturer that pays for a school building in a village near its plant. It reports the full amount as spent, files its annual forms, and the matter ends there. Two years later the classrooms are locked because no teacher was ever posted. Every statutory box has been ticked, and nobody's life has changed. The illustration is hypothetical, but it captures something real about the way the law is built. Section 135 and its Rules are very good at asking whether money moved. They are far less interested in what the money did.

This paper takes that gap as its subject. It asks how far Indian law holds companies accountable for the social impact of their CSR projects, as distinct from the amount they spend on them, and what a better-designed framework might look like. The argument developed below is that the present law secures expenditure accountability reasonably well, secures process accountability unevenly, and leaves impact accountability largely to corporate goodwill. Part II sets out the research design. Part III maps the statutory framework, including the 2026 reform proposals. Part IV examines how the law measures what CSR achieves, and Part V identifies where accountability breaks down. Part VI looks to company law, constitutional jurisprudence and comparative practice for resources that could fill the gap. Part VII proposes reforms, and Part VIII concludes.

II. RESEARCH DESIGN AND SCOPE

The study is doctrinal. Its primary materials are the Companies Act, 2013 and the amendments made to it, the Companies (Corporate Social Responsibility Policy) Rules, 2014 as revised in 2021, a securities-market disclosure circular, and decisions of the Supreme Court of India on corporate responsibility for social and environmental harm. Secondary materials include the report of the High Level Committee on CSR, committee and parliamentary documents on the 2026 Bill, and scholarship on India's CSR regime [2], [6], [7]. The method is analytical and critical. The paper first states what the law provides, then tests that provision against the purpose the law is meant to serve.

Three terms need to be pinned down. "Expenditure" is the amount a company commits, spends or transfers under Section 135. "Output" is what that money physically produces, such as a building, a borehole or a batch of scholarships. "Social impact" is the lasting change, positive or negative, in the lives of the people a project was meant to reach, including harms nobody intended. Accountability, as used here, means that someone with the power to ask questions can obtain answers, and that there are consequences when the answers are unsatisfactory. A framework that records outputs and calls them impact does not meet that test.

There are limits to the inquiry. The paper reports no field data, and the figures it uses are taken from secondary sources. The law is stated as the author understands it in October 2026. Because the Corporate Laws (Amendment) Bill, 2026 was still under parliamentary consideration when this paper was prepared, its provisions are discussed as proposals, and readers should check the latest parliamentary record before relying on them.

III. THE STATUTORY ARCHITECTURE OF CSR

A. The Mandate

Section 135 applies to a company that, in the immediately preceding financial year, had a net worth of ₹500 crore or more, turnover of ₹1,000 crore or more, or net profit of ₹5 crore or more [1]. Such a company must constitute a CSR Committee of the Board. The committee formulates the CSR policy, recommends the amount to be spent and monitors the

policy from time to time [1]. Where the company's obligation does not exceed ₹50 lakh, the committee may be dispensed with and the Board discharges its functions [1]. The Rules add an annual action plan, recommended by the committee and approved by the Board [3].

The Board must ensure that the company spends at least two per cent of its average net profit of the three preceding financial years, computed under Section 198, on CSR, giving preference to the local area and areas around which it operates [1]. The permissible activities are listed in Schedule VII, which is broad enough to cover hunger and poverty, education, health, gender equality, environmental sustainability and rural development, among much else [1]. The Rules exclude activities undertaken in the normal course of business, activities that benefit only employees and their families, and contributions to political parties, among others [3]. That exclusion matters for the argument of this paper. It shows that the law has already tried to stop CSR from becoming a disguise for ordinary business. It has been less ambitious about asking what CSR achieves.

B. The 2019 to 2021 Reforms

In its original form, Section 135 worked largely as a comply-or-explain provision. A company that fell short of the two per cent target had to give reasons in its Board's report, and that was usually the end of it. The High Level Committee on CSR, which reported in 2018, urged a firmer focus on monitoring and outcomes [7]. The reforms that followed went some distance, though mostly along the spending axis.

The Companies (Amendment) Act, 2019 changed the character of the provision. A shortfall could no longer be explained away. Unspent money not tied to an ongoing project had to be transferred to a fund named in Schedule VII, while money tied to an ongoing project had to go into a special Unspent CSR Account and be used within three financial years [8], [1]. A dedicated penalty followed. For default, the company faces a penalty of twice the amount that should have been transferred or ₹1 crore, whichever is less, and each officer in default faces one-tenth of that amount or ₹2 lakh, whichever is less [1]. The 2021 Rules supplied the working detail. They introduced registration for implementing agencies, a definition of "ongoing project", a five per cent cap on administrative overheads, website disclosure of CSR activities and, for larger spenders, mandatory impact assessment [3]. Companies also began reporting project-level data annually through the Ministry's Form CSR-2.

C. The 2026 Reform Proposals

The most recent chapter is still being written. The Corporate Laws (Amendment) Bill, 2026, introduced in the Lok Sabha on 23 March 2026, proposes to raise the net-profit threshold for CSR applicability from ₹5 crore to ₹10 crore, to allow 90 days instead of 30 for transferring unspent amounts relating to ongoing projects, and to exempt prescribed classes of companies from CSR obligations [9]. A Joint Parliamentary Committee presented its report on 3 August 2026 and, among other things, recommended removing the proposed power of the Central Government to revise the threshold [10].

Whatever one thinks of these proposals, their direction is telling. Each one eases the cost or timing of compliance. None asks whether the money produces anything. That is a legitimate choice for a government working on ease of doing business, but it shows where the reform conversation currently sits. The accountability debate in India is still mostly about how much, how soon and by whom, and much less about with what result.

IV. FROM SPENDING TO IMPACT

A. What the Law Actually Verifies

It helps to think of accountability in three layers. The first is expenditure accountability: was the required amount spent or properly transferred? The second is process accountability: did the company have a policy, a committee, an action plan, a registered implementing agency and the required disclosures? The third is impact accountability: did the projects change anything for the people they were meant to serve? Table I summarises how Indian law handles each layer.

TABLE I
THREE LAYERS OF CSR ACCOUNTABILITY

Layer	Legal basis	What it verifies, and the gap
Expenditure	Act, s. 135(5)-(7)	Amounts spent or transferred. Silent on whether the spending achieved anything.
Process	Rules 4, 5, 8, 9; Board's report; Form CSR-2	Existence of policy, committee, agency registration and disclosures. Compliance can be paper-based.
Impact	Rule 8(3); SEBI BRSR, Principle 8	Limited to large spenders and completed projects. No mandated public findings and no consequence for poor results.

The pattern is easy to see. The first layer has statutory penalties attached to it. The second has filing and disclosure duties. The third has, at best, a reporting obligation for a subset of companies. The further one moves toward what matters to beneficiaries, the weaker the legal machinery becomes.

B. Impact Assessment under Rule 8(3)

The 2021 Rules did introduce impact assessment, and it deserves credit as the first serious attempt to look beyond spending. A company with an average CSR obligation of ₹10 crore or more in the three immediately preceding financial years must commission an independent impact assessment of each project with an outlay of ₹1 crore or more that was completed at least one year earlier [3]. The report is placed before the Board and annexed to the annual CSR report, and the company may count the cost, up to five per cent of that year's CSR expenditure or ₹50 lakh, whichever is higher, toward its CSR obligation [3].

The provision is sound in principle, but its design narrows its reach in at least four ways. First, the thresholds leave out most obligated companies. The figures cited earlier imply an average spend of only about ₹1.3 crore per company [5], far below the ₹10 crore trigger. Second, the rule looks only at completed projects, so multi-year projects, where course correction is still possible, are assessed late or not at all. Third, the Rules require the agency to be independent but, as the author reads them, do not say how independence is to be tested; the company chooses and pays the assessor, which is a familiar conflict. Fourth, and most important, nothing happens if the findings are poor. The report is annexed and the matter closes. There is no duty to respond, no remedial plan and no penalty. A study that nobody is obliged to act upon is information, not accountability.

C. Disclosure and Its Limits

The wider disclosure regime reaches further but cuts less deeply. Companies must report on CSR in the Board's report and display their CSR policy, committee composition and approved projects on their websites [1], [3]. For the largest listed companies, SEBI's Business Responsibility and Sustainability Report (BRSR) framework adds a layer. The top thousand listed companies by market capitalisation report under it, and Principle 8, on inclusive growth, calls for details of social impact assessments of projects undertaken under applicable laws, along with rehabilitation and resettlement information [11]. The Ministry's National Guidelines on Responsible Business Conduct similarly encourage businesses to understand and report on their social effects [12].

Disclosure is useful, but it is not accountability. Disclosed information is worth only as much as the likelihood that someone will read it, test it and act on it. Filings are easiest to check for completeness, investors are mostly interested in returns, and the communities concerned are unlikely to be reading annual reports. The BRSR's link to the capital-market regime gives it more force than the CSR Rules, but it remains, in the end, a reporting framework.

V. WHERE ACCOUNTABILITY BREAKS DOWN

A. Enforcement Follows the Money

Section 135(7) penalises failure to spend or transfer. It does not penalise spending that fails. A company that spends its entire allocation on a badly designed project is in perfect compliance, while a company that transfers a small unspent balance a few days late is in breach. The penalty structure, pegged to multiples of the unspent amount, makes sense as a way of securing money for Schedule VII purposes, but it is blind to what happened to the money that was spent. The law polices the budget, not the result.

There is also the question of who can set enforcement in motion. Section 135 gives beneficiaries and civil society no statutory route to complain that a project has failed or that a company's CSR report misdescribes it. The Registrar and the Ministry work from filings. A villager whose well was never completed has no obvious forum under the Act and would have to look outside it, to constitutional remedies or ordinary civil law. To the best of the author's knowledge, reported appellate decisions squarely interpreting Section 135 remain few, which may itself reflect the absence of anyone with both standing and incentive to litigate.

B. The Implementing-Agency Chain

Most companies do not run CSR projects themselves. The Rules allow them to work through Section 8 companies, registered trusts and registered societies, which must hold the prescribed tax registrations and a track record, and must register with the Ministry in Form CSR-1 [3]. This is a sensible filter, and it has removed some of the informality that once surrounded CSR partnerships. But registration shows that an agency exists and is eligible, not that it performs. The legal chain runs from company to agency by contract and from agency to community by goodwill. If the agency underdelivers, the company's exposure under the Act is largely reputational, so long as the funds were spent for a Schedule VII purpose.

Add the cap on administrative overheads at five per cent of CSR spending [3] and a further difficulty appears. The cap guards against money leaking into administration, which is a fair concern, but it may also leave too little for monitoring, particularly in small projects that cannot make use of the separate allowance for impact assessment. In effect, the law has made it cheaper to spend than to check.

C. The Community Has No Seat at the Table

The people CSR is supposed to serve appear in the framework as a location, not as participants. Section 135 asks companies to prefer the local area, but nothing obliges them to consult residents in designing a project, to publish what they plan to do, or to offer a channel for complaints. The Supreme Court's approach in *Orissa Mining Corporation Ltd. v. Ministry of Environment and Forests* is instructive by contrast [13]. There the Court directed that the gram sabhas of the affected Dongria Kondh community be consulted on whether the proposed mining would affect their religious and cultural rights, a recognition that decisions touching a community should involve that community. The case arose under forest-rights law rather than CSR, but its premise, that affected people are entitled to a voice, carries over naturally.

VI. DRAWING ON THE WIDER LAW

A. Directors' Duties

Company law itself contains a hook that has not yet been fully used. Section 166(2) requires a director to act in good faith to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, its shareholders, the community and the protection of the environment [1]. Section 166(3) adds a duty to exercise due and reasonable care, skill and diligence and to use independent judgment [1]. Read with Section 135(3), which makes the CSR Committee responsible for monitoring the policy, these provisions support an argument, untested in court so far as the author is aware, that committee members who approve and renew projects without ever asking whether they work are not exercising the care the Act expects. The argument is a modest one. It creates no new liability, but it gives a principled basis for reading the committee's monitoring duty as sensitive to outcomes and not merely a matter of bookkeeping.

B. Judicial Approaches to Corporate Harm

The Supreme Court has never needed a CSR statute to hold companies responsible for the social consequences of their operations. In *M.C. Mehta v. Union of India* the Court held that an enterprise engaged in a hazardous or inherently dangerous activity owes an absolute and non-delegable duty to the community, and is liable for resulting harm without the exceptions available under the rule in *Rylands v. Fletcher* [14]. In *Vellore Citizens' Welfare Forum v. Union of India* the Court accepted the precautionary principle and the polluter-pays principle as part of Indian environmental law [15], and in *Indian Council for Enviro-Legal Action v. Union of India* it insisted that the polluter bear the cost of remedial action [16].

Two things follow. First, these decisions confirm that a company cannot buy its way out of responsibility with generosity elsewhere. CSR spending is no defence to liability for harm caused by core operations, and the exclusion of normal-course-of-business activities from CSR reinforces that boundary. Second, they show a judiciary willing to build accountability from constitutional principle when statutes are silent, which gives some reason to expect that courts would read Section 135 purposively if asked. Such cases will come only if claimants have the means to bring them. Note also that these precedents concern harm from operations, not harm from CSR projects themselves. A water scheme that depletes a village commons, or a livelihood programme that undercuts

local producers, sits in an uncomfortable space between doctrines. Ordinary negligence principles would apply in theory. In practice, beneficiaries rarely sue their benefactor.

C. Soft Law and Comparative Perspectives

Indian soft law points in the right direction. The National Guidelines on Responsible Business Conduct ask businesses to identify and manage the social effects of their operations [12], and the UN Guiding Principles on Business and Human Rights expect companies to carry out due diligence to identify, prevent, mitigate and account for adverse impacts [17]. These instruments are voluntary, which is both their strength, since they are easy to adopt, and their weakness, since they are easy to ignore.

Other jurisdictions show how a harder edge might look. In the United Kingdom, section 172 of the Companies Act 2006 requires directors, in promoting the company's success, to have regard to the impact of its operations on the community and the environment [18]. Enforcement is indirect, but the duty sits in the statute. France's 2017 duty-of-vigilance law goes further for very large companies, requiring them to establish and implement a vigilance plan to identify risks and prevent serious harm to human rights and the environment [19]. The European Union has adopted a corporate sustainability due diligence directive in the same spirit [20], although its scope and timetable have since been the subject of reform proposals. The lesson for India is not to copy these regimes wholesale. It is that due diligence backed by consequences is a workable regulatory idea, and that a version of it, scaled to CSR projects rather than global supply chains, would sit comfortably within the Indian framework.

VII. TOWARD IMPACT ACCOUNTABILITY

The proposals below are meant to be proportionate. They accept that most companies are small spenders, that CSR should not become a litigation magnet, and that the present reform mood favours simpler compliance. Their aim is to add accountability where it matters most, at modest cost.

1) *Widen and deepen impact assessment.* Retain the Rule 8(3) thresholds for full independent assessment, but add a lighter, standardised review with defined outcome indicators for projects below them. Require a mid-term review for multi-year projects so that a failing project can be corrected while it is still running.

2) *Publish findings and require a response.* Summaries of impact assessments, unfavourable findings included, should be placed on the company's website and the National CSR Portal. Where an assessment finds that a project missed its stated objectives, the Board's report should say what the company will do about it. This revives the comply-or-explain logic that the 2019 amendments removed from spending, and applies it where it is most useful, to outcomes.

3) *Standardise agency due diligence.* Agreements with implementing agencies should carry outcome indicators, access for monitoring and audit, and a complaint channel for beneficiaries. Registration in Form CSR-1 should be the start of the inquiry, not the end of it.

4) *Build in consultation and grievance redress.* For projects above a prescribed outlay, companies should document consultation with intended beneficiaries at the design stage, maintain an accessible grievance mechanism, and report annually on complaints received and resolved.

5) *Calibrate liability.* A civil penalty should apply to knowingly false or misleading statements about the impact of CSR projects, while good-faith failure that is honestly disclosed and remedied should be protected by a safe harbour. Without that protection, companies would rationally avoid ambitious projects in difficult areas, which is where CSR is most needed.

6) *Strengthen assessor capacity.* An appropriate public body should maintain qualification standards, methodology guidance and conflict-of-interest rules for assessors, so that "independent" means something in practice.

The obvious objection is cost, and the tension with the government's decriminalisation and ease-of-doing-business agenda. Three answers can be offered. The proposals scale with the size of spending, so the smallest companies carry the lightest load. They mostly reuse existing mechanisms such as the annual CSR report, the portal and the Board's report. And they replace some paperwork with information that someone can actually use. Proposals 1 to 4 and 6 could likely be implemented by amending the CSR Rules under the Central Government's rule-making power [1], whereas proposal 5 would need an amendment to Section 135(7) or a companion provision. Greater disclosure will also expose companies to reputational risk when projects fail. That is not a flaw in the design. It is the point.

VIII. CONCLUSION

India's CSR mandate has succeeded in making companies spend. That is no small achievement, and the reforms of 2019 and 2021 deserve credit for tightening the rules on unspent funds, agency registration and impact assessment. But a framework that asks only whether money was spent has built a ledger, not a social contract. The weakest layer of accountability is the one that matters most to the people who are supposed to benefit, and the 2026 proposals, for all their merit as compliance simplification, leave that layer largely untouched.

This paper has argued that doctrine already offers part of what is needed: Rule 8(3), the BRSR, the directors' duties in Section 166 and the Supreme Court's approach to corporate responsibility for social harm. What is missing is connection, a thread joining those pieces so that a failed project produces a question, an answer and a consequence. The proposals above try to supply that thread without making CSR heavier for those who can least bear it. Future research could test them empirically, for example by studying how companies currently describe failure in their impact assessment reports and Board's reports. The next stage of India's CSR story should be about whether lives changed, and the law should be ready to ask.

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