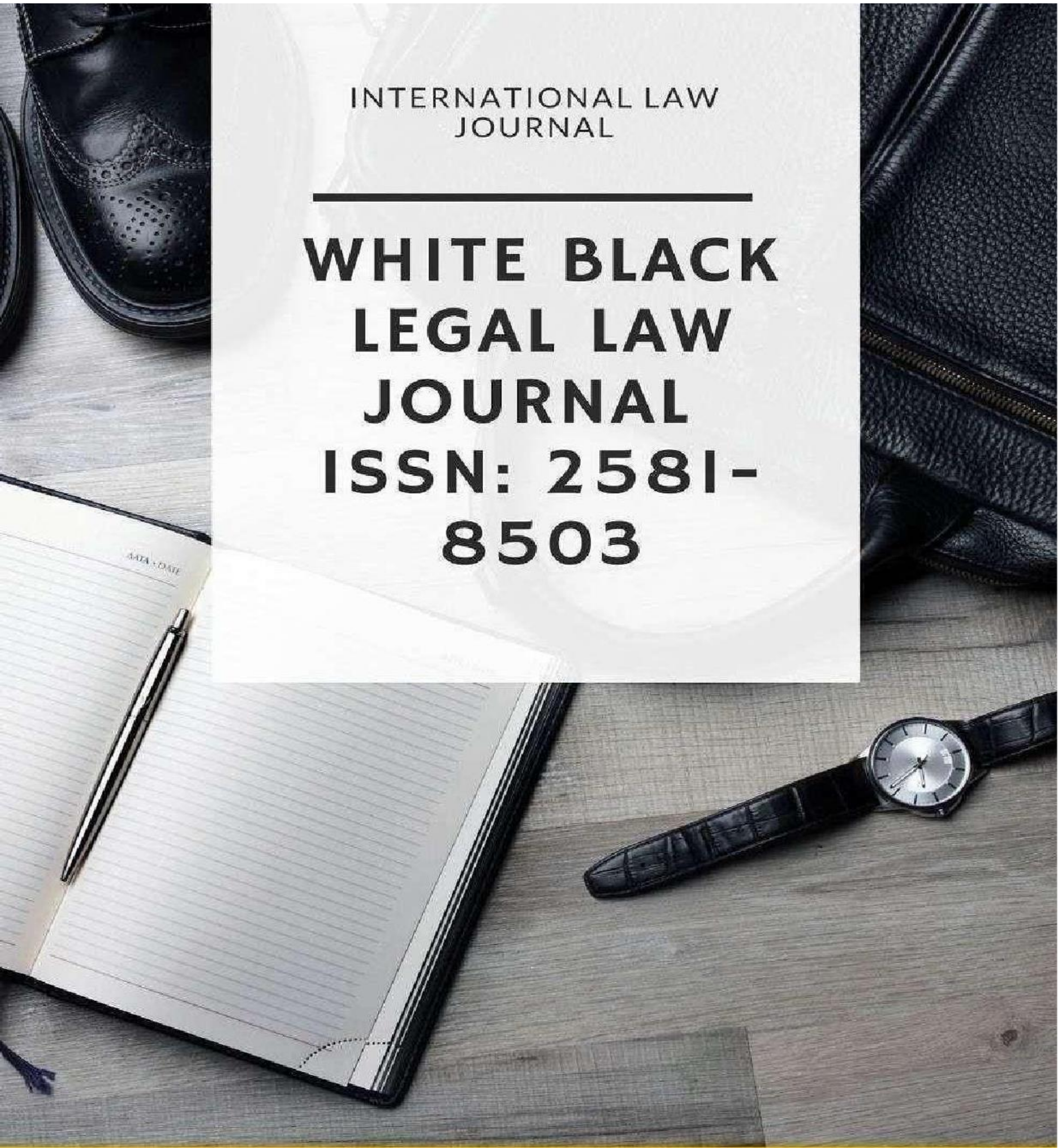

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MISUSE OF CSR FUNDS IN THE CORPORATE SECTOR: LEGAL, REGULATORY AND GOVERNANCE CHALLENGES

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Under the Guidance of Dr. Mudra Singh

DECLARATION

I hereby solemnly declare that the dissertation titled *"Misuse of CSR Funds in the Corporate Sector: Legal, Regulatory and Governance Challenges"* is an original and bonafide research work carried out and submitted by me in partial fulfilment of the requirements for the award of the Degree of Bachelor of Laws (LL.B.), 6th Semester, at Amity University.

I affirm that this dissertation has been prepared under academic supervision and guidance, and it represents my own independent research, analysis, and interpretation of the subject matter. The work embodies a critical examination of the legal framework governing Corporate Social Responsibility under the Companies Act, 2013 and related regulatory provisions, along with judicial developments and governance challenges.

I further declare that this dissertation has not been submitted, either in whole or in part, to any other University, Institution, or Examination Authority for the award of any degree, diploma, or academic qualification. No part of this work has been copied or reproduced from any other source without due acknowledgement.

All references to legislative provisions, judicial decisions, books, journal articles, reports, and other academic materials have been properly cited and acknowledged in accordance with Bluebook/ILI citation standards. Wherever the work of other scholars has been relied upon, appropriate credit has been given through footnotes and bibliography.

I understand that in the event of any violation of academic integrity, plagiarism, or misrepresentation being discovered at any stage, the University shall have the right to take appropriate action in accordance with its rules and regulations.

I hereby undertake full responsibility for the contents of this dissertation.

Signature of the Faculty Dr. Mudra Singh

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Finally, I take full responsibility for any errors or omissions that may remain in this dissertation.

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ABSTRACT

Corporate Social Responsibility (CSR) represents a significant evolution in corporate jurisprudence, reflecting the transition from a purely profit-driven corporate model to one that acknowledges broader societal obligations. India stands at the forefront of this transformation by statutorily mandating CSR expenditure under Section 135 of the Companies Act, 2013. This legislative innovation seeks to ensure that corporations contribute meaningfully to social welfare, sustainable development, and inclusive economic growth.

The present dissertation critically examines the issue of misuse of CSR funds within the corporate sector. While the mandatory framework ensures predictable allocation of resources toward developmental activities, it also presents challenges relating to diversion of funds, misclassification of expenditure, related-party transactions, weak monitoring mechanisms, and governance failures. The research analyzes how procedural compliance may sometimes overshadow substantive social impact, thereby undermining the core objective of CSR legislation.

The study explores the historical evolution of CSR in India, tracing its journey from voluntary philanthropy to statutory obligation. It evaluates the regulatory architecture governing CSR implementation, including disclosure requirements, audit mechanisms, and penalties for non-compliance. Judicial principles laid down by the Supreme Court of India concerning fiduciary duties, fraud, and corporate accountability are examined to understand their relevance in addressing misuse of CSR funds.

Further, the dissertation undertakes a comparative analysis of CSR regulation in the United Kingdom and the United States. Unlike India's mandatory spending model, these jurisdictions rely primarily on disclosure-based frameworks and governance-driven accountability. The comparative study highlights both the strengths and limitations of India's prescriptive approach.

The research identifies corporate governance deficiencies as a primary factor contributing to misuse of CSR funds. Weak oversight by Boards, insufficient independence of directors, inadequate internal controls, and limited impact evaluation mechanisms create vulnerabilities within the system. The dissertation emphasizes the need for stronger transparency standards, independent impact assessments, enhanced audit scrutiny, and conflict-of-interest safeguards.

The study concludes that while the Indian CSR framework is progressive and constitutionally aligned with principles of social justice, its effectiveness depends upon ethical corporate culture and robust enforcement. Sustainable reform requires integrating CSR with broader Environmental, Social, and Governance (ESG) strategies, strengthening regulatory oversight, and fostering stakeholder participation.

Ultimately, this dissertation argues that CSR must evolve beyond statutory compliance and become an integral component of corporate governance. Preventing misuse of CSR funds is essential not only for legal compliance but also for maintaining public trust and ensuring that corporate contributions genuinely advance societal welfare.

CHAPTER 1 STRUCTURALISATION OF THE STUDY

Corporate Social Responsibility (CSR) was traditionally a voluntary, philanthropic endeavour in India. The legal recognition of CSR in the Companies Act, 2013, transformed it into a statutory obligation for specified companies. While this legislative innovation was laudable as a means to institutionalize corporate contribution to inclusive development, it has not been immune to misuse, regulatory ambiguity, and governance failures. This chapter undertakes a **critical analysis** of how CSR funds are misused in practice, why existing legal and regulatory frameworks fail to prevent such misuse effectively, and how corporate governance deficits exacerbate these problems.

The analysis is rooted in:

1. Relevant provisions of the Companies Act, 2013;
2. CSR Rules and key amendments;
3. Judicial pronouncements and interpretive trends;
4. Practical, regulatory, and governance challenges;
5. Critical evaluation of systemic issues and proposals for reform.

2. Legal Framework Governing CSR in India

Corporate Social Responsibility (CSR) in India has evolved into a structured legal obligation under corporate law. The statutory recognition of CSR represents a significant shift in the governance framework of companies, emphasizing that corporate entities must contribute not only to economic growth but also to social welfare and sustainable development. India became the first country in the world to mandate CSR spending through legislative provisions under the Companies Act, 2013.

The legal framework governing CSR primarily derives from **Section 135 of the Companies Act, 2013**, along with the **Companies (Corporate Social Responsibility Policy) Rules, 2014**, which collectively establish the eligibility criteria, compliance obligations, monitoring mechanisms, and reporting requirements for companies undertaking CSR activities. These provisions aim to institutionalize corporate participation in addressing social and environmental challenges, thereby integrating corporate accountability with national development objectives.

The statutory framework is further strengthened through periodic amendments, notifications issued by the Ministry of Corporate Affairs (MCA), and judicial interpretations that clarify the scope and implementation of CSR obligations. Through this legal architecture, CSR has transformed into a governance mechanism that ensures corporate accountability, transparency, and ethical business conduct.

2.1 Statutory Basis: Section 135 of the Companies Act, 2013

The cornerstone of the CSR regime in India is **Section 135 of the Companies Act, 2013**, which introduces mandatory CSR obligations for certain classes of companies. This provision requires companies meeting specific financial thresholds to allocate a portion of their profits toward socially beneficial activities. The inclusion of CSR within the statutory framework reflects the legislature's intent to ensure that corporate growth contributes to broader societal development.

Under Section 135(1), a company is required to comply with CSR provisions if it satisfies any of the following criteria during the immediately preceding financial year:

1. Net worth of ₹500 crore or more;
2. Turnover of ₹1000 crore or more; or
3. Net profit of ₹5 crore or more.

Once a company falls within this threshold, it is required to constitute a **Corporate Social Responsibility Committee of the Board**, consisting of three or more directors, including at least one independent director. The CSR Committee plays a crucial role in formulating and recommending the company's CSR policy, identifying priority areas for social investment, and monitoring the implementation of CSR activities.[1]

Section 135(5) further mandates that eligible companies shall spend **at least two percent of their average net profits of the preceding three financial years** on CSR activities. These activities must fall within the scope of **Schedule VII of the Companies Act, 2013**, which includes areas such as poverty eradication, promotion of education, gender equality, environmental sustainability, rural development, and disaster relief.[2]

The legislative objective behind this provision is to ensure that companies actively contribute to the socio-economic development of the communities within which they operate. At the same time, the law provides flexibility by allowing companies to design CSR initiatives according to their business expertise and societal needs.

Judicial observations have also emphasized the importance of corporate responsibility in governance. In *N. Narayanan v. Adjudicating Officer, SEBI*, the Supreme Court highlighted that corporate governance principles must prioritize transparency, accountability, and protection of stakeholders' interests.[3] Although the case primarily dealt with securities regulation, its reasoning reinforces the broader principle that corporate entities bear responsibility toward society and stakeholders beyond mere profit generation.

Recent amendments to the Companies Act have strengthened CSR enforcement by introducing provisions for the transfer of unspent CSR amounts to specified funds and imposing penalties for non-compliance. These reforms demonstrate the evolving nature of CSR regulation in India, moving toward stricter monitoring and accountability mechanisms.

2.2 CSR Rules – Operationalizing the Obligation

While Section 135 establishes the statutory obligation for CSR, the **Companies (Corporate Social Responsibility Policy) Rules, 2014** provide the operational framework for implementing these obligations. These rules were formulated by the Ministry of Corporate Affairs to ensure uniformity, transparency, and accountability in CSR implementation across corporate entities.

The CSR Rules outline detailed procedures regarding the formulation of CSR policies, implementation mechanisms, reporting requirements, and monitoring processes. One of the key requirements under the rules is that every eligible company must formulate a **CSR Policy** that specifies the list of approved CSR projects or programs to be undertaken by the company. This policy must be recommended by the CSR Committee and approved by the Board of Directors.[4]

The rules also emphasize the role of the Board of Directors in ensuring that CSR activities are effectively implemented. The Board is required to disclose the CSR policy and the details of CSR

[1] Companies Act, No. 18 of 2013, § 135(1)–(3) (India).
[2] Companies Act, 2013, Schedule VII (India).
[3] Ministry of Corporate Affairs, Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021, r. 8(3).
[4] Companies (Corporate Social Responsibility Policy) Rules, 2014, r. 5.

expenditure in the company's annual report. This disclosure requirement promotes transparency and enables stakeholders to evaluate the social impact of corporate initiatives.

Another important aspect of the CSR Rules is the introduction of mechanisms for monitoring and evaluation of CSR projects. Companies may undertake CSR activities either directly or through eligible implementing agencies such as registered trusts, societies, or Section 8 companies.
However, such implementing agencies must satisfy specific eligibility conditions and must be registered with the Ministry of Corporate Affairs through a prescribed registration process.[5]

Amendments to the CSR Rules in 2021 further strengthened the compliance framework by introducing stricter reporting obligations, mandatory impact assessments for large CSR projects, and enhanced accountability for unspent CSR funds. These amendments aim to ensure that CSR spending translates into measurable social impact rather than merely fulfilling statutory obligations.

Overall, the CSR Rules serve as an essential regulatory instrument that transforms the statutory mandate of Section 135 into a practical governance framework. By providing clear guidelines for policy formulation, implementation, monitoring, and disclosure, the rules facilitate effective corporate participation in social development initiatives.

3. Misuse of CSR Funds: Forms, Practices, and Indicators

Corporate Social Responsibility (CSR) was introduced under the Companies Act, 2013 with the objective of encouraging companies to actively participate in social and economic development.
While the statutory framework provides clear guidance regarding permissible CSR activities and reporting requirements, concerns have emerged regarding the misuse or ineffective utilization of CSR funds by certain corporations. In practice, the misuse of CSR funds may not always take the form of direct embezzlement; rather, it often manifests through subtle practices that technically appear compliant with statutory provisions but undermine the spirit of CSR obligations.

The misuse of CSR resources can occur through various mechanisms such as misclassification of activities, diversion of funds to related parties, inflation of project costs, or the selection of projects that provide limited or superficial social benefits. These practices reduce the real impact of CSR initiatives and weaken the credibility of the regulatory framework. Consequently, identifying the common forms and indicators of CSR misuse becomes essential for ensuring transparency, accountability, and responsible corporate governance.

Regulatory authorities and policy experts have increasingly emphasized the importance of monitoring CSR expenditure and ensuring that companies adhere not only to the legal requirements but also to the underlying ethical principles of social responsibility. The Ministry of Corporate Affairs has also strengthened compliance mechanisms through amendments to CSR Rules and enhanced disclosure requirements to prevent misuse and promote effective utilization of CSR funds.[6]

3.1 Misuse Through Misclassification of Activities

One of the most common forms of CSR misuse occurs through the misclassification of corporate activities as CSR initiatives. Companies may sometimes categorize routine business expenditures or promotional activities as CSR projects in order to demonstrate compliance with statutory

[5] Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021, r. 4.
[6] Companies Act, No. 18 of 2013, § 135 (India).

requirements. Such practices undermine the purpose of CSR by diverting funds away from genuine social welfare initiatives.

Schedule VII of the Companies Act, 2013 clearly outlines the categories of activities that qualify as CSR, including poverty eradication, promotion of education, gender equality, environmental sustainability, and rural development. However, certain companies attempt to interpret these categories broadly and include activities that primarily benefit the company's business operations rather than society at large.[7]

For instance, expenditures related to employee welfare, marketing campaigns, or brand promotion may sometimes be portrayed as CSR activities despite having minimal social impact. Such practices raise serious concerns regarding transparency and accountability in CSR reporting. In response, regulatory authorities have emphasized that CSR initiatives must have a direct and measurable benefit to the community rather than serving as indirect business advantages.

Judicial observations in cases involving corporate governance have repeatedly stressed the importance of transparency in corporate conduct. In *Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.*, the Supreme Court highlighted the broader responsibilities of corporate management toward stakeholders and the need for ethical decision-making within corporate structures.[8] Although the case did not specifically address CSR, its reasoning reinforces the principle that corporate actions must be guided by fairness and accountability.

3.2 Diversion of Funds to Related Parties

Another significant concern in the implementation of CSR policies is the diversion of funds to related parties or entities that have close connections with the company's promoters, directors, or senior management. Such practices create a potential conflict of interest and may compromise the integrity of CSR initiatives.

Companies may channel CSR funds through implementing agencies such as trusts, societies, or non-profit organizations. While this mechanism enables companies to undertake large-scale social projects through specialized institutions, it also creates the possibility of funds being directed to organizations that are indirectly controlled or influenced by corporate insiders. When CSR funds are routed through such related entities without adequate oversight, the risk of financial misuse or self-dealing increases.

Recognizing this concern, the Ministry of Corporate Affairs introduced stricter eligibility requirements for implementing agencies through amendments to the CSR Rules. These amendments require implementing organizations to register with the government and comply with transparency and reporting standards.[9] Such regulatory measures aim to ensure that CSR funds are utilized for genuine social initiatives rather than serving as indirect financial benefits for related parties.

3.3 Inflated Project Costs and Superficial Expenditure

Inflation of project costs is another practice that can lead to the ineffective utilization of CSR funds. In certain cases, companies may report exaggerated expenditures on CSR projects while the actual resources deployed for community development remain significantly lower. This discrepancy

[7] Companies Act, 2013, Schedule VII (India).
[8] *Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.*, (2021) 9 SCC 449 (India).
[9] Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021, r. 4.

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may arise due to administrative inefficiencies, lack of monitoring, or deliberate overstatement of project costs.

CSR projects often involve collaboration with external agencies, contractors, or non-governmental organizations. If proper monitoring mechanisms are not in place, these intermediaries may inflate operational expenses, administrative charges, or consultancy fees, thereby reducing the funds available for actual social development activities. Such practices undermine the credibility of CSR initiatives and diminish their intended impact.

To address these challenges, recent amendments to CSR regulations have introduced provisions for **impact assessment** of large CSR projects. Impact assessment involves independent evaluation of the outcomes and effectiveness of CSR initiatives, thereby enabling companies and regulators to determine whether the funds allocated for social projects have achieved their intended objectives.[10]This mechanism plays a crucial role in detecting inflated expenditures and ensuring accountability.

3.4 Redirection to Projects of Limited Social Value

CSR funds may also be misused through the selection of projects that provide minimal or superficial social benefits. In such cases, companies technically comply with the statutory requirement of spending on CSR but fail to address pressing social issues or deliver meaningful impact to communities.

This practice may occur when companies prioritize projects that enhance corporate visibility rather than addressing genuine social needs. For example, short-term publicity campaigns, symbolic donations, or projects implemented without proper community engagement may produce limited long-term benefits for society. Although such initiatives may fall within the categories listed under Schedule VII, their overall contribution to sustainable development remains minimal.

Effective CSR implementation requires careful identification of community needs, long-term planning, and continuous monitoring of project outcomes. When companies neglect these aspects and instead focus on activities that offer limited social value, the broader objective of CSR legislation is compromised. Consequently, policymakers and regulatory authorities have increasingly emphasized the importance of **impact-driven CSR programs** that prioritize measurable social outcomes over mere expenditure.

Therefore, strengthening monitoring mechanisms, encouraging independent evaluation, and promoting stakeholder participation are essential steps toward preventing the misuse of CSR funds and ensuring that corporate contributions genuinely support social and environmental development.

4. Regulatory Gaps Contributing to Misuse

Although the legal framework governing Corporate Social Responsibility (CSR) in India is comparatively advanced, several regulatory gaps continue to create opportunities for the misuse or ineffective utilization of CSR funds. The introduction of mandatory CSR spending under the Companies Act, 2013 marked a significant step toward integrating corporate participation with social development. However, the practical implementation of CSR obligations has revealed

[10] Ministry of Corporate Affairs, Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021, r. 8(3).

structural weaknesses in regulatory oversight, enforcement mechanisms, and accountability structures.

The statutory provisions primarily emphasize financial compliance—ensuring that companies allocate the prescribed percentage of profits toward CSR activities. While financial disclosure is essential, the existing framework does not always adequately evaluate the **quality, impact, and effectiveness** of CSR initiatives. As a result, companies may technically comply with statutory requirements while the actual social impact of their activities remains limited.

Several scholars and policy experts have highlighted that the success of CSR regulation depends not only on mandatory spending requirements but also on strong monitoring mechanisms, transparent reporting systems, and independent evaluation of CSR projects. In the absence of such safeguards, regulatory gaps may facilitate practices that dilute the objectives of CSR legislation.[11]

4.1 Lack of Impact-Focused Enforcement

One of the most significant regulatory gaps within the CSR framework is the limited emphasis on impact-based enforcement. The existing statutory provisions primarily focus on whether companies have spent the prescribed amount on CSR activities rather than assessing whether those activities have generated meaningful social outcomes.

Section 135 of the Companies Act, 2013 requires eligible companies to spend at least two percent of their average net profits on CSR initiatives. However, the law historically focused more on the **allocation of funds** rather than the **actual effectiveness of CSR projects**. As a result, companies may fulfill their legal obligations by reporting expenditure without necessarily demonstrating measurable improvements in community welfare.[12]

The absence of a robust impact evaluation framework may lead to situations where CSR funds are spent on short-term initiatives that provide limited long-term benefits. In recent years, regulatory authorities have attempted to address this concern through the introduction of **impact assessment requirements for large CSR projects**, but these mechanisms are still evolving and may not yet cover all CSR activities.

Judicial observations in corporate governance cases have repeatedly emphasized the importance of accountability and transparency in corporate conduct. In *N. Narayanan v. Adjudicating Officer, SEBI*, the Supreme Court observed that corporate governance mechanisms must ensure responsible management and protection of stakeholder interests.[13] Such principles are equally relevant in the context of CSR implementation, where corporate actions directly affect communities and public welfare.

4.2 Limited Independent Oversight Infrastructure

Another regulatory challenge within the CSR framework is the limited availability of independent oversight mechanisms capable of monitoring CSR activities at a large scale. Although the Ministry of Corporate Affairs requires companies to disclose CSR expenditures in their annual reports, there is relatively limited institutional infrastructure dedicated specifically to verifying the authenticity and effectiveness of CSR initiatives.

[11] Ministry of Corporate Affairs, Report of the High Level Committee on Corporate Social Responsibility (2019
[12] Companies Act, No. 18 of 2013, § 135 (India).
[13] *N. Narayanan v. Adjudicating Officer, SEBI*, (2013) 12 SCC 152 (India).

CSR activities are typically implemented by companies either directly or through external agencies such as trusts, societies, and non-governmental organizations. While this model provides flexibility in project implementation, it also creates potential challenges in monitoring the performance of implementing agencies. Without independent verification, it may be difficult to ensure that the funds allocated for CSR are utilized effectively and reach the intended beneficiaries.

Furthermore, the monitoring of CSR compliance is largely dependent on corporate self-reporting. Although such disclosures are important for transparency, self-reporting mechanisms alone may not be sufficient to prevent misrepresentation or overstatement of CSR achievements. Strengthening independent oversight institutions and encouraging third-party evaluations can therefore play a crucial role in improving the accountability of CSR initiatives

4.3 Weak Auditor Accountability in CSR Context

Auditors play an essential role in ensuring the reliability of corporate disclosures and financial reporting. However, within the CSR framework, the accountability of auditors in verifying CSR expenditures remains relatively limited. While statutory auditors examine whether CSR spending has been disclosed in financial statements, they may not always evaluate the **substantive impact or authenticity** of CSR activities.

In many cases, auditors focus primarily on verifying whether the company has allocated the required amount toward CSR activities in accordance with statutory requirements. However, they may not conduct detailed investigations into whether the reported CSR projects were actually implemented or whether the funds were utilized efficiently.

Corporate governance jurisprudence has emphasized the importance of professional diligence and ethical responsibility in auditing practices. In *Institute of Chartered Accountants of India v. Mukesh R. Shah*, the Supreme Court reiterated that auditors must exercise a high degree of professional care in verifying financial disclosures and ensuring the accuracy of corporate reporting.[14] Applying similar standards to CSR reporting could significantly improve transparency and reduce the risk of financial irregularities.

Strengthening auditor accountability through clearer regulatory guidelines and enhanced professional standards would therefore contribute to more effective monitoring of CSR expenditures.

4.4 Ambiguity in Interpretation of Schedule VII Activities

Another regulatory gap arises from the interpretative flexibility associated with **Schedule VII of the Companies Act, 2013**, which lists the categories of permissible CSR activities. While the schedule provides a broad framework covering areas such as education, environmental protection, healthcare, and rural development, the wording of several categories is intentionally broad in order to provide companies with flexibility in designing CSR programs.

However, this flexibility can sometimes create ambiguity regarding whether a particular activity genuinely qualifies as CSR. Companies may interpret the categories expansively and include activities that indirectly benefit their own commercial interests. Such interpretations may technically comply with statutory provisions while deviating from the intended social purpose of CSR legislation.

14 *Institute of Chartered Accountants of India v. Mukesh R. Shah*, (2007) 5 SCC 705 (India).

For instance, certain activities such as skill development programs, environmental initiatives, or educational sponsorships may be structured in ways that simultaneously promote the company's brand image or business interests. While such initiatives may still generate some social benefits, they raise questions regarding the true purpose of CSR expenditure.

To address these challenges, regulatory authorities have periodically issued clarifications and guidelines regarding the interpretation of Schedule VII activities. Nevertheless, the continued presence of interpretative ambiguity highlights the need for clearer regulatory guidance and stronger evaluation standards to ensure that CSR funds are directed toward activities that genuinely advance public welfare.

5. Governance Failures Enabling Misuse

Corporate Social Responsibility (CSR) obligations under the Companies Act, 2013 were introduced with the objective of ensuring that corporations contribute meaningfully to social development. However, the effectiveness of CSR initiatives depends not only on statutory compliance but also on the strength of internal corporate governance mechanisms. When governance structures within companies are weak or ineffective, the risk of misuse, misallocation, or superficial utilization of CSR funds increases significantly.

Corporate governance involves the system of rules, practices, and processes through which companies are directed and controlled. Strong governance mechanisms promote transparency, accountability, and responsible decision-making. Conversely, governance failures—such as inadequate board supervision, weak internal controls, limited stakeholder engagement, and ethical shortcomings in leadership—may undermine the objectives of CSR policies.[15]

The misuse of CSR funds is often not solely a consequence of regulatory loopholes but also a reflection of deficiencies in corporate governance practices. Effective governance structures are therefore essential for ensuring that CSR initiatives produce meaningful and sustainable social outcomes rather than merely satisfying statutory spending requirements.

5.1 Shortfalls in Board and CSR Committee Oversight

The board of directors and the CSR Committee are entrusted with the responsibility of supervising and guiding CSR initiatives within a company. Section 135 of the Companies Act, 2013 requires eligible companies to constitute a CSR Committee that recommends the CSR policy, identifies appropriate projects, and monitors their implementation.[16] Despite this statutory mandate, shortcomings in board oversight may weaken the effectiveness of CSR governance.

In certain cases, CSR committees may function merely as formal structures created to satisfy regulatory requirements rather than as active supervisory bodies. Board members may lack sufficient expertise or engagement in evaluating CSR strategies and monitoring the outcomes of CSR projects. As a result, CSR initiatives may proceed without adequate scrutiny or strategic direction.

Furthermore, limited interaction between the CSR Committee and local communities may lead to the selection of projects that do not address genuine social needs. Without strong board-level oversight, CSR expenditures may become fragmented or misaligned with broader development

[15] Organisation for Economic Co-operation and Development (OECD), *Principles of Corporate Governance* (2015).
[16] Companies Act, No. 18 of 2013, § 135 (India).

goals. Strengthening the role of the board and enhancing the accountability of CSR committees is therefore essential for ensuring the responsible utilization of CSR funds.

5.2 Deficient Internal Control and Audit Functions

Internal control systems and audit mechanisms are fundamental components of corporate governance. These mechanisms are designed to ensure that financial resources are utilized efficiently and in accordance with established policies. However, when internal control frameworks are weak or poorly implemented, they may fail to detect irregularities or inefficiencies in CSR spending.

Many companies treat CSR expenditure as a peripheral activity rather than integrating it into their broader financial and operational control systems. As a result, CSR projects may not receive the same level of scrutiny as core business operations. Weak documentation practices, inadequate monitoring of implementing agencies, and insufficient financial verification can increase the risk of mismanagement or misuse of CSR funds.

Corporate governance jurisprudence has consistently emphasized the importance of professional diligence in financial oversight. In *Institute of Chartered Accountants of India v. Mukesh R. Shah*, the Supreme Court highlighted that auditors and financial professionals must exercise due care and maintain high standards of professional responsibility in verifying corporate disclosures.[17] Applying similar standards to CSR expenditure would strengthen accountability and enhance transparency in CSR reporting.

5.3 Absence of Beneficiary and Stakeholder Feedback Mechanisms

Another governance failure that may contribute to the misuse of CSR funds is the absence of effective feedback mechanisms involving beneficiaries and stakeholders. CSR initiatives are intended to address the needs of communities and vulnerable groups; however, the voices of these beneficiaries are often absent from the planning and evaluation processes of CSR projects.

Without systematic feedback mechanisms, companies may find it difficult to determine whether their CSR initiatives have achieved their intended objectives. Projects may be implemented based on corporate priorities rather than the actual needs of local communities. Consequently, CSR funds may be directed toward initiatives that have limited relevance or impact.

Stakeholder engagement is widely recognized as a key element of responsible corporate governance. Effective CSR programs require active dialogue with local communities, civil society organizations, and other stakeholders. Establishing structured feedback mechanisms—such as community consultations, impact assessments, and grievance redressal systems—can help companies evaluate the effectiveness of their CSR initiatives and identify areas for improvement.

5.4 Ethical Deficits at Leadership Levels

Ethical leadership is an essential foundation for responsible corporate governance. The commitment of senior management and corporate leaders to ethical principles significantly influences how CSR initiatives are designed and implemented within an organization. When leadership prioritizes transparency and social responsibility, CSR programs are more likely to produce meaningful social impact.

[17] *Institute of Chartered Accountants of India v. Mukesh R. Shah*, (2007) 5 SCC 705 (India).

However, when ethical considerations are subordinated to short-term financial objectives or reputational concerns, CSR initiatives may become superficial or strategically manipulated. In such situations, CSR funds may be allocated primarily for public relations purposes rather than for addressing pressing social challenges.

The judiciary has repeatedly emphasized the importance of ethical conduct in corporate governance. In *Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.*, the Supreme Court observed that corporate management must exercise its powers in a manner consistent with principles of fairness, accountability, and good faith.[18] Although the case focused on corporate governance disputes, the principles articulated by the Court are equally relevant to CSR governance.

Promoting ethical leadership within corporate institutions requires not only regulatory oversight but also a strong internal culture of integrity and social responsibility. Companies must therefore ensure that CSR initiatives are guided by genuine commitment to societal welfare rather than mere regulatory compliance.

6. Judicial Interpretations and Practical Challenges

Corporate Social Responsibility (CSR) obligations introduced under the Companies Act, 2013 represent a unique regulatory approach that combines corporate governance with social accountability. Although the statutory provisions relating to CSR are primarily regulatory in nature, judicial interpretations and legal principles concerning corporate governance have played an important role in shaping the understanding and implementation of CSR responsibilities. Courts in India have often emphasized that corporate decision-making must be guided by fiduciary responsibilities, transparency, and the protection of stakeholder interests.[19]

Despite the existence of statutory provisions and regulatory guidelines, several practical challenges continue to arise in the implementation and enforcement of CSR obligations. These challenges include the interpretation of directors' fiduciary duties in relation to CSR spending, the adequacy of corporate disclosures regarding CSR activities, and the procedural complexities associated with CSR-related litigation. Addressing these issues requires a balanced approach that recognizes both the autonomy of corporate decision-making and the need for accountability in the utilization of CSR funds.

Judicial analysis in corporate governance cases has increasingly emphasized that companies must operate in a manner that aligns profit-making objectives with broader social responsibilities. Although courts rarely intervene directly in CSR policy decisions, judicial reasoning in corporate law cases has helped clarify the ethical and governance principles that guide CSR implementation.

6.1 Fiduciary Duties and CSR Decision-Making

Directors of a company occupy positions of trust and are bound by fiduciary duties that require them to act in the best interests of the company and its stakeholders. These duties include the obligation to exercise due care, avoid conflicts of interest, and ensure that corporate resources are utilized responsibly. In the context of CSR, directors must ensure that decisions relating to CSR expenditure are made in good faith and in accordance with statutory requirements.

[18] *Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.*, (2021) 9 SCC 449 (India).
[19] Organisation for Economic Co-operation and Development (OECD), *Principles of Corporate Governance* (2015).

Section 166 of the Companies Act, 2013 imposes statutory duties upon directors to act in a manner that promotes the objectives of the company while also considering the interests of employees, shareholders, and the community.[20]This provision reflects a broader recognition that corporate governance must balance profit generation with social responsibility.

Judicial interpretations of fiduciary duties have reinforced the importance of responsible corporate decision-making. In *Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.*, the Supreme Court emphasized that directors must exercise their powers in good faith and in the interests of the company as a whole.[21]While the case primarily concerned corporate governance disputes, the principles articulated by the Court highlight the importance of integrity and accountability in board-level decision-making, including decisions related to CSR initiatives.

Consequently, directors must ensure that CSR funds are allocated to genuine social initiatives and that such expenditures are aligned with the objectives specified under Schedule VII of the Companies Act. Failure to exercise due diligence in this regard may raise questions regarding the proper discharge of fiduciary duties.

6.2 Judicial Approach to Disclosure Failures

Transparency in corporate disclosures is an essential component of effective CSR governance. Companies are required to disclose details regarding CSR policies, projects, and expenditure in their annual reports and on their official websites. These disclosure requirements are intended to promote accountability and enable stakeholders to evaluate the social impact of corporate activities.

However, instances of inadequate or misleading disclosure regarding CSR activities have raised concerns about the reliability of corporate reporting. Courts have consistently emphasized that corporate disclosures must be accurate, complete, and transparent in order to protect the interests of shareholders and other stakeholders.

In *N. Narayanan v. Adjudicating Officer, SEBI*, the Supreme Court highlighted that corporate officers bear significant responsibility for ensuring the accuracy of financial disclosures and that any form of misrepresentation undermines investor confidence and corporate governance standards.[22] Although the case involved securities law violations, the Court's reasoning underscores the broader principle that transparency is a fundamental requirement of corporate accountability.

Applying similar principles to CSR reporting suggests that companies must ensure that disclosures regarding CSR expenditure accurately reflect the nature and impact of their initiatives. Misleading disclosures may not only violate statutory obligations but also erode public trust in corporate social responsibility programs.

6.3 Challenges in CSR Litigation

Despite the statutory recognition of CSR obligations, litigation specifically related to CSR remains relatively limited in India. One of the primary reasons for this limited judicial engagement is that CSR provisions are largely designed as regulatory obligations rather than as enforceable rights for beneficiaries or communities.

[20] Companies Act, No. 18 of 2013, § 166 (India).
[21] *Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.*, (2021) 9 SCC 449 (India).
[22] *N. Narayanan v. Adjudicating Officer, SEBI*, (2013) 12 SCC 152 (India).

Unlike traditional legal claims involving contractual rights or statutory entitlements, CSR obligations are directed primarily toward corporate governance and regulatory compliance. As a result, individuals or communities affected by ineffective CSR initiatives may face procedural difficulties in initiating legal proceedings to challenge corporate actions.

Another challenge arises from the discretionary nature of CSR project selection. Companies retain significant autonomy in determining the specific projects or programs they wish to support within the categories outlined under Schedule VII of the Companies Act. This discretion makes it difficult to establish legal liability solely on the basis of dissatisfaction with CSR project outcomes.

Additionally, enforcement of CSR provisions is primarily undertaken by regulatory authorities such as the Ministry of Corporate Affairs rather than through direct judicial intervention. Courts generally become involved only when issues relating to corporate governance, fraud, or statutory non-compliance arise.

Therefore, while the CSR framework provides an important mechanism for promoting corporate accountability, practical challenges in litigation highlight the need for stronger regulatory oversight, improved disclosure practices, and enhanced stakeholder participation to ensure that CSR initiatives effectively contribute to social development.

7. Critical Evaluation: Why Misuse Persists

The introduction of mandatory Corporate Social Responsibility (CSR) provisions under the Companies Act, 2013 was intended to create a structured mechanism through which corporations could contribute to social and environmental development. While the statutory framework establishes clear financial obligations and reporting requirements, the persistence of misuse and ineffective utilization of CSR funds indicates that regulatory compliance alone is insufficient to achieve the intended objectives of CSR policy.

A critical evaluation of the CSR framework reveals that several systemic factors contribute to the continued misuse or misdirection of CSR resources. These factors include an excessive regulatory focus on financial expenditure rather than social impact, the fragmentation of enforcement mechanisms, limited integration of CSR within corporate strategy, and weak accountability toward stakeholders and beneficiaries. Together, these structural limitations create an environment in which companies may formally comply with statutory requirements while the substantive goals of CSR remain partially unfulfilled.[23]

Therefore, understanding why misuse persists requires a deeper examination of the structural weaknesses within the existing CSR governance model. Such an evaluation highlights the need for reforms that emphasize transparency, accountability, and long-term social impact.

7.1 Regulatory Focus on Quantitative Rather Than Qualitative Compliance

One of the primary reasons for the continued misuse of CSR funds is the regulatory emphasis on quantitative compliance rather than qualitative outcomes. The CSR provisions under Section 135 of the Companies Act, 2013 require eligible companies to allocate at least two percent of their average net profits toward CSR activities.[24] While this requirement ensures that companies commit financial

[23] Ministry of Corporate Affairs, *Report of the High Level Committee on Corporate Social Responsibility* (2019).
[24] Companies Act, No. 18 of 2013, § 135 (India).

resources to social initiatives, it does not necessarily guarantee that such expenditures generate meaningful or sustainable social impact.

In practice, many companies focus primarily on fulfilling the statutory spending requirement rather than evaluating the effectiveness of the projects they support. As long as the prescribed amount is spent and properly disclosed in corporate reports, the company may technically comply with legal requirements even if the social impact of the projects remains limited.

This emphasis on financial expenditure may encourage companies to prioritize short-term initiatives that allow them to meet statutory targets quickly. However, such initiatives may lack long-term sustainability or measurable community benefits. Consequently, the focus on quantitative compliance may inadvertently undermine the broader objectives of CSR legislation.

7.2 Fragmented Enforcement Architecture

Another significant factor contributing to the persistence of CSR misuse is the fragmented nature of the enforcement architecture. Responsibility for monitoring CSR compliance is primarily vested in the Ministry of Corporate Affairs, which relies largely on corporate disclosures contained in annual reports and other statutory filings.

However, the regulatory framework does not provide a comprehensive institutional mechanism dedicated exclusively to evaluating the performance and impact of CSR initiatives. Monitoring CSR compliance across thousands of companies presents considerable administrative challenges, and regulators may not always possess the resources necessary to conduct detailed assessments of CSR projects.

Furthermore, enforcement actions relating to CSR violations are relatively limited compared to other areas of corporate regulation such as financial reporting or securities law compliance. This fragmented enforcement structure may reduce the deterrent effect of regulatory oversight and allow certain companies to adopt minimal compliance strategies.

Judicial observations concerning corporate governance have repeatedly emphasized the importance of effective regulatory supervision. In *N. Narayanan v. Adjudicating Officer, SEBI*, the Supreme Court highlighted that robust enforcement mechanisms are essential for maintaining transparency and protecting stakeholder interests within corporate institutions.[25] Similar principles apply to the enforcement of CSR obligations.

7.3 Inadequate Integration of CSR into Corporate Strategy

Another key reason for the persistence of CSR misuse lies in the limited integration of CSR initiatives into broader corporate strategy. In many organizations, CSR activities are treated as peripheral obligations that operate independently from the company's core business objectives.

When CSR initiatives are implemented in isolation from corporate strategy, they may lack clear long-term goals, measurable performance indicators, and effective monitoring mechanisms. Projects may be selected based on short-term visibility or reputational considerations rather than on their potential to generate sustainable social impact.

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[25] *N. Narayanan v. Adjudicating Officer, SEBI*, (2013) 12 SCC 152 (India).

Integrating CSR into corporate strategy requires companies to adopt a holistic approach that aligns social initiatives with their operational capabilities, technological expertise, and long-term development objectives. Such integration can enable companies to design CSR programs that address social challenges more effectively while simultaneously strengthening corporate reputation and stakeholder trust.

Corporate governance jurisprudence has emphasized that responsible corporate management must consider the broader social implications of corporate activities. In *Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.*, the Supreme Court observed that corporate governance structures must operate in a manner that promotes transparency, accountability, and responsible decision-making.[26] These principles underscore the importance of integrating CSR into the broader governance framework of corporations.

8. Recommendations for Reform

While the statutory framework governing Corporate Social Responsibility (CSR) in India has introduced significant accountability mechanisms, persistent challenges relating to misuse and ineffective implementation indicate the need for further institutional reforms. The evolution of CSR regulation must therefore focus not only on mandatory expenditure requirements but also on strengthening monitoring systems, improving governance standards, and enhancing transparency in CSR implementation.

Reform initiatives should aim to ensure that CSR initiatives produce measurable social outcomes while maintaining corporate flexibility in project implementation. Strengthening regulatory oversight, improving auditing standards, and encouraging stakeholder engagement can significantly enhance the credibility and effectiveness of CSR governance.[27]

The following recommendations outline key policy measures that could address existing structural weaknesses within the CSR framework and promote responsible utilization of CSR resources.

8.1 Focus on Impact Metrics Rather Than Expenditure

One of the most important reforms required within the CSR framework is a shift from expenditure-based compliance to impact-based evaluation. The current regulatory approach primarily emphasizes whether companies have spent the prescribed percentage of profits on CSR activities. However, financial expenditure alone does not necessarily indicate that CSR initiatives have generated meaningful social benefits.

Regulatory authorities should therefore encourage companies to adopt standardized impact assessment mechanisms that measure the effectiveness of CSR projects in achieving their intended objectives. Such mechanisms may include indicators relating to community development outcomes, environmental sustainability, and long-term socio-economic improvements.

Recent amendments to the CSR Rules requiring impact assessments for large CSR projects represent an important step in this direction. Expanding these evaluation mechanisms to a broader

[26] *Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.*, (2021) 9 SCC 449 (India).
[27] Ministry of Corporate Affairs, *Report of the High Level Committee on Corporate Social Responsibility* (2019).

range of CSR initiatives could significantly enhance the quality and effectiveness of CSR spending.[28]

8.2 Specialized CSR Oversight Mechanism

Another important reform involves the establishment of a specialized institutional mechanism dedicated to monitoring CSR compliance and evaluating the effectiveness of CSR initiatives.
Currently, CSR compliance is largely monitored through corporate disclosures submitted to the Ministry of Corporate Affairs. While these disclosures promote transparency, the absence of a specialized monitoring body may limit the effectiveness of enforcement efforts.

A dedicated oversight authority or specialized unit within the regulatory framework could be tasked with evaluating CSR disclosures, conducting audits of major CSR projects, and identifying instances of misuse or misrepresentation. Such an institution could also provide guidance to companies regarding best practices in CSR governance.

The creation of specialized monitoring mechanisms would enhance regulatory efficiency and strengthen the deterrence against misuse of CSR funds.

8.3 Enhancing Auditor Mandate

Auditors play a crucial role in maintaining financial transparency and verifying corporate disclosures. However, within the current CSR framework, the role of auditors is largely limited to verifying whether the company has disclosed CSR expenditure in accordance with statutory requirements. Expanding the scope of the auditor's mandate could significantly improve accountability in CSR reporting.

Auditors should be encouraged to examine not only the financial allocation of CSR funds but also the authenticity of CSR projects and the reliability of impact assessments presented by companies. Such expanded responsibilities would require auditors to exercise greater professional diligence and ensure that CSR disclosures accurately reflect the nature and outcomes of corporate initiatives.

Judicial decisions have consistently emphasized the importance of professional integrity in auditing practices. In *Institute of Chartered Accountants of India v. Mukesh R. Shah*, the Supreme Court stressed that auditors must maintain high standards of professional responsibility in verifying corporate disclosures and safeguarding stakeholder interests.[29] Applying these principles to CSR auditing would strengthen transparency within the CSR governance framework.

8.4 Strengthening Governance Through Board Capacity Building

Effective governance of CSR initiatives requires active participation and informed decision-making by corporate boards and CSR committees. However, many board members may lack the expertise necessary to evaluate complex social development projects or assess the long-term impact of CSR initiatives.

Capacity-building programs for directors and CSR committee members could significantly improve the quality of CSR governance. Such programs may include training in areas such as

[28] Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021, r. 8(3).
[29] *Institute of Chartered Accountants of India v. Mukesh R. Shah*, (2007) 5 SCC 705 (India).

sustainable development, impact assessment methodologies, stakeholder engagement strategies, and ethical governance practices.

Strengthening board capacity would enable directors to exercise more effective oversight over CSR initiatives and ensure that corporate resources are utilized in a manner consistent with both statutory requirements and societal needs.

Judicial observations regarding corporate governance have emphasized the importance of responsible decision-making by corporate directors. In *Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.*, the Supreme Court highlighted that directors must act in good faith and exercise their powers with due care and diligence in managing corporate affairs.[30] These principles are equally relevant in guiding board-level decisions regarding CSR initiatives.

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8.5 Instituting Stakeholder Participation Platforms

Enhancing stakeholder participation is another critical step in improving the effectiveness and accountability of CSR programs. Communities and beneficiaries who are directly affected by CSR initiatives should have opportunities to contribute to the planning, implementation, and evaluation of CSR projects.

Establishing formal stakeholder participation platforms—such as community advisory committees, public consultation mechanisms, and grievance redressal systems—can significantly improve the responsiveness of CSR initiatives to local needs. These platforms would enable companies to obtain valuable feedback from beneficiaries and ensure that CSR projects address genuine developmental challenges.

Stakeholder engagement also promotes transparency and strengthens public trust in corporate initiatives. When communities actively participate in the design and evaluation of CSR programs, the likelihood of misuse or ineffective allocation of CSR funds is substantially reduced.

Therefore, institutionalizing stakeholder participation within CSR governance frameworks represents an essential reform for ensuring that corporate social responsibility initiatives achieve their intended objectives.

9. Conclusion

The examination of Corporate Social Responsibility (CSR) within the Indian legal framework reveals a complex interaction between statutory obligations, corporate governance practices, and broader societal expectations. The introduction of CSR provisions under the Companies Act, 2013 represents a significant shift in corporate regulation by formally integrating social responsibility into corporate governance. Through Section 135 and the accompanying CSR Rules, the law seeks to ensure that companies contribute a portion of their financial resources toward social development and environmental sustainability.

However, the analysis undertaken in this chapter demonstrates that the existence of statutory obligations alone does not automatically guarantee effective or ethical implementation of CSR initiatives. Various forms of misuse—including misclassification of activities, diversion of funds to

[30] *Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.*, (2021) 9 SCC 449 (India).

related parties, inflated project costs, and the selection of projects with limited social value—illustrate how CSR expenditure may sometimes prioritize regulatory compliance over meaningful community impact. These practices weaken the credibility of CSR initiatives and diminish their potential contribution to sustainable development.

The chapter further highlights that several regulatory and governance gaps contribute to the persistence of such misuse. Limitations in enforcement mechanisms, lack of independent oversight infrastructure, weak auditor accountability, and interpretative ambiguities in Schedule VII collectively create an environment in which companies may technically comply with statutory requirements while failing to achieve substantive social outcomes. In addition, governance failures—such as inadequate board oversight, deficient internal control systems, limited stakeholder engagement, and ethical shortcomings at leadership levels—further exacerbate the risk of ineffective CSR implementation.

Judicial interpretations relating to corporate governance also provide important insights into the broader principles that should guide CSR implementation. Courts have repeatedly emphasized the fiduciary duties of directors, the importance of transparency in corporate disclosures, and the necessity of ethical decision-making within corporate institutions. In *N. Narayanan v. Adjudicating Officer, SEBI*, the Supreme Court underscored that corporate officials must act with honesty and integrity in managing corporate affairs. Similarly, in *Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.*, the Court highlighted the importance of fairness, accountability, and good governance in corporate decision-making. These principles reinforce the expectation that CSR initiatives should be implemented with genuine commitment to societal welfare rather than mere formal compliance.

The critical evaluation presented in this chapter further demonstrates that the persistence of CSR misuse is largely attributable to systemic issues within the regulatory framework. The current model places significant emphasis on quantitative expenditure requirements while comparatively less attention is given to qualitative evaluation of social impact. Moreover, fragmented enforcement mechanisms and limited stakeholder participation reduce the effectiveness of monitoring processes. These structural limitations underscore the need for a more comprehensive governance framework that emphasizes transparency, accountability, and measurable social outcomes.

In response to these challenges, several reform-oriented recommendations have been proposed, including the adoption of impact-based evaluation metrics, the establishment of specialized oversight mechanisms, expansion of the auditor's mandate in CSR reporting, capacity building for corporate boards, and the institutionalization of stakeholder participation platforms. These reforms aim to strengthen the credibility and effectiveness of CSR governance by ensuring that corporate contributions produce tangible and sustainable social benefits.

Overall, the analysis suggests that CSR should not be viewed merely as a statutory spending obligation but as an integral component of responsible corporate governance. Achieving the true objectives of CSR requires a collaborative approach involving regulatory authorities, corporate leaders, auditors, civil society organizations, and community stakeholders. By strengthening governance mechanisms and promoting ethical corporate conduct, the CSR framework can play a transformative role in advancing inclusive and sustainable development in India.

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CHAPTER 2: INTRODUCTION TO CSR

Corporate Social Responsibility (CSR) has emerged as an important dimension of corporate governance in modern economies. Traditionally, the primary objective of business organizations was understood to be the maximization of shareholder value. However, with the increasing influence of globalization, social awareness, and environmental concerns, the role of corporations has gradually expanded beyond mere profit generation. Contemporary corporate governance frameworks recognize that companies must operate in a manner that balances economic objectives with social and environmental responsibilities.

In India, the concept of CSR has undergone significant transformation over time. What began as voluntary philanthropic activities undertaken by industrial houses has gradually evolved into a structured legal obligation under corporate law. The introduction of statutory CSR provisions through the Companies Act, 2013 marked a major milestone in this evolution, making India one of the first countries in the world to mandate corporate spending on social responsibility initiatives.[31]

The development of CSR in India has been influenced by historical traditions of philanthropy, international developments in corporate governance, and policy initiatives undertaken by the government to promote responsible corporate conduct. Understanding the evolution of CSR is therefore essential for appreciating the broader regulatory framework and the objectives underlying CSR legislation.

2.1 Evolution of Corporate Social Responsibility in India

The evolution of Corporate Social Responsibility in India reflects a gradual shift from voluntary philanthropy toward structured corporate accountability. Historically, Indian businesses often engaged in charitable activities motivated by ethical, cultural, and religious values. Over time, the growing scale of corporate operations and increasing public expectations led to greater emphasis on the social obligations of corporations.

In the contemporary context, CSR represents a multidimensional concept encompassing corporate ethics, environmental sustainability, community development, and responsible governance practices. The transformation of CSR in India has been shaped by both domestic policy initiatives and global developments in corporate governance and sustainable development.

2.1.1 Pre-Regulatory CSR in India

Before the introduction of statutory CSR provisions, social responsibility initiatives undertaken by corporations in India were largely voluntary in nature. Many prominent industrial houses, particularly during the early decades of the twentieth century, engaged in philanthropic activities aimed at supporting education, healthcare, and community welfare.

Industrial leaders such as Jamsetji Tata and other pioneering entrepreneurs played an important role in establishing educational institutions, hospitals, and public infrastructure through private philanthropic efforts. These initiatives were often motivated by ethical considerations and a belief that business enterprises had a moral obligation to contribute to the welfare of society.

[31] Companies Act, 2013, § 135 (India).

However, despite these philanthropic traditions, CSR activities during this period were largely unregulated and lacked a standardized framework for implementation or evaluation. Companies had considerable discretion in determining the nature and extent of their social contributions. While some corporations demonstrated strong commitment to social welfare, others devoted relatively limited resources to such initiatives.

As corporate activities expanded and economic liberalization accelerated in the late twentieth century, the limitations of purely voluntary CSR initiatives became increasingly apparent.
Policymakers and civil society organizations began advocating for more structured mechanisms to encourage responsible corporate behavior and ensure greater accountability in corporate engagement with social issues.

2.1.2 Global Influences on Indian CSR

The evolution of CSR in India has also been influenced significantly by international developments in corporate governance and sustainable development. Global discussions regarding corporate accountability, environmental protection, and ethical business practices have shaped the expectations placed upon corporations operating within both developed and emerging economies.

International frameworks such as the United Nations Global Compact, the Organisation for Economic Co-operation and Development (OECD) guidelines on multinational enterprises, and various sustainability reporting standards have encouraged corporations to adopt socially responsible business practices. These global initiatives emphasize principles relating to human rights protection, environmental sustainability, anti-corruption measures, and ethical corporate conduct.[32]

Indian companies, particularly those operating in global markets, increasingly began aligning their business practices with these international standards. Investors, consumers, and international regulatory bodies also started emphasizing corporate transparency and sustainable development practices. Consequently, CSR gradually evolved from being a voluntary philanthropic practice to an integral component of corporate governance and risk management.

The influence of global norms and sustainability standards played an important role in shaping India's regulatory approach toward CSR. Policymakers recognized that formalizing CSR obligations could enhance corporate accountability while also promoting inclusive economic development.

2.1.3 Early Policy Initiatives

Prior to the enactment of statutory CSR provisions under the Companies Act, 2013, the Government of India introduced several policy initiatives aimed at encouraging responsible corporate conduct. These initiatives were primarily designed to promote voluntary CSR practices while creating awareness regarding the social responsibilities of business enterprises.

One of the earliest policy measures in this regard was the issuance of voluntary guidelines on CSR by the Ministry of Corporate Affairs. These guidelines encouraged companies to integrate social, environmental, and ethical considerations into their business operations. The guidelines

[32] Companies Act, 2013, sch. VII (India).

emphasized that corporate responsibility should extend beyond legal compliance and should contribute to sustainable development and inclusive growth.[33]

Subsequent policy initiatives further emphasized the importance of transparency and accountability in CSR reporting. Companies were encouraged to disclose information regarding their CSR initiatives and to adopt sustainable business practices aligned with national development priorities.

These early policy efforts played an important role in preparing the institutional foundation for the introduction of mandatory CSR provisions in the Companies Act, 2013. By promoting awareness and encouraging voluntary adoption of CSR practices, the government laid the groundwork for a more structured regulatory framework aimed at strengthening corporate participation in social development.

2.2 Concept and Objectives of CSR Under the Companies Act, 2013

The corporate landscape in India underwent a significant transformation with the enactment of the **Companies Act, 2013**—a comprehensive statute designed to modernize corporate governance, protect investor interests, and align corporate conduct with socio-economic expectations.

2.2.1 CSR as a Legislative Innovation

Section 135 of the Companies Act, 2013 introduced the most notable statutory CSR regime in the world at the time of its enactment. It mandated that companies meeting prescribed financial criteria allocate not less than **2% of their average net profits** of the preceding three years towards CSR activities.[34] For the first time, compliance with social responsibility became a legal obligation for specified corporate entities in India.

This statutory thrust signified a shift from voluntary philanthropy to **regulated corporate citizenship.**

2.2.2 Defining CSR Under the Companies Act

Unlike Western models of CSR that emphasize voluntary initiatives and disclosure, Indian law defines CSR in terms of **specific activities listed under Schedule VII** of the Act. These include:

- Poverty eradication
- Promotion of education
- Gender equality and women's empowerment
- Environmental sustainability
- Rural development projects
- Contribution to government funds such as the Prime Minister's National Relief Fund
- Disaster management relief and rehabilitation

[33] Ministry of Corporate Affairs, Government of India, **Corporate Social Responsibility Voluntary Guidelines 2009** (2009).
[34] Companies (Corporate Social Responsibility Policy) Rules, 2014, r. 2(c) (India).

By specifying permissible activities, the statute sought to guide corporate initiatives toward areas of national priority.[35]

2.2.3 Objectives of Mandated CSR

The CSR framework under the Companies Act reflects distinct objectives:

a. Social and Developmental Justice:
The law acknowledges that corporations derive economic value from social infrastructure and public goods. Therefore, reinvestment in societal welfare becomes a normative expectation.

b. Inclusive Growth:
By directing corporate contributions toward education, health, gender equality, and environmental protection, the law aims to support inclusive and sustainable development.

c. Harmonization of Corporate Goals and Public Policy:
CSR aligns corporate resources with national policy priorities, reducing dependence on government welfare schemes and engaging the private sector in nation-building.

d. Enhanced Corporate Governance:
Mandatory CSR helps integrate ethical and long-term socio-economic considerations into corporate decision-making, expanding the fiduciary horizon beyond shareholder wealth maximization.

2.3 Background of CSR Mandatory Regime

The introduction of mandatory Corporate Social Responsibility (CSR) provisions under the Companies Act, 2013 did not emerge in isolation but was the result of a gradual policy evolution within India's corporate regulatory framework. Prior to the enactment of statutory CSR obligations, corporate philanthropy and community engagement activities were largely voluntary in nature and driven by corporate values, reputational concerns, and stakeholder expectations. Over time, however, policymakers recognized the potential role of corporate entities in contributing to national development goals, particularly in a rapidly growing economy where private sector participation could supplement governmental welfare initiatives.

The mandatory CSR regime therefore reflects a policy attempt to formalize corporate contributions toward social development. The legislature sought to integrate corporate responsibility within the broader framework of corporate governance by requiring eligible companies to allocate a portion of their profits toward specified social initiatives. By embedding CSR within statutory law, India aimed to create a structured and accountable mechanism through which corporate resources could support social welfare objectives while maintaining transparency and oversight.

The background of this regulatory framework is closely connected with broader developments in corporate governance reforms that occurred during the early twenty-first century. Policymakers increasingly emphasized ethical corporate conduct, responsible management practices, and accountability to stakeholders. These reforms were influenced by both domestic governance challenges and international developments in corporate responsibility standards. Consequently, the

[35] Ministry of Corporate Affairs, Government of India, **Report of the High Level Committee on Corporate Social Responsibility** (2019).

mandatory CSR framework represents an important step toward aligning corporate regulation with evolving expectations regarding the social role of business enterprises.

Legislative Genesis

The legislative origins of India's CSR regime can be traced to policy initiatives undertaken by the Government of India and the Ministry of Corporate Affairs in the late 2000s. One of the earliest significant developments was the issuance of the Corporate Social Responsibility Voluntary Guidelines in 2009, which encouraged companies to adopt responsible business practices and undertake community development initiatives.[36] These guidelines, though non-binding, laid the conceptual foundation for subsequent legislative measures by highlighting the importance of integrating social responsibility into corporate governance structures.

Subsequently, the Ministry of Corporate Affairs introduced the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business in 2011.[37] These guidelines expanded the scope of corporate responsibility by emphasizing principles such as ethical governance, environmental sustainability, employee welfare, and stakeholder engagement. While still voluntary in nature, these policy instruments reflected the growing recognition that corporate entities should contribute actively to social and economic development.

The transition from voluntary frameworks to statutory obligations occurred during the legislative process that culminated in the enactment of the Companies Act, 2013. Section 135 of the Act introduced mandatory CSR requirements for companies that meet certain financial thresholds relating to net worth, turnover, or net profits.[38]The provision requires such companies to constitute a CSR Committee of the Board and to spend at least two percent of their average net profits from the preceding three financial years on CSR activities. The legislative intent behind this provision was to institutionalize corporate contributions toward societal development while ensuring corporate accountability through disclosure and reporting mechanisms.

Judicial pronouncements concerning corporate governance have also emphasized the importance of ethical conduct and accountability within corporate management. In *N. Narayanan v. Adjudicating Officer, SEBI*, the Supreme Court observed that corporate governance requires transparency, honesty, and adherence to ethical standards in corporate operations.[39] Such judicial observations reinforce the broader policy rationale underlying the CSR framework by emphasizing that corporate entities must operate responsibly within the social and economic environment in which they function.

2.3.2 CSR Rules and Administrative Expansion

Following the enactment of Section 135 of the Companies Act, 2013, the regulatory framework governing CSR was further developed through subordinate legislation and administrative guidelines. The Companies (Corporate Social Responsibility Policy) Rules, 2014 were introduced to provide detailed guidance regarding the implementation of CSR obligations.[40] These rules outline

[36] Ministry of Corporate Affairs, Government of India, **Corporate Social Responsibility Voluntary Guidelines** (2009).
[37] Ministry of Corporate Affairs, Government of India, **National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business** (2011).
[38] Companies Act, 2013, § 135 (India).
[39] *N. Narayanan v. Adjudicating Officer, SEBI*, (2013) 12 SCC 152 (India).
[40] Companies (Corporate Social Responsibility Policy) Rules, 2014 (India).

the procedures for the constitution of CSR Committees, formulation of CSR policies, identification of eligible projects, and disclosure requirements relating to CSR expenditure.

The CSR Rules also clarify the scope of permissible CSR activities by referencing Schedule VII of the Companies Act, which includes a broad range of social initiatives such as poverty alleviation, promotion of education, environmental sustainability, gender equality, rural development, and disaster relief efforts. The illustrative nature of Schedule VII allows companies a certain degree of flexibility in designing CSR projects while ensuring that such initiatives contribute to recognized social objectives.

Over time, the regulatory framework governing CSR has been expanded through amendments and administrative circulars issued by the Ministry of Corporate Affairs. These developments include the introduction of stricter reporting requirements, clarification regarding the treatment of unspent CSR funds, and the establishment of mechanisms for monitoring CSR compliance. The Companies (Amendment) Act, 2019 further strengthened the enforcement framework by introducing provisions relating to the transfer of unspent CSR funds to specified government funds or designated accounts for future CSR expenditure.[41]

This administrative expansion reflects the evolving nature of the CSR regime in India. While the initial legislative framework focused primarily on establishing mandatory spending requirements, subsequent regulatory developments have sought to enhance transparency, accountability, and effectiveness in the implementation of CSR initiatives. Through these measures, the regulatory framework continues to evolve in response to practical challenges and policy considerations associated with corporate participation in social development.

2.4 Statement of the Problem: Misuse of CSR Funds

The introduction of Corporate Social Responsibility (CSR) under the Companies Act, 2013 was intended to ensure that corporate entities contribute meaningfully to social development and environmental sustainability. Section 135 of the Act requires certain companies to allocate at least two percent of their average net profits from the preceding three financial years toward CSR activities listed in Schedule VII.[42]While this statutory framework represents a significant innovation in corporate governance, practical implementation has revealed several structural and regulatory challenges. One of the most critical concerns relates to the misuse or ineffective utilization of CSR funds.

In practice, certain companies have adopted strategies that prioritize technical compliance with the law rather than genuine social impact. These practices include the misclassification of ordinary business activities as CSR initiatives, diversion of funds to related organizations, inflation of project costs, and exploitation of regulatory ambiguities. Such practices undermine the fundamental objectives of CSR by transforming what should be a mechanism for social welfare into a procedural exercise aimed primarily at fulfilling statutory requirements.

Furthermore, limitations in monitoring and enforcement mechanisms have allowed some instances of misuse to remain undetected or insufficiently addressed. Although the regulatory framework includes disclosure obligations and reporting requirements, the absence of robust independent oversight can reduce the effectiveness of these safeguards. Consequently, the misuse of

[41] Companies (Amendment) Act, 2019, No. 22 of 2019, § 21 (India).
[42] Companies Act, 2013, § 135 (India).

CSR funds raises important questions regarding the adequacy of the existing regulatory structure and the need for stronger accountability mechanisms within the CSR governance framework.

Misclassification and Surface Compliance

One of the most common concerns associated with CSR implementation is the misclassification of activities that do not genuinely fall within the scope of CSR. Companies may categorize routine business activities, marketing initiatives, or employee welfare programs as CSR projects in order to demonstrate compliance with statutory spending requirements. Such practices create a form of —surface compliance,‖ where companies technically satisfy the legal mandate while failing to contribute meaningfully to social development.

The Companies (Corporate Social Responsibility Policy) Rules, 2014 clarify that CSR activities should not include initiatives undertaken in the normal course of business operations.[43] However, the broad language used in Schedule VII has occasionally allowed companies to interpret CSR categories expansively. This interpretative flexibility, although intended to provide operational freedom, may sometimes facilitate superficial compliance practices that dilute the social purpose of CSR initiatives.

Diversion to Related Entities

Another significant issue in the CSR framework concerns the diversion of CSR funds to organizations that are closely associated with the corporate entity or its promoters. In some instances, companies have implemented CSR projects through trusts, societies, or non-governmental organizations that are indirectly controlled by corporate management or affiliated individuals. While the CSR Rules permit companies to undertake projects through registered implementing agencies, such arrangements may create potential conflicts of interest if adequate safeguards are not maintained.[44]

The diversion of CSR resources to related entities raises concerns regarding transparency and accountability in the use of funds intended for public welfare. Without strict disclosure and independent monitoring mechanisms, it may become difficult to ensure that CSR expenditures are directed toward genuine community development activities rather than organizational interests.

Inflated Project Costs

Inflation of project costs represents another challenge within the CSR regulatory framework. In certain cases, CSR projects may be reported at values significantly higher than their actual implementation cost. Such practices may occur due to inadequate financial scrutiny, absence of standardized evaluation mechanisms, or reliance on implementing agencies without rigorous financial oversight.

Inflated project costs can significantly reduce the real social impact of CSR initiatives because a portion of the allocated funds may be absorbed by administrative expenses, intermediary charges, or inefficient project management structures. To address this concern, the regulatory framework emphasizes the role of the CSR Committee and board of directors in monitoring the implementation of CSR activities and ensuring responsible utilization of funds.[45]

[43] Companies (Corporate Social Responsibility Policy) Rules, 2014, r. 2(d) (India).
[44] Id. r. 4.
[45] Companies Act, 2013, § 135(3) (India).

Regulatory Exploitation of Ambiguities

The regulatory framework governing CSR contains certain interpretative ambiguities that may be exploited by companies seeking to minimize substantive compliance obligations. For example, the illustrative nature of Schedule VII allows a broad interpretation of eligible CSR activities. While this flexibility enables companies to design projects suited to local needs, it may also create opportunities for expansive interpretations that blur the distinction between genuine social initiatives and corporate promotional activities.

Additionally, earlier stages of the CSR framework relied heavily on disclosure-based compliance, where companies were required to report CSR expenditures and provide explanations for any unspent amounts. Although subsequent legislative amendments have introduced stricter provisions regarding unspent CSR funds, interpretative ambiguities within the framework may still create regulatory challenges.[46] These ambiguities highlight the need for clearer regulatory guidelines and stronger monitoring mechanisms.

Weak Enforcement Mechanisms

Another important issue contributing to the misuse of CSR funds is the relatively limited enforcement capacity associated with CSR compliance monitoring. Although the Companies Act, 2013 requires companies to disclose CSR activities in their annual reports, effective enforcement depends on regulatory oversight by authorities such as the Ministry of Corporate Affairs and other relevant bodies.

Weak enforcement mechanisms may result in limited scrutiny of CSR disclosures, thereby allowing certain irregularities to remain unnoticed. Corporate governance jurisprudence has consistently emphasized the importance of transparency and accountability in corporate management. In *N. Narayanan v. Adjudicating Officer, SEBI*, the Supreme Court highlighted that corporate officers must adhere to high standards of integrity and transparency in corporate affairs.[47] Such judicial observations reinforce the principle that CSR compliance should not merely satisfy statutory formalities but should reflect genuine commitment to ethical corporate governance.

Strengthening enforcement mechanisms through improved monitoring, independent evaluation, and stricter disclosure requirements could therefore play an important role in addressing misuse within the CSR framework. Effective enforcement would ensure that CSR initiatives achieve their intended purpose of promoting social welfare and sustainable development rather than serving as symbolic compliance mechanisms.

2.5 Research Objectives

The introduction of mandatory Corporate Social Responsibility (CSR) under the Companies Act, 2013 marked a significant transformation in the Indian corporate governance framework. By requiring certain companies to allocate a portion of their profits toward social and developmental activities, the legislation sought to institutionalize corporate participation in national development efforts.[48] However, practical implementation of CSR provisions has raised several concerns relating to transparency, accountability, and the effective utilization of CSR funds. In light of these

[46] Companies (Amendment) Act, 2019, No. 22 of 2019, § 21 (India).
[47] *N. Narayanan v. Adjudicating Officer, SEBI*, (2013) 12 SCC 152 (India).
[48] Companies Act, 2013, § 135 (India).

concerns, the present research seeks to critically examine the legal and governance dimensions of CSR implementation in India.

The primary objective of this study is to analyze the statutory framework governing CSR under the Companies Act, 2013 and the accompanying rules, with particular emphasis on identifying structural weaknesses that may enable misuse or ineffective utilization of CSR resources. The research aims to evaluate whether the existing legal provisions adequately ensure accountability and transparency in CSR implementation or whether regulatory reforms are required to strengthen oversight mechanisms.

Another important objective of the study is to examine the various forms in which CSR funds may be misused or inefficiently deployed. This includes analyzing practices such as misclassification of business activities as CSR initiatives, diversion of CSR funds to affiliated organizations, inflation of project costs, and exploitation of interpretative ambiguities within the CSR regulatory framework. By examining these practices, the research aims to understand the practical challenges faced in ensuring the integrity of CSR implementation.

The study also seeks to assess the role of corporate governance institutions in supervising CSR activities. In particular, it evaluates the responsibilities of the board of directors and the CSR Committee in ensuring that CSR initiatives align with the objectives of sustainable development and community welfare. Judicial observations relating to corporate governance emphasize that corporate management must operate with integrity and transparency. For instance, the Supreme Court in *N. Narayanan v. Adjudicating Officer, SEBI* highlighted the importance of honesty and ethical conduct in corporate governance practices.[49] Such principles are directly relevant to the effective functioning of CSR frameworks.

Finally, the research aims to propose recommendations for strengthening the regulatory and governance framework governing CSR implementation in India. These recommendations may include improved monitoring mechanisms, clearer regulatory guidelines, enhanced disclosure requirements, and stronger accountability measures for corporate entities and implementing agencies. Through these objectives, the study intends to contribute to the ongoing discourse on improving the effectiveness and credibility of CSR governance in India.

2.6 Research Hypothesis

A research hypothesis represents a tentative proposition that the study seeks to examine through legal analysis and evaluation of existing regulatory frameworks. In the context of Corporate Social Responsibility (CSR) under the Companies Act, 2013, the formulation of hypotheses enables the researcher to critically assess whether the legislative objectives of CSR are being effectively achieved in practice.

The primary hypothesis of this study is that although the statutory introduction of CSR obligations under the Companies Act, 2013 was intended to promote corporate participation in social development, certain structural limitations within the regulatory framework may permit misuse or inefficient utilization of CSR funds. These limitations may arise from interpretative ambiguities in statutory provisions, inadequate monitoring mechanisms, and the absence of comprehensive impact assessment systems.

[49] *N. Narayanan v. Adjudicating Officer, SEBI*, (2013) 12 SCC 152 (India).

A secondary hypothesis is that effective implementation of CSR initiatives depends not only on statutory spending requirements but also on robust corporate governance practices within companies. The presence of active board oversight, transparent disclosure practices, and independent monitoring mechanisms may significantly enhance the credibility and effectiveness of CSR initiatives. Conversely, weak governance structures may increase the likelihood of superficial compliance or misuse of CSR funds.

Another related hypothesis examined in this study is that strengthening regulatory supervision and clarifying the scope of permissible CSR activities could reduce the potential for misuse of CSR resources. Legislative amendments and administrative guidelines issued by the Ministry of Corporate Affairs have attempted to address some of these challenges, including provisions relating to the treatment of unspent CSR funds and improved disclosure requirements.[50] However, further reforms may still be necessary to ensure that CSR initiatives produce measurable social outcomes.

Through the evaluation of these hypotheses, the research seeks to determine whether the current CSR regulatory framework effectively balances corporate autonomy with accountability for social responsibility. The findings of the study may provide insights into the need for regulatory reforms and governance improvements that could enhance the effectiveness of CSR as a mechanism for sustainable development in India.

2.7 Scope of the Study

This research will focus on:

- Legal analysis of CSR provisions under the Companies Act, 2013 and related rules;
- Regulatory frameworks, including amendments up to 2026;
- Corporate governance dimensions influencing CSR implementation;
- Judicial pronouncements and regulatory interpretations relevant to CSR accountability;
- Comparative policy perspectives where appropriate.

The study will not cover CSR practices in non-corporate entities (such as sole proprietorships, partnerships), nor will it focus on voluntary CSR initiatives by companies not subject to statutory CSR obligations.

2.8 Research Methodology (Doctrinal)

The research adopts a **doctrinal methodology**, emphasizing doctrinal legal analysis grounded in primary and secondary legal sources.

1.8.1 Primary Sources

- Companies Act, 2013 (Sections 134, 135, Schedule VII);
- Companies (CSR Policy) Rules, 2014 and its subsequent amendments;
- Judicial pronouncements interpreting corporate governance duties;
- Regulatory notifications, circulars, and official reports issued by the Ministry of Corporate Affairs.

2.8.2 Secondary Sources

[50] Companies (Amendment) Act, 2019, No. 22 of 2019, § 21 (India).

- Scholarly books and peer-reviewed journal articles on corporate law, CSR, and governance;
- Government and industry reports on CSR implementation and challenges;
- Reports published by NGOs and corporate governance think-tanks.

2.8.3 Methodological Approach

The research will use **interpretive and comparative analysis**, critically evaluating statutory text, administrative rules, regulatory practices, and judicial reasoning. It will identify gaps between legislative intent and practical implementation, and will develop normative recommendations based on best practices and doctrinal insights.

CHAPTER 3: LEGAL FRAMEWORK GOVERNING CORPORATE SOCIAL RESPONSIBILITY IN INDIA

Corporate Social Responsibility (CSR) in India has evolved from a voluntary philanthropic practice to a structured statutory obligation under corporate law. The legal framework governing CSR was formally introduced through the Companies Act, 2013, which established mandatory responsibilities for certain categories of companies to contribute toward social and developmental initiatives. This legislative initiative represents a significant development in corporate governance, reflecting the recognition that corporate entities must participate actively in promoting sustainable development and social welfare.

The CSR framework in India consists of a combination of statutory provisions, subordinate legislation, and administrative guidelines issued by the Ministry of Corporate Affairs (MCA). These regulations establish detailed mechanisms relating to CSR policy formulation, project implementation, disclosure requirements, and oversight responsibilities of corporate boards. The framework aims to ensure that corporate resources are utilized effectively for public benefit while maintaining transparency and accountability in the management of CSR funds.[51]

Despite the progressive nature of the CSR regime, practical implementation has revealed several challenges relating to compliance, monitoring, and enforcement. Concerns regarding misuse of CSR funds, superficial compliance practices, and interpretative ambiguities within the regulatory framework have raised important questions about the effectiveness of the existing legal structure.
Therefore, a comprehensive understanding of the legal framework governing CSR is necessary in order to evaluate its strengths, limitations, and future prospects.

3.2 Section 135 of the Companies Act, 2013

Section 135 of the Companies Act, 2013 forms the cornerstone of the CSR legal regime in India. The provision mandates certain companies to allocate a portion of their profits toward CSR activities. Specifically, companies meeting any of the following thresholds must comply with CSR requirements:

- Net worth of ₹500 crore or more, or
- Turnover of ₹1000 crore or more, or
- Net profit of ₹5 crore or more during the preceding financial year.

Companies satisfying these criteria must constitute a **Corporate Social Responsibility Committee** of the Board consisting of at least three directors, including at least one independent director where applicable. The CSR Committee is responsible for formulating a CSR policy, recommending expenditure, and monitoring implementation.

The statute requires companies to spend **at least 2% of their average net profits of the preceding three financial years** on CSR activities.[52] These activities must fall within the scope of **Schedule VII** of the Companies Act, which includes sectors such as education, environmental sustainability, poverty eradication, and gender equality.

[51] Companies Act, 2013 (India).
[52]

Although the law prescribes expenditure targets, it initially followed a ―comply or explain‖ model. Companies that failed to meet the CSR spending requirement were required to disclose reasons for such failure in the Board's report. This approach was intended to encourage transparency while allowing some flexibility in implementation.

However, critics argue that the early CSR framework relied heavily on self-reporting and lacked robust mechanisms to verify the actual impact of CSR activities.

3.3 Companies (CSR Policy) Rules, 2014

To operationalize Section 135, the Government introduced the **Companies (Corporate Social Responsibility Policy) Rules, 2014**. These rules provide procedural clarity regarding the implementation and monitoring of CSR initiatives.

The rules define CSR activities and specify that they must not be undertaken in the normal course of business. They also outline the responsibilities of the CSR Committee, including the formulation of a CSR policy that identifies approved projects and mechanisms for execution.[53]

Another important aspect of the 2014 Rules is the recognition of **implementing agencies**. Companies may carry out CSR activities through registered trusts, societies, or not-for-profit organizations with a proven track record. This provision allows corporations to collaborate with specialized organizations capable of implementing development projects effectively.

Furthermore, companies are required to disclose CSR policies and expenditures in their annual Board reports and corporate websites. These disclosure requirements were introduced to promote transparency and accountability.

Despite these provisions, the initial rules were criticized for leaving substantial interpretative flexibility, which enabled companies to classify certain promotional or branding activities as CSR initiatives.

3.4 Amendments Introduced in 2019

The **Companies (Amendment) Act, 2019** significantly strengthened the CSR compliance framework by introducing stricter financial accountability. One of the key changes involved the treatment of unspent CSR funds.

Under the amended provisions, companies must transfer unspent CSR amounts related to ongoing projects to a special account known as the **"Unspent CSR Account."** The funds must be utilized within three financial years; otherwise, they must be transferred to a fund specified in Schedule VII.[54]

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[53] Companies (Corporate Social Responsibility Policy) Rules, 2014, r. 4.

[54] Companies (Amendment) Act, 2019, § 21.

For unspent amounts not linked to ongoing projects, the law requires immediate transfer to government-specified funds such as the Prime Minister's National Relief Fund.

The amendment also introduced penalties for non-compliance. Companies and officers responsible for failure to comply with CSR provisions may be subjected to financial penalties under Section 135(7). This marked a shift from the earlier disclosure-based model toward a more enforcement-oriented regime.

While the amendment aimed to prevent companies from retaining unused CSR funds, critics argue that mandatory transfers to government funds may dilute the original concept of corporate-driven social initiatives.

3.5 CSR Policy Amendment Rules, 2021

Further reforms were introduced through the **Companies (CSR Policy) Amendment Rules, 2021**, which sought to strengthen accountability and improve the monitoring of CSR projects.

One major reform was the introduction of **mandatory registration of implementing agencies** with the Ministry of Corporate Affairs. Organizations implementing CSR projects must obtain a unique registration number through Form CSR-1.[55] This measure was intended to prevent misuse of CSR funds by unverified entities.

Another important development was the introduction of **impact assessment requirements** for companies undertaking large CSR projects. Companies with significant CSR expenditure must conduct independent impact assessments for projects exceeding specified financial thresholds. This step reflects a shift from mere financial compliance toward evaluating the actual outcomes of CSR activities.

The 2021 amendments also clarified the concept of **ongoing projects** and imposed limits on administrative overheads. Administrative expenses relating to CSR implementation cannot exceed five percent of the total CSR expenditure.

These reforms collectively aim to enhance transparency, strengthen project monitoring, and reduce the risk of financial misappropriation.

3.6 Role of the Ministry of Corporate Affairs

The **Ministry of Corporate Affairs (MCA)** acts as the principal regulatory authority responsible for overseeing CSR compliance in India. The MCA issues notifications, circulars, and clarifications interpreting CSR provisions under the Companies Act.

The Ministry also administers the **MCA21 electronic governance platform**, which allows companies to file statutory reports and CSR disclosures digitally. Through this system, regulatory authorities can review CSR spending patterns and identify irregularities.

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[55] Companies (CSR Policy) Amendment Rules, 2021, r. 4(2).

Additionally, the MCA collaborates with institutions such as the **National CSR Portal** to collect data on CSR initiatives across the country. These efforts aim to promote transparency and provide a centralized database of corporate social initiatives.

However, despite these institutional mechanisms, regulatory monitoring remains largely dependent on self-reported disclosures submitted by companies.

3.7 Compliance Mechanisms and Enforcement Challenges

The CSR legal framework relies on a combination of **corporate governance mechanisms, statutory reporting requirements, and regulatory oversight**. Boards of directors play a crucial role in approving CSR policies and ensuring proper implementation. The CSR Committee is expected to monitor project progress and evaluate outcomes.

Nevertheless, practical challenges undermine the effectiveness of enforcement. First, the regulatory system largely depends on disclosures provided by companies, which may not always reflect ground realities. Second, the absence of comprehensive auditing mechanisms for CSR projects creates opportunities for misreporting and financial diversion.

Another challenge relates to the broad interpretation of activities listed under Schedule VII. Companies sometimes classify marketing-oriented initiatives as CSR, thereby blurring the distinction between corporate philanthropy and business promotion.

Judicial scrutiny of CSR compliance has also been limited, and courts have rarely addressed disputes relating to CSR mismanagement. As a result, regulatory enforcement primarily rests with administrative authorities rather than judicial oversight.

3.8 Critical Evaluation

The statutory CSR framework in India represents a pioneering experiment in integrating social responsibility within corporate law. By mandating CSR expenditure, the legislature sought to mobilize corporate resources for social development. However, the effectiveness of the regime depends on the quality of governance and regulatory enforcement.

While the amendments introduced in 2019 and 2021 strengthened accountability mechanisms, several structural issues remain unresolved. The heavy reliance on corporate disclosures limits independent verification of CSR projects. Additionally, enforcement agencies often face resource constraints that hinder thorough monitoring.

Therefore, the future success of CSR regulation requires stronger audit mechanisms, enhanced transparency, and more proactive regulatory oversight. Without such reforms, the risk of misuse or superficial compliance may continue to undermine the intended social impact of CSR initiatives.

CHAPTER 4: FORMS AND PATTERNS OF MISUSE OF CSR FUNDS IN THE CORPORATE SECTOR

Corporate Social Responsibility (CSR) under the Companies Act, 2013 was introduced with the objective of ensuring that corporate entities contribute meaningfully to social development and sustainable economic growth. By mandating qualifying companies to allocate a portion of their profits toward CSR initiatives, the legislature intended to encourage corporate participation in addressing social challenges such as poverty, education, healthcare, and environmental protection. [56]However, the practical implementation of CSR provisions has revealed several challenges, including instances where CSR funds are not utilized in a manner consistent with the objectives of the legislation.

Misuse or ineffective deployment of CSR resources may occur through various mechanisms such as diversion of funds, related-party transactions, use of shell organizations, and financial misreporting. These practices may not always constitute direct violations of statutory provisions but often exploit regulatory gaps or weaknesses in monitoring systems. Such practices undermine the credibility of CSR initiatives and weaken the broader objective of promoting responsible corporate governance.

This chapter examines the various forms and patterns through which CSR funds may be misused within the corporate sector. By analyzing these patterns, the study aims to identify systemic weaknesses in the regulatory framework and highlight the governance implications arising from such practices.

4.2 Diversion of CSR Funds

Diversion of CSR funds represents one of the most significant concerns associated with CSR implementation in the corporate sector. In certain instances, funds earmarked for CSR projects may be redirected toward activities that provide indirect commercial benefits to the company or its management. Such diversion may occur through the funding of projects that primarily serve corporate branding objectives rather than genuine social welfare.

For example, companies may allocate CSR funds toward infrastructure projects located near their operational facilities in a manner that enhances corporate operations rather than addressing broader community needs. While such initiatives may appear socially beneficial, they may also blur the distinction between legitimate CSR activities and strategic business investments. The Companies (Corporate Social Responsibility Policy) Rules, 2014 emphasize that CSR activities should not form part of the normal course of business, thereby attempting to prevent such practices.[57]

Nevertheless, the absence of comprehensive monitoring mechanisms may allow certain companies to structure CSR projects in ways that indirectly benefit corporate interests. Addressing such challenges requires improved transparency and stronger oversight mechanisms capable of evaluating the actual social impact of CSR initiatives

[56] Companies Act, 2013, § 135 (India).
[57] Companies (Corporate Social Responsibility Policy) Rules, 2014, r. 2(d) (India).

4.3 Related Party Transactions

Another significant form of CSR misuse involves related party transactions. Companies sometimes channel CSR funds through trusts, societies, or foundations that are directly or indirectly controlled by corporate promoters, directors, or their family members. Although CSR rules allow companies to implement projects through registered implementing agencies, such arrangements can create conflicts of interest when these agencies are closely connected with corporate management.

In such cases, the implementing organization may receive substantial CSR funds without adequate scrutiny regarding the effectiveness or transparency of project implementation. This arrangement allows companies to maintain formal compliance with statutory CSR spending requirements while retaining indirect control over the funds.

For example, consider a hypothetical scenario where a corporation establishes a charitable foundation managed by the relatives of its directors. The company then transfers a large portion of its CSR budget to this foundation for educational initiatives. However, due to limited regulatory oversight, the foundation may use the funds for administrative expenses, consultancy payments, or promotional activities rather than actual educational development.

This pattern reflects a governance failure where CSR funds are effectively recycled within the corporate ecosystem rather than reaching intended beneficiaries.

4.4 Use of Shell NGOs

The involvement of non-governmental organizations in CSR implementation has significantly expanded the scope of corporate philanthropy. However, this system can also facilitate misuse through the creation or utilization of **shell NGOs**. Shell NGOs are entities that exist primarily on paper and lack the operational capacity or genuine intention to implement social projects.

In certain cases, corporations may collaborate with NGOs that are formed solely to receive CSR funding. These organizations may submit project proposals and documentation that appear legitimate but fail to execute the projects in reality. Since regulatory authorities often rely on documentation submitted by companies, such arrangements may remain undetected for extended periods.

For instance, a company may allocate CSR funds for rural health camps through a registered NGO. The NGO submits reports indicating that multiple health camps were conducted in remote villages. However, if independent verification is absent, the claimed activities may never have occurred.

The presence of shell NGOs highlights the importance of robust monitoring mechanisms and transparent verification processes in CSR governance.

4.5 Political Influence and CSR Allocation

Political influence represents another subtle yet significant dimension of CSR fund misuse. In certain situations, CSR initiatives may be strategically directed toward projects that align with political interests or government priorities rather than genuine community needs.

Companies may allocate CSR funds to government-linked funds or projects to cultivate favorable relations with political authorities. Although contributions to certain government funds are legally permitted under Schedule VII, the absence of strict oversight may allow corporations to treat CSR spending as a tool for political goodwill rather than social development.

A hypothetical illustration can be considered where a corporation channels a substantial portion of its CSR budget into local development projects promoted by politically influential figures. Such actions may enhance the company's relationship with government authorities but may not necessarily address pressing social issues.

This intersection between CSR spending and political influence raises questions regarding the independence and integrity of corporate decision-making.

4.6 Accounting Manipulation and Financial Misreporting

Accounting manipulation constitutes another major avenue through which CSR funds may be misused. Corporate entities may engage in financial reporting practices that exaggerate CSR expenditures or conceal the true nature of spending.

For example, companies may inflate the reported costs of CSR projects by including excessive administrative expenses, consultancy fees, or promotional costs. Since CSR rules allow limited administrative expenditure, companies may exploit this provision to allocate funds toward internal operations rather than community-oriented activities.

Another form of manipulation involves reclassifying routine business expenses as CSR activities. A company conducting employee training programs or marketing campaigns may present such activities as skill development initiatives benefiting local communities. This practice enables companies to fulfill statutory CSR spending requirements without making genuine contributions to social welfare.

The challenge with accounting manipulation lies in the difficulty of verifying financial data without detailed audits or independent oversight.

4.7 Governance Implications

The various patterns of CSR fund misuse reveal underlying weaknesses in corporate governance and regulatory enforcement. CSR committees, which are responsible for monitoring project implementation, may lack independence or expertise to evaluate the effectiveness of CSR initiatives. Additionally, disclosure-based compliance systems rely heavily on corporate transparency, which may not always reflect ground realities.

Furthermore, regulatory authorities face practical limitations in monitoring thousands of companies subject to CSR obligations. Without systematic impact assessments or independent audits, identifying misuse becomes increasingly difficult.

These governance challenges highlight the need for stronger regulatory frameworks and greater transparency in CSR implementation.

4.8 Conclusion

While the statutory CSR regime in India represents an innovative approach to corporate accountability, its success depends on the integrity of implementation mechanisms. Diversion of funds, related party transactions, shell NGOs, political influence, and accounting manipulation represent significant threats to the credibility of CSR initiatives.

Addressing these challenges requires stronger oversight by regulatory authorities, improved corporate governance practices, and greater transparency in financial reporting. Only through effective monitoring and accountability can CSR fulfill its intended role as a mechanism for promoting sustainable and inclusive development.

CHAPTER 5: CORPORATE GOVERNANCE FAILURES AND MISUSE OF CSR FUNDS

5.1 Introduction

Corporate Social Responsibility (CSR) under the Companies Act, 2013 was introduced with the objective of integrating social responsibility into the corporate governance framework of Indian companies. By requiring certain companies to allocate a portion of their profits toward social development initiatives, the legislation aimed to encourage responsible corporate conduct and strengthen the relationship between business enterprises and society.[58] However, the effective implementation of CSR obligations depends significantly on the quality of corporate governance within companies.

Corporate governance structures such as the board of directors, CSR committees, and independent directors are entrusted with the responsibility of ensuring that CSR initiatives are implemented in a transparent and accountable manner. Weak governance mechanisms, lack of oversight, and conflicts of interest may create opportunities for misuse or inefficient utilization of CSR funds. When these institutional safeguards fail to function effectively, CSR initiatives may become procedural exercises rather than meaningful contributions to social welfare.

This chapter examines the role of corporate governance institutions in the implementation of CSR policies and analyzes how governance failures may contribute to misuse of CSR resources. Particular emphasis is placed on the responsibilities of the board of directors, the CSR committee, and independent directors in ensuring that CSR activities align with statutory requirements and broader ethical principles of corporate governance.

5.2 Role of the Board of Directors

The board of directors occupies a central position in the corporate governance structure and plays a crucial role in overseeing CSR activities. Under Section 135 of the Companies Act, 2013, the board is responsible for approving the CSR policy recommended by the CSR Committee and ensuring that the company undertakes CSR activities in accordance with the statutory framework.[59] The board must also disclose details regarding CSR initiatives and expenditure in the company's annual board report.

The effectiveness of CSR governance therefore depends significantly on the diligence and independence exercised by the board in supervising CSR initiatives. Directors are expected to ensure that CSR policies are aligned with the objectives of social development and that funds allocated for CSR projects are utilized in a responsible and transparent manner. Failure of the board to actively supervise CSR activities may create opportunities for misuse of funds or superficial compliance practices.

Corporate governance jurisprudence emphasizes the fiduciary duties of directors in managing corporate affairs. In *Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.*, the Supreme Court highlighted that directors must act in good faith and in the best interests of the company while

[58] Companies Act, 2013, § 135 (India).
[59] Companies Act, 2013, § 135(4) (India).

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maintaining fairness and accountability in decision-making.[60] These principles also extend to the management of CSR activities, as directors are responsible for ensuring that CSR initiatives reflect genuine commitment to social responsibility.

5.3 CSR Committee and its Limitations

The Companies Act, 2013 requires eligible companies to constitute a CSR Committee consisting of three or more directors, including at least one independent director where applicable. The CSR Committee is entrusted with several responsibilities, including the formulation of CSR policies, recommendation of CSR expenditure, and monitoring of CSR projects undertaken by the company.[61]

Although the establishment of a CSR Committee provides a structured governance mechanism, practical challenges may limit its effectiveness. In some companies, CSR committees may function largely as formal bodies that approve CSR proposals without conducting detailed evaluation of project feasibility, social impact, or financial accountability. Limited expertise in development planning or social policy may also affect the committee's ability to assess the effectiveness of CSR initiatives.

Another limitation arises from the potential lack of independence within the CSR Committee. If the committee members are closely aligned with corporate management, their oversight function may be compromised. As a result, CSR projects may be approved without adequate scrutiny regarding the selection of implementing agencies, project costs, or potential conflicts of interest.

Strengthening the functioning of CSR committees therefore requires greater transparency, improved expertise in social development planning, and enhanced accountability mechanisms. Such reforms could significantly improve the governance of CSR initiatives and reduce the risk of misuse of CSR resources.

5.4 Role of Independent Directors

Independent directors play a vital role in ensuring accountability and transparency within corporate governance structures. Their presence on the board and on various committees, including the CSR Committee, is intended to provide an impartial perspective in corporate decision-making and prevent undue influence from promoters or executive management.

Within the context of CSR governance, independent directors are expected to evaluate CSR proposals objectively and ensure that projects are aligned with statutory objectives and ethical corporate practices. Their oversight role becomes particularly important in situations where CSR funds are allocated through external implementing agencies or where potential conflicts of interest may arise.

Judicial observations relating to corporate governance highlight the importance of integrity and independence in corporate oversight. In *N. Narayanan v. Adjudicating Officer, SEBI*, the Supreme Court emphasized that individuals responsible for corporate governance must adhere to high

[60] *Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.*, (2021) 9 SCC 449 (India).
[61] Companies Act, 2013, § 135(3) (India).

standards of honesty and transparency in the discharge of their duties.[62] These principles reinforce the expectation that independent directors should actively monitor CSR activities and ensure responsible utilization of CSR funds.

However, the effectiveness of independent directors may sometimes be limited by structural challenges such as information asymmetry, limited access to operational data, or lack of specialized expertise in CSR implementation. Strengthening the institutional role of independent directors through enhanced training, clearer regulatory guidelines, and improved access to information could significantly improve oversight of CSR initiatives.

5.5 Role of Auditors

Auditors serve as essential watchdogs within the corporate governance framework. Their primary responsibility is to verify the accuracy of financial statements and ensure compliance with statutory requirements. In the context of CSR, auditors are expected to review CSR expenditure disclosures and confirm that financial records accurately reflect CSR spending.

However, traditional financial audits often focus on accounting compliance rather than evaluating the effectiveness or authenticity of CSR projects. As a result, auditors may verify that funds were transferred to implementing agencies without examining whether the projects were actually implemented.

Another concern relates to the limited scope of CSR auditing. Since CSR activities involve social development outcomes rather than purely financial transactions, traditional auditing standards may not adequately address issues such as project impact or beneficiary verification.

Without specialized CSR audits or independent impact assessments, financial verification alone cannot prevent misuse of CSR funds.

5.6 Shareholder Oversight and Accountability

Accurate reporting and documentation are essential components of effective CSR governance. Companies are required to maintain detailed records of CSR policies, project implementation, and expenditure in order to demonstrate compliance with statutory obligations. The Companies Act, 2013 requires companies to include a comprehensive report on CSR activities as part of the board's report presented to shareholders.[63]

However, several practical challenges may arise in the process of documenting and reporting CSR initiatives. CSR projects are often implemented through external agencies such as trusts, societies, or non-governmental organizations, which may follow different accounting and reporting practices. This can create difficulties in maintaining standardized documentation and verifying the accuracy of financial information related to CSR projects.

Furthermore, companies may face challenges in measuring the social impact of CSR initiatives. While financial expenditure can be easily quantified, assessing the long-term social benefits of CSR projects requires specialized evaluation mechanisms and expertise in impact assessment. In the

[62] *N. Narayanan v. Adjudicating Officer, SEBI*, (2013) 12 SCC 152 (India).
[63] Companies Act, 2013, § 135(4) (India).

absence of standardized methodologies for evaluating CSR outcomes, companies may rely on qualitative descriptions rather than measurable indicators of success.

These reporting challenges highlight the need for improved documentation standards and clearer regulatory guidelines regarding CSR disclosures. Strengthening reporting mechanisms could enhance transparency and ensure greater accountability in the management of CSR funds.

5.7 Governance Gaps and Structural Weaknesses

The misuse or ineffective management of CSR funds has significant implications for corporate governance. CSR initiatives are intended to enhance corporate accountability and promote ethical business practices. When CSR resources are misused or deployed inefficiently, it may weaken stakeholder trust and undermine the legitimacy of corporate social responsibility as a governance mechanism.

Effective CSR governance requires active oversight by the board of directors and the CSR Committee established under Section 135 of the Companies Act. These bodies are responsible for ensuring that CSR policies align with statutory requirements and that projects are implemented in a transparent and accountable manner.[64]

Strengthening governance mechanisms—such as improved internal controls, independent evaluation processes, and enhanced regulatory supervision—could significantly reduce the risk of misuse and ensure that CSR initiatives achieve their intended social objectives.

5.8 Conclusion

Corporate governance structures play a decisive role in determining the effectiveness of CSR initiatives. While the Companies Act, 2013 establishes a formal framework for CSR implementation, practical governance failures often undermine the intended objectives of the law.

Weak oversight by boards of directors, limited authority of CSR committees, ineffective involvement of independent directors, inadequate auditing mechanisms, and minimal shareholder participation collectively contribute to the risk of CSR fund misuse. Addressing these challenges requires strengthening governance practices, improving transparency, and introducing more rigorous monitoring mechanisms.

Ultimately, CSR must be treated not merely as a regulatory obligation but as a core component of responsible corporate governance. Only through genuine commitment and effective oversight can CSR initiatives contribute meaningfully to sustainable development.

[64] Companies Act, 2013, § 135(3) (India).

CHAPTER 6: REGULATORY AND ENFORCEMENT CHALLENGES IN CSR COMPLIANCE

The introduction of mandatory Corporate Social Responsibility (CSR) obligations under the Companies Act, 2013 represents a significant development in the evolution of corporate governance in India. By requiring certain companies to allocate a portion of their profits toward socially beneficial activities, the legislation sought to create a structured framework through which corporate entities could contribute to sustainable development and social welfare.[65] Despite this legislative innovation, the practical enforcement of CSR obligations has revealed several regulatory and institutional challenges.

CSR compliance is not merely a question of financial expenditure but also involves ensuring that corporate initiatives genuinely address the developmental needs of communities. The effectiveness of CSR regulation therefore depends on a robust monitoring system capable of verifying whether CSR funds are deployed in accordance with statutory objectives. However, the regulatory framework governing CSR implementation continues to face challenges relating to monitoring capacity, transparency in reporting, and coordination among regulatory authorities.

This chapter examines the institutional and legal challenges associated with enforcing CSR compliance in India. Particular emphasis is placed on the regulatory institutions responsible for CSR governance, the practical difficulties faced in monitoring CSR activities, and the legal ambiguities that may allow companies to engage in superficial or strategic compliance.

6.1 Institutional Framework for CSR Regulation

The institutional framework governing CSR compliance in India is primarily administered by the Ministry of Corporate Affairs (MCA), which oversees the implementation of the Companies Act, 2013. The MCA issues policy guidelines, regulatory notifications, and amendments to CSR rules to ensure that companies adhere to the statutory requirements outlined under Section 135 of the Act.[66] The Ministry also supervises the filing of CSR disclosures through corporate reporting mechanisms such as the annual board report and the MCA21 electronic filing system.

In addition to the MCA, several other institutions indirectly influence CSR governance. Regulatory authorities such as the Securities and Exchange Board of India (SEBI) promote corporate transparency and responsible business practices through disclosure requirements applicable to listed companies. For example, SEBI's Business Responsibility and Sustainability Reporting (BRSR) framework encourages companies to provide detailed information regarding environmental and social initiatives undertaken as part of their corporate governance policies.[67]

Professional bodies and auditors also play a significant role in the CSR regulatory ecosystem. Chartered accountants and statutory auditors are responsible for verifying corporate financial statements, including disclosures relating to CSR expenditure. Although the law requires companies

[65] Ministry of Corporate Affairs, **Report of the High Level Committee on Corporate Social Responsibility** (2019).
[66] Companies Act, 2013, § 135 (India).
[67] Securities and Exchange Board of India, **Business Responsibility and Sustainability Reporting by Listed Entities**, SEBI Circular SEBI/HO/CFD/CMD-2/P/CIR/2021/562 (2021).

to report CSR spending and policy implementation, the effectiveness of these institutional mechanisms depends largely on the accuracy and integrity of corporate disclosures.

Judicial institutions also contribute to the enforcement of corporate governance principles relevant to CSR. Courts have consistently emphasized that corporate management must adhere to standards of transparency and accountability in financial reporting and decision-making. In *N. Narayanan v. Adjudicating Officer, SEBI*, the Supreme Court observed that individuals entrusted with corporate responsibilities must maintain high standards of integrity to preserve investor confidence and public trust.[68] These principles provide an important normative foundation for CSR governance.

6.2 Practical Difficulties in Monitoring CSR Compliance

Although the CSR framework establishes clear statutory obligations for companies, monitoring compliance with these obligations presents several practical challenges. One major difficulty arises from the large number of companies that fall within the scope of the CSR provisions. Regulatory authorities must oversee CSR compliance across a wide range of sectors and geographical regions, which may strain the institutional capacity required for effective monitoring.

Another challenge relates to the verification of CSR projects implemented through external organizations. Many companies undertake CSR activities through trusts, societies, or non-governmental organizations that function as implementing agencies. While the Companies (CSR Policy) Rules require such agencies to meet specified eligibility criteria, verifying the authenticity and effectiveness of their activities may be difficult in practice.[69] Without robust evaluation mechanisms, companies may rely on implementing agencies whose governance standards or operational capabilities are not adequately assessed.

Monitoring difficulties also arise from the reliance on self-reported disclosures. Companies are required to disclose CSR expenditure and project details in their annual reports, but regulators may have limited ability to independently verify the accuracy of such disclosures. Academic studies examining CSR reporting practices in India have noted that companies sometimes emphasize the amount spent rather than the measurable impact of CSR initiatives.[70] This focus on financial reporting rather than social outcomes may encourage formal compliance without ensuring meaningful developmental impact.

Furthermore, the absence of uniform methodologies for assessing CSR outcomes creates additional challenges. While certain amendments to CSR rules have introduced the concept of impact assessment for large CSR projects, the implementation of such assessments remains uneven across industries. Strengthening monitoring mechanisms through independent audits and standardized impact evaluation frameworks could significantly enhance regulatory oversight.

6.3 Loopholes and Ambiguities in the Legal Framework

Despite the detailed provisions governing CSR obligations, certain ambiguities within the legal framework may allow companies to interpret CSR requirements in ways that facilitate minimal or

[68] *N. Narayanan v. Adjudicating Officer, SEBI*, (2013) 12 SCC 152 (India).
[69] Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021 (India).
[70] Nayan Mitra & Rene Schmidpeter, **Corporate Social Responsibility in India: Cases and Developments After the Legal Mandate**, 14 Int'l J. Corp. Soc. Responsibility 3 (2017).

strategic compliance. One such ambiguity arises from the broad language used in Schedule VII of the Companies Act, which lists the permissible areas for CSR activities. While the flexible wording of the schedule allows companies to design diverse CSR initiatives, it may also enable companies to classify activities with limited social impact as CSR projects.[71]

Another issue relates to the interpretation of CSR expenditure obligations. The statutory requirement that companies spend at least two percent of their average net profits on CSR activities has sometimes been interpreted narrowly as a financial obligation rather than a broader commitment to social responsibility. This interpretation may encourage companies to focus on meeting expenditure thresholds without adequately considering the long-term sustainability or impact of their CSR projects.

Legal ambiguities may also arise in relation to the implementation of CSR projects through corporate foundations or affiliated organizations. While the CSR Rules permit companies to undertake projects through implementing agencies, insufficient safeguards may create potential conflicts of interest when such agencies are closely associated with corporate promoters or management.

Judicial decisions relating to corporate governance highlight the importance of maintaining integrity and fairness in corporate decision-making. In *Official Liquidator v. P.A. Tendolkar*, the Supreme Court emphasized that directors must exercise due care and diligence in managing corporate affairs and safeguarding corporate resources.[72] These principles underscore the importance of interpreting CSR obligations in a manner that promotes genuine social responsibility rather than procedural compliance.

Addressing these regulatory ambiguities requires clearer statutory guidance and stronger enforcement mechanisms. Regulatory authorities may need to provide more detailed guidelines regarding eligible CSR activities, strengthen disclosure requirements, and encourage independent evaluation of CSR initiatives to ensure that the objectives of the CSR framework are effectively realized.

6.4 Lack of Transparency in CSR Implementation

Transparency represents a fundamental principle of effective corporate governance, particularly in the context of CSR implementation where corporate resources are allocated toward public welfare objectives. Despite statutory disclosure requirements under the Companies Act, 2013, concerns continue to arise regarding the transparency of CSR initiatives undertaken by certain companies. In many cases, corporate disclosures provide only limited information regarding the specific beneficiaries, operational processes, or long-term impact of CSR projects.[73]

One challenge associated with transparency in CSR implementation is the limited availability of verifiable data regarding project outcomes. While companies are required to disclose CSR expenditure in their annual reports, the quality and detail of such disclosures may vary considerably. Some companies provide comprehensive descriptions of their CSR activities, including project objectives and implementation methods, whereas others present only minimal financial information without detailed explanations of project effectiveness.

[71] Companies Act, 2013, sch. VII (India).
[72] *Official Liquidator v. P.A. Tendolkar*, AIR 1973 SC 1104 (India).
[73] Ministry of Corporate Affairs, **National Guidelines on Responsible Business Conduct** (2019).

Transparency concerns may also arise when CSR activities are carried out through external implementing agencies. When corporate entities collaborate with non-governmental organizations, foundations, or trusts, the accountability mechanisms governing such partnerships may be less rigorous than those applicable to corporate financial reporting. Without robust monitoring and disclosure standards, it may become difficult for stakeholders to evaluate whether CSR funds have been utilized efficiently and in accordance with statutory objectives.

Policy discussions on CSR governance have emphasized the importance of improving transparency through better reporting frameworks and independent evaluation mechanisms. Enhanced disclosure requirements, public access to CSR data, and third-party assessments could strengthen accountability and enable stakeholders to assess the effectiveness of corporate social initiatives more accurately.

6.5 Reporting and Documentation Challenges

Accurate reporting and documentation form an essential component of the CSR regulatory framework. The Companies Act requires companies to disclose their CSR policies, the composition of the CSR committee, details of CSR expenditure, and explanations for any unspent CSR funds in the board's report.[74] These reporting obligations are intended to promote transparency and ensure that stakeholders can evaluate corporate compliance with CSR mandates.

However, several practical challenges arise in the preparation and verification of CSR documentation. One significant difficulty relates to the measurement of CSR outcomes. Unlike traditional financial transactions, CSR initiatives often involve complex social interventions whose impact may be difficult to quantify using conventional accounting methods. As a result, companies may face difficulties in documenting the precise outcomes generated by CSR projects.

In addition, CSR documentation frequently involves coordination between corporate management, implementing agencies, and regulatory authorities. Differences in documentation standards, reporting practices, and evaluation methodologies may create inconsistencies in CSR reporting across different organizations. Such inconsistencies may limit the comparability of CSR data and complicate regulatory oversight.

The introduction of Business Responsibility and Sustainability Reporting (BRSR) requirements for listed companies represents an important step toward improving corporate disclosures relating to sustainability and social responsibility.[75] However, the integration of such reporting frameworks with existing CSR documentation requirements remains an evolving process.

6.6 Need for Stronger Enforcement Mechanisms

The effectiveness of any regulatory framework ultimately depends on the availability of credible enforcement mechanisms. Although the CSR provisions under the Companies Act establish mandatory obligations for eligible companies, enforcement challenges may arise when regulatory authorities lack sufficient resources or monitoring capabilities to verify compliance.

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[74] Companies Act, 2013, § 134(3)(o) (India).
[75] Securities and Exchange Board of India, **Business Responsibility and Sustainability Reporting by Listed Entities**, SEBI Circular SEBI/HO/CFD/CMD-2/P/CIR/2021/562 (May 10, 2021).

Recent amendments to CSR rules have sought to strengthen enforcement by introducing provisions relating to unspent CSR funds and mandatory transfers to specified government funds or special CSR accounts. These provisions aim to ensure that companies cannot indefinitely defer their CSR obligations and must allocate the required resources toward eligible social initiatives.[76]

Nevertheless, effective enforcement requires more than statutory provisions alone. Regulatory authorities must also develop mechanisms for monitoring CSR projects, conducting audits, and investigating potential misuse of CSR funds. The involvement of independent auditors, social impact assessment agencies, and civil society organizations may contribute to strengthening oversight mechanisms.

Judicial pronouncements concerning corporate governance emphasize the importance of accountability in corporate management. In *Dale & Carrington Investment (P) Ltd. v. P.K. Prathapan*, the Supreme Court stressed that corporate powers must be exercised in a manner consistent with fairness and fiduciary responsibility.[77]These principles highlight the broader expectation that corporate entities must implement CSR obligations with integrity and responsibility.

6.7 Conclusion

The regulatory framework governing CSR in India represents an important attempt to integrate social responsibility into corporate governance. However, the effective implementation of this framework continues to face challenges relating to transparency, reporting practices, and enforcement capacity. As demonstrated in this chapter, gaps in disclosure standards, limitations in documentation practices, and inadequate monitoring mechanisms may weaken the effectiveness of CSR governance.

Improving CSR compliance requires a multidimensional approach that combines stronger regulatory oversight with improved corporate governance practices. Measures such as enhanced transparency requirements, standardized reporting frameworks, independent impact assessments, and greater stakeholder participation could significantly strengthen the accountability of CSR initiatives.

Ultimately, the long-term success of the CSR regime depends not only on legal mandates but also on the willingness of corporate institutions to embrace social responsibility as an integral component of their governance structures. Strengthening enforcement mechanisms and improving transparency will therefore play a crucial role in ensuring that CSR initiatives achieve their intended objectives of promoting inclusive and sustainable development.

[76] Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021, r. 10 (India).
[77] *Dale & Carrington Investment (P) Ltd. v. P.K. Prathapan*, (2005) 1 SCC 212 (India).

CHAPTER 7: CASE STUDIES ON MISUSE AND CONTROVERSIES RELATING TO CSR FUNDS

Corporate Social Responsibility (CSR) was introduced as a statutory obligation under Section 135 of the Companies Act, 2013 with the objective of ensuring that corporate entities contribute actively to social and developmental goals. By mandating qualifying companies to allocate at least two percent of their average net profits toward socially beneficial initiatives, the legislation sought to institutionalize corporate participation in national development programs. However, the practical implementation of CSR obligations has sometimes generated controversies relating to transparency, governance failures, and alleged misuse of funds.

While several corporations have successfully implemented impactful CSR initiatives in fields such as healthcare, education, and environmental sustainability, certain instances have raised concerns regarding the misuse or diversion of CSR funds. These controversies often arise due to weak oversight mechanisms, lack of transparency in CSR reporting, and the involvement of intermediary organizations that may not always adhere to proper governance standards.

The following case studies examine notable controversies relating to CSR implementation in India, including issues that arose during the COVID-19 pandemic, allegations of CSR misreporting, and concerns regarding CSR activities conducted through related foundations or trusts. By analyzing these cases, the chapter seeks to highlight systemic governance weaknesses that may facilitate misuse or ineffective deployment of CSR funds.

7.1 CSR Spending Controversies During the COVID-19 Pandemic

The COVID-19 pandemic created an unprecedented public health and economic crisis, prompting both the government and corporate sector to mobilize significant resources toward relief and recovery efforts. In response to the pandemic, the Ministry of Corporate Affairs clarified that contributions made by companies to the **PM CARES Fund** would qualify as eligible CSR expenditure under Schedule VII of the Companies Act, 2013.[78] This clarification encouraged numerous corporations to allocate substantial CSR resources toward pandemic relief initiatives.

Despite the intention to mobilize resources quickly during the crisis, the inclusion of contributions to the PM CARES Fund within the CSR framework generated considerable debate. Critics argued that the fund initially lacked the transparency and accountability mechanisms that normally apply to public charitable funds. In particular, concerns were raised regarding the absence of independent statutory audit requirements and the limited availability of publicly accessible information regarding the utilization of the funds.[79]

In addition to debates regarding the PM CARES Fund, certain observers noted that some corporations prioritized financial contributions to centralized funds rather than implementing direct CSR projects addressing local community needs. Academic analyses of CSR responses during the

[78] Ministry of Corporate Affairs, **Clarification on CSR Contributions to PM CARES Fund**, General Circular No. 10/2020 (Mar. 23, 2020).
[79] ―The Controversy of PM CARES Fund,‖ *Sanskriti IAS Current Affairs* (2021).

pandemic indicate that corporate participation often reflected a reactive approach driven by regulatory guidance and public expectations rather than long-term social development strategies.[80]

Although many corporations played a constructive role in supporting pandemic response efforts, the controversies surrounding CSR contributions during COVID-19 highlighted the need for clearer transparency standards and independent oversight mechanisms when large volumes of CSR funds are directed toward centralized relief programs.

7.2 Allegations of CSR Misreporting by Corporate Entities

Another significant area of concern relates to allegations of CSR misreporting or manipulation of CSR expenditure disclosures. CSR reporting plays a crucial role in enabling regulators, investors, and civil society to evaluate whether companies are complying with their statutory obligations and whether CSR initiatives produce meaningful social outcomes.

In recent years, investigative agencies have uncovered instances where CSR funds were allegedly diverted or misused through complex financial arrangements. For example, income tax authorities uncovered a large-scale scheme involving the diversion of CSR funds through non-profit organizations operating across several states. Investigations suggested that certain organizations created shell entities and fraudulent bank accounts to channel CSR funds, with little or no actual implementation of social welfare projects.[81] In some cases, investigators alleged that the funds were laundered through a network of trusts and intermediary organizations before being withdrawn for private use.

Such cases illustrate how weaknesses in oversight and verification mechanisms may allow corporate entities or intermediary organizations to manipulate CSR reporting practices. Scholars studying CSR governance have noted that companies may sometimes exaggerate the scale or effectiveness of CSR projects in sustainability reports or corporate disclosures, a phenomenon often referred to as ―CSR decoupling‖ or ―greenwashing.‖[82] These practices create an appearance of regulatory compliance without necessarily generating genuine social impact.

Concerns regarding CSR misreporting have also led regulators to strengthen disclosure requirements. In recent years, the Securities and Exchange Board of India introduced Business Responsibility and Sustainability Reporting (BRSR) standards to encourage greater transparency in corporate disclosures relating to environmental and social initiatives.

7.3 Concerns Regarding CSR Implementation Through Related Foundations

A recurring concern within CSR governance relates to the use of corporate foundations or affiliated charitable trusts as implementing agencies for CSR projects. Many corporations establish their own philanthropic foundations to implement CSR initiatives, which may allow them to maintain greater control over project implementation and long-term planning. However, such arrangements may also raise questions regarding transparency and potential conflicts of interest.

Reports and policy analyses have highlighted instances where CSR funds were routed through charitable trusts closely connected to corporate promoters or management. In some cases, such

[80] Mitali Thakur & Rajlaxmi Pujar, **A Review of CSR Activities Pre-Covid and During Covid-19 in India**, Int'l J. Creative Research Thoughts (2023)
[81] ―Income Tax Department Uncovers Large CSR Diversion Racket Across Six States,‖ *Times of India* (2025).
[82] A. Saeed et al., **CSR Decoupling and Financial Fraud: Unveiling the Hidden Dynamics**, *Journal of Business Ethics Studies* (2025)

trusts allegedly functioned as intermediaries through which CSR expenditures were recorded without adequate verification of the underlying social activities.[83] These arrangements may create opportunities for inflated project costs, misclassification of expenses, or diversion of funds toward activities that primarily benefit corporate interests.

Recent investigations into CSR fund diversion schemes have further illustrated the risks associated with weak oversight of implementing agencies. Authorities uncovered cases in which bogus trusts and shell organizations allegedly diverted hundreds of crores of CSR funds through fraudulent projects that existed only on paper.[84] Such incidents demonstrate the importance of conducting rigorous due diligence before approving implementing agencies and ensuring that independent audits are conducted to verify CSR project outcomes.

These controversies underscore the need for stronger governance mechanisms governing the relationship between corporations and CSR implementing agencies. Regulatory reforms may include stricter registration requirements for CSR implementing organizations, mandatory impact assessments for large CSR projects, and enhanced disclosure obligations regarding related-party involvement in CSR initiatives.

7.4 Judicial and Regulatory Responses

Judicial and regulatory authorities in India have increasingly intervened to address controversies and misuse relating to Corporate Social Responsibility (CSR) funds. The regulatory framework under Section 135 of the Companies Act, 2013 assigns oversight responsibilities to the Ministry of Corporate Affairs (MCA), while courts and tribunals play a crucial role in interpreting CSR obligations and ensuring compliance with statutory provisions. The emergence of large-scale CSR misuse allegations in recent years has prompted both regulatory investigations and judicial scrutiny.

A significant example of regulatory intervention occurred when the Income Tax Department conducted nationwide raids uncovering a major CSR diversion network involving non-profit organizations operating across several states. Investigators reported that companies had allegedly routed CSR donations through bogus trusts and shell entities, which then diverted funds through layered financial transactions instead of implementing genuine social welfare projects.[85] The investigation, which covered multiple states and dozens of locations, exposed the scale of potential misuse within the CSR ecosystem and prompted authorities to examine the due-diligence practices followed by corporate donors.

Judicial responses have also clarified the legal nature of CSR obligations. Courts have emphasized that CSR is not merely a voluntary philanthropic activity but a statutory duty imposed on companies meeting the financial thresholds specified under the Companies Act.[86] In a significant environmental governance judgment concerning the conservation of the Great Indian Bustard, the Supreme Court observed that CSR represents a broader corporate responsibility toward society and environmental protection. The Court noted that corporate profits are generated within a social and ecological framework and therefore carry corresponding responsibilities toward the community.[87]

[83] ―How Indian Companies Are Misusing Public Trusts to Launder CSR Spending,‖ *Economic Times* (2015).
[84] ―₹800 Crore CSR Fund Diversion Scheme Exposed After Income-Tax Raids,‖ *CSR Journal* (2025).
[85] ―Income Tax Department Uncovers Large CSR Diversion Network Across Six States,‖ *Times of India* (2025).
[86] Companies Act, 2013, § 135 (India).
[87] Supreme Court observations on CSR as environmental responsibility in the Great Indian Bustard conservation case (2026).

Another example of judicial engagement with CSR compliance arose in proceedings concerning alleged non-compliance with CSR obligations by corporate entities. In one such matter before the Gujarat High Court, the court addressed criminal complaints filed against a company for failing to adequately comply with CSR disclosure requirements. The court ultimately recognized the legislative shift introduced by the Companies (Amendment) Act, 2020, which decriminalized certain CSR-related offences and replaced criminal sanctions with monetary penalties.[88] This decision reflects the evolving approach of regulators toward CSR enforcement, emphasizing compliance and corrective measures rather than criminal prosecution.

Regulatory authorities have also responded to CSR controversies by strengthening compliance mechanisms. Amendments to the CSR Rules introduced requirements such as mandatory registration of implementing agencies, impact assessment for large CSR projects, and stricter disclosure obligations in corporate filings. These reforms aim to address governance gaps that previously allowed companies to channel CSR funds through unverified intermediaries or poorly monitored projects.

7.5 Lessons from CSR Controversies

The controversies surrounding CSR implementation in India provide several important lessons for policymakers, regulators, and corporate governance institutions. First, these cases demonstrate the importance of transparency and accountability in CSR reporting. Many controversies have arisen because stakeholders lacked access to reliable information regarding the implementation and impact of CSR initiatives. Strengthening disclosure requirements and ensuring that CSR reports contain verifiable project data can significantly enhance public trust in corporate social initiatives.

Second, the misuse of CSR funds through shell organizations highlights the need for rigorous due diligence when selecting implementing agencies. Investigations into CSR diversion schemes revealed that certain organizations existed primarily as intermediaries designed to receive and redistribute CSR donations without conducting genuine social welfare activities.[89] This underscores the importance of establishing stricter eligibility criteria and monitoring mechanisms for CSR implementing organizations.

Third, CSR controversies demonstrate that regulatory enforcement mechanisms must evolve alongside corporate practices. While the Companies Act established a statutory framework for CSR governance, regulators initially relied heavily on corporate self-reporting. The emergence of large-scale misuse cases illustrates the limitations of such an approach and highlights the need for independent audits, impact assessments, and stronger regulatory oversight.

Finally, these controversies illustrate the broader challenge of integrating CSR into the strategic governance framework of corporations. In several cases, companies appeared to treat CSR primarily as a compliance obligation rather than a genuine social responsibility. For CSR initiatives to achieve meaningful impact, corporate leadership must incorporate social responsibility into the long-term strategic objectives of the organization rather than approaching it merely as a statutory expenditure requirement.

7.6 Conclusion

[88] Gujarat High Court decision concerning CSR compliance and decriminalization of offences under the Companies (Amendment) Act, 2020.
[89] Investigation reports on bogus trusts involved in CSR fund diversion schemes.

The case studies examined in this chapter reveal that while the CSR framework in India represents an innovative approach to promoting corporate participation in social development, its practical implementation remains vulnerable to governance failures and regulatory challenges. Instances of CSR fund diversion, misreporting, and inadequate project oversight demonstrate that the existence of statutory obligations alone cannot guarantee effective implementation.

Judicial and regulatory interventions have played an important role in strengthening accountability within the CSR ecosystem. Investigations into CSR diversion schemes and judicial interpretations emphasizing the social responsibility of corporate entities have contributed to a more robust understanding of CSR obligations. These developments signal a gradual shift toward greater scrutiny of corporate social initiatives and stronger enforcement of CSR governance standards.

Nevertheless, achieving the objectives of the CSR regime requires continued efforts to strengthen transparency, improve monitoring mechanisms, and enhance the capacity of regulatory institutions. By addressing the governance gaps identified through these controversies, policymakers and corporate stakeholders can ensure that CSR initiatives fulfill their intended role in promoting inclusive development and responsible corporate conduct.

CHAPTER 8 : IMPACT OF MISUSE OF CSR FUNDS ON STAKEHOLDERS

Corporate Social Responsibility (CSR) has emerged as an important legal and governance mechanism aimed at promoting inclusive development and responsible corporate conduct. The statutory framework under **Section 135 of the Companies Act, 2013** mandates eligible companies to allocate a prescribed percentage of their profits towards social welfare initiatives such as education, healthcare, environmental protection, and rural development. The objective of the CSR regime is to ensure that corporate profits contribute to societal progress and sustainable development.

However, the misuse and diversion of CSR funds has become an increasingly significant concern in India. Various investigations and regulatory reports have revealed instances where CSR allocations were diverted through shell organizations, misreported in financial disclosures, or used for purposes unrelated to social welfare. Such practices undermine the credibility of CSR initiatives and weaken public confidence in corporate governance structures.

Recent investigations by enforcement authorities have exposed large-scale diversion of CSR funds through networks of non-governmental organizations and shell entities. In one such case, tax authorities uncovered an extensive scheme involving hundreds of crores of CSR funds that were routed through fraudulent trusts and ultimately diverted for private gain rather than social welfare activities.[90] These revelations demonstrate that misuse of CSR funds is not merely a regulatory violation but also a matter that directly affects multiple stakeholders connected to corporate activities.

The misuse of CSR funds has wide-ranging consequences that extend beyond financial irregularities. It directly impacts beneficiaries who are deprived of essential development resources, undermines investor confidence, damages corporate reputation, and negatively influences employee morale and organizational culture. From a corporate governance perspective, such misconduct reflects structural weaknesses in oversight mechanisms and highlights the need for stronger accountability systems.

This chapter therefore examines the **impact of CSR fund misuse on different stakeholders**, including beneficiaries and local communities, investors and shareholders, and employees within corporate organizations. By analysing recent controversies and governance failures, this chapter seeks to understand how the diversion of CSR funds undermines the fundamental objectives of the CSR framework in India.

8.1 Impact on Beneficiaries and Local Communities

The most direct and severe consequences of CSR fund misuse are experienced by the intended beneficiaries of social welfare initiatives. CSR programs are designed to support marginalized communities by providing resources for healthcare, education, sanitation, environmental protection, and livelihood generation. When these funds are diverted or misused, the communities that depend on such initiatives are deprived of essential development opportunities.

[90] Companies Act, 2013, § 135 (India).

A significant example of this issue emerged during investigations conducted by the Income Tax Department in 2025, which uncovered a large-scale CSR fund diversion scheme operating across several Indian states. Authorities reported that funds donated by corporations for social welfare projects were routed through a network of shell organizations that existed only on paper. Instead of implementing educational or healthcare projects, the funds were withdrawn in cash or transferred through complex financial channels for private benefit.[91] As a result, numerous development projects that were expected to benefit rural communities never materialized.

The misuse of CSR funds can have particularly severe consequences in sectors such as healthcare and education. In many rural and economically disadvantaged regions of India, CSR initiatives often supplement inadequate public infrastructure by funding schools, medical camps, and community development programs. When CSR funds intended for such projects are diverted, communities remain deprived of essential services that could have improved their quality of life.

In addition to the loss of financial resources, CSR misuse also damages the relationship between corporations and local communities. Corporate social initiatives are often implemented through partnerships with non-governmental organizations and community groups. When fraud or mismanagement occurs, communities may lose trust in corporate actors as well as in civil society organizations that collaborate with them. This erosion of trust can discourage future collaborations and hinder the effectiveness of legitimate development programs.

Another dimension of this problem involves fraudulent schemes that exploit vulnerable populations under the guise of CSR initiatives. In certain cases, individuals have been deceived through false promises of CSR-supported welfare schemes such as subsidized consumer goods or financial assistance. Investigations by enforcement agencies have revealed that such schemes were used to collect money from unsuspecting individuals without delivering any benefits.[92] These incidents highlight the vulnerability of communities to exploitation when CSR governance mechanisms are weak or poorly monitored.

Thus, the diversion of CSR funds ultimately undermines the fundamental objective of corporate social responsibility, which is to promote equitable development and social justice. Ensuring that CSR initiatives reach their intended beneficiaries therefore remains a critical challenge for regulators and corporate governance institutions.

8.2 Impact on Investors and Shareholders

Misuse of CSR funds can also significantly affect investors and shareholders by undermining corporate transparency, governance standards, and financial accountability. Investors increasingly consider environmental, social, and governance (ESG) factors when evaluating corporate performance. CSR initiatives form an important component of ESG reporting, and irregularities in CSR spending can raise serious concerns about the integrity of corporate management.

When companies become involved in CSR controversies or financial irregularities, their reputation in the financial markets can suffer substantial damage. Corporate scandals relating to CSR fund diversion may lead to regulatory investigations, legal proceedings, and reputational losses that ultimately affect shareholder value. Investors may perceive such misconduct as an indication of broader governance failures within the company.

[91] Investigation into CSR fund diversion involving shell organizations across several Indian states.
[92] Enforcement Directorate investigation into fraudulent CSR schemes targeting vulnerable individuals in Kerala.

For instance, investigations into CSR diversion schemes have revealed the involvement of corporate insiders, auditors, and intermediaries who facilitated the transfer of funds through fraudulent organizations. Such revelations highlight deficiencies in internal control systems and raise questions about the effectiveness of board oversight.[93]When governance failures become public, investors may lose confidence in the company's management, which can negatively impact stock prices and long-term investment prospects.

CSR misuse also undermines the credibility of corporate sustainability reports and financial disclosures. Publicly listed companies are required to disclose CSR expenditure and related activities in their annual reports. If such disclosures are found to be inaccurate or misleading, investors may question the reliability of other financial information provided by the company.[94]

From a broader perspective, repeated CSR controversies may discourage socially responsible investment and weaken the credibility of India's CSR framework. As global investors increasingly prioritize ethical governance and sustainable development, companies involved in CSR misconduct may face difficulties attracting responsible investment capital.

8.3 Impact on Employees and Organizational Culture

Corporate Social Responsibility initiatives are closely linked with organizational culture and employee engagement. Many corporations encourage employees to participate in CSR activities such as volunteering, community outreach, environmental programs, and social welfare campaigns. These initiatives often strengthen the ethical identity of the organization and foster a sense of collective responsibility among employees. However, when CSR funds are misused or diverted, the consequences extend beyond financial irregularities and significantly affect employee morale and workplace culture.

Employees often perceive CSR programs as an expression of the organization's commitment to ethical conduct and social responsibility. When controversies arise involving the misuse of CSR funds, employees may begin to question the integrity of the corporate leadership. This can lead to a decline in trust between management and employees, thereby weakening the ethical foundation of the organization. Corporate governance scholars have observed that organizations involved in financial misconduct frequently experience a deterioration in workplace ethics, as employees become skeptical about the authenticity of corporate values.

Another significant concern is the pressure that employees may face to conceal irregularities in CSR expenditures. Employees working in finance departments, CSR committees, or compliance divisions may be compelled to manipulate records or suppress information relating to improper transactions. Such practices undermine the professional integrity of employees and create an environment where unethical behaviour becomes normalized within the organization.

Recent investigations into CSR diversion schemes have revealed the involvement of various intermediaries such as accountants, trust managers, and corporate consultants who facilitated the misappropriation of CSR funds through complex financial arrangements. These networks often operate by routing funds through shell organizations or fake trusts before returning the money to

[93] Ravi Ranjan, *Misuse and Manipulation of CSR Funds: Legal Gaps and Enforcement Challenges*, **Indian Journal of Legal Review** (2025).
[94] Regulatory observations on CSR diversion networks involving intermediaries and corporate insiders.

corporate entities through cash withdrawals or layered transactions.[95] Such practices demonstrate how weak internal oversight mechanisms can encourage unethical conduct across multiple levels of an organization.

Moreover, the exposure of CSR scandals can create reputational anxiety among employees who may feel associated with an organization accused of unethical conduct. This may affect employee retention, productivity, and organizational commitment. Employees working in companies facing regulatory investigations or public criticism often experience uncertainty regarding the organization’s future and their professional reputation.

Therefore, maintaining transparency and ethical governance in CSR activities is essential not only for regulatory compliance but also for sustaining a positive organizational culture. Companies must ensure that CSR initiatives are implemented with integrity so that employees continue to view them as meaningful contributions to society rather than as symbolic compliance measures.

8.4 Impact on Public Trust and Corporate Reputation

Public trust is a fundamental element of corporate legitimacy. Corporate Social Responsibility initiatives are intended to enhance the relationship between corporations and society by demonstrating a commitment to social welfare and sustainable development. When CSR funds are misused or diverted for private gain, it severely undermines public confidence in corporate institutions.

Corporate reputation is built over time through responsible governance, ethical conduct, and transparency in business operations. CSR initiatives often serve as an important tool for building goodwill among stakeholders, including consumers, investors, and communities. However, scandals involving CSR misuse can quickly erode this goodwill and damage the credibility of corporations.

One notable example illustrating the reputational risks associated with CSR misuse is the large-scale diversion of CSR funds uncovered by the Income Tax Department in 2025. Investigations revealed that approximately ₹800 crore allocated for CSR activities had been routed through a network of fraudulent trusts operating across multiple Indian states. These organizations claimed to undertake projects relating to education, healthcare, and social welfare, but authorities discovered that no genuine charitable activities were conducted and the funds were instead siphoned off through complex financial transactions.[96]

Similarly, in Kerala, law enforcement authorities uncovered a massive fraud involving the misuse of CSR claims to deceive thousands of individuals. In this case, the accused promised to provide consumer goods such as two-wheelers at heavily subsidized rates, claiming that the scheme was funded through corporate CSR contributions. Investigations revealed that the scheme was fraudulent and involved financial transactions amounting to hundreds of crores of rupees.[97] Such incidents not only harm the victims directly involved but also undermine the credibility of genuine CSR initiatives across the country.

The erosion of public trust caused by such scandals can have long-term consequences for corporations. Consumers may become skeptical of corporate philanthropy, and civil society

[95] Investigations revealed networks of shell trusts and intermediaries used to divert CSR funds through layered financial transactions.
[96] Income Tax Department investigation uncovering a CSR diversion racket involving approximately ₹800 crore across multiple states in India.
[97] Kerala CSR fraud case involving false promises of subsidized goods allegedly funded through CSR contributions

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organizations may hesitate to collaborate with companies in implementing social development projects. Furthermore, regulators may impose stricter compliance requirements, thereby increasing the administrative burden on corporations.

Therefore, maintaining transparency and accountability in CSR spending is essential for preserving corporate reputation and public trust. Companies must recognize that CSR initiatives are not merely regulatory obligations but also a reflection of their ethical commitments toward society.

8.5 Ethical Implications of CSR Misuse

The misuse of CSR funds raises significant ethical concerns regarding the responsibilities of corporations toward society. Corporate Social Responsibility is founded on the principle that businesses should contribute positively to social development and environmental sustainability. When corporations misuse CSR funds or treat CSR activities merely as compliance obligations, they undermine the ethical foundations of corporate responsibility.

From an ethical perspective, CSR misuse represents a form of deception because corporations publicly claim to support social welfare while simultaneously diverting funds for unrelated purposes. Such practices violate the principles of transparency, accountability, and fairness that form the core of ethical corporate governance.

Ethical concerns also arise when CSR initiatives are used as instruments for financial manipulation or tax evasion. In several investigations conducted by regulatory authorities, companies were found to have donated CSR funds to fraudulent organizations that subsequently returned a large portion of the funds in cash. This arrangement allowed companies to falsely claim that their CSR obligations had been fulfilled while retaining control over the funds for private use.[98] Such practices constitute not only financial misconduct but also ethical violations that undermine the credibility of the CSR framework.

Academic research has also highlighted the phenomenon of **"CSR decoupling,"** where corporations publicly report socially responsible activities but fail to implement them in practice. This gap between corporate rhetoric and actual behaviour creates an ethical deficit within organizations and reduces stakeholder confidence in corporate governance mechanisms.[99]

The ethical implications of CSR misuse extend beyond individual corporations and affect the broader regulatory environment. When CSR scandals become widespread, they may create the perception that CSR regulations are ineffective or easily manipulated. This perception can weaken the legitimacy of regulatory frameworks designed to promote responsible corporate conduct.

To address these ethical challenges, companies must integrate CSR into their core governance structures rather than treating it as a peripheral activity. Strong ethical leadership, transparent reporting, and independent auditing mechanisms are essential to ensure that CSR initiatives genuinely contribute to social development.

[98] Investigations into CSR donations routed through fake trusts that secretly returned funds to companies through cash withdrawals or financial layering.
[99] A. Saeed, *CSR Decoupling and Financial Fraud: Unveiling the Hidden Risks of Corporate Social Responsibility Reporting*, 2025

8.6 Conclusion

The misuse of CSR funds has far-reaching consequences that extend across multiple stakeholder groups. As discussed in this chapter, such misconduct not only deprives communities of essential development resources but also undermines investor confidence, weakens organizational culture, and damages public trust in corporate institutions.

CSR initiatives were introduced in India with the objective of ensuring that corporate profits contribute to social welfare and sustainable development. However, recent controversies and investigations have demonstrated that weaknesses in governance mechanisms can enable the diversion of CSR funds through fraudulent organizations, shell companies, and financial intermediaries.

The impact of such misuse is particularly severe for marginalized communities that rely on CSR programs for access to education, healthcare, and other development opportunities. At the same time, corporate misconduct relating to CSR can damage the reputation of companies, reduce investor confidence, and create ethical challenges within organizational structures.

Addressing these challenges requires a comprehensive approach involving stronger regulatory enforcement, enhanced transparency in CSR reporting, and improved corporate governance mechanisms. Companies must adopt robust monitoring systems to ensure that CSR funds are utilized for their intended purposes and that beneficiaries receive the promised benefits.

Ultimately, the success of the CSR framework in India depends on the commitment of corporations to uphold ethical standards and prioritize genuine social impact over mere regulatory compliance. Strengthening accountability mechanisms and promoting transparency will be essential for restoring stakeholder confidence and ensuring that CSR initiatives fulfill their intended objectives.

CHAPTER 9 FINDINGS AND SUGGESTIONS

Corporate Social Responsibility (CSR) was introduced as a statutory obligation in India through Section 135 of the Companies Act, 2013 with the objective of encouraging corporations to contribute to social welfare and sustainable development. The legislative framework was designed to ensure that profitable companies allocate a portion of their resources towards community development initiatives such as education, healthcare, environmental protection, and poverty alleviation. By institutionalizing CSR obligations within corporate governance structures, the law sought to strengthen the relationship between business enterprises and society.

Despite the progressive nature of the CSR framework, various studies and regulatory investigations have highlighted significant challenges in the effective implementation of CSR policies in India. Instances of misuse, diversion of funds, inadequate monitoring, and weak corporate governance have raised concerns regarding the effectiveness of CSR regulation. Recent investigations conducted by enforcement authorities have revealed that large amounts of CSR funds have been routed through shell organizations, fake trusts, or intermediary entities, thereby defeating the fundamental purpose of CSR initiatives.[100]

The preceding chapters of this study examined the legal framework governing CSR in India, the various forms of misuse of CSR funds, corporate governance failures, regulatory challenges, and the impact of such misuse on different stakeholders. Based on this analysis, several important findings emerge regarding the structural weaknesses in CSR implementation and the need for stronger regulatory oversight.

This chapter presents the **major findings of the study** and identifies key issues that contribute to the misuse and ineffective implementation of CSR policies. It highlights structural, regulatory, and ethical challenges within the CSR ecosystem and emphasizes the need for reforms aimed at strengthening transparency, accountability, and corporate governance.

9.2 Major Findings of the Study

9.2.1 Existence of Structural Weaknesses in CSR Implementation

One of the most significant findings of this study is the existence of structural weaknesses in the implementation of CSR initiatives within corporate organizations. Although the Companies Act, 2013 mandates companies to spend a specified percentage of their profits on CSR activities, the law primarily focuses on compliance rather than the effectiveness of implementation. As a result, several corporations treat CSR obligations as a statutory requirement rather than as an integral component of corporate strategy.

In many cases, companies allocate CSR funds without conducting proper needs assessments or long-term impact analysis. Projects are often selected based on convenience or corporate branding considerations rather than genuine social needs. This approach reduces the effectiveness of CSR initiatives and limits their ability to create sustainable development outcomes.

[100] Companies Act, 2013, § 135 (India).

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Furthermore, the implementation of CSR projects frequently involves multiple intermediaries such as NGOs, charitable trusts, and consulting organizations. While these entities may play a legitimate role in project execution, the absence of standardized monitoring mechanisms often leads to inefficiencies and mismanagement of funds.

Recent enforcement actions by tax authorities have exposed several cases in which CSR funds were transferred to organizations that lacked the capacity to implement development projects. In many instances, these organizations existed only on paper and were created solely for the purpose of routing CSR funds through complex financial transactions.[101] Such structural weaknesses highlight the need for stronger due diligence mechanisms in CSR project implementation.

9.2.2 Weak Monitoring and Enforcement Mechanisms

Another key finding of this study relates to the weakness of monitoring and enforcement mechanisms within the CSR regulatory framework. Although companies are required to disclose CSR expenditures in their annual reports and maintain records of their CSR activities, regulatory oversight remains limited.

The Ministry of Corporate Affairs (MCA) is responsible for overseeing CSR compliance; however, the vast number of companies subject to CSR obligations makes effective monitoring extremely challenging. In practice, regulatory intervention often occurs only after significant irregularities are detected through audits, whistleblower complaints, or investigative journalism.

Several investigations conducted by the Income Tax Department and other enforcement agencies have revealed that large-scale CSR fund diversion schemes remained undetected for years due to inadequate monitoring mechanisms. For example, recent raids conducted across multiple Indian states uncovered an elaborate network of organizations involved in the diversion of approximately ₹800 crore in CSR funds.[102] The scheme involved complex financial arrangements designed to conceal the ultimate destination of the funds.

These findings suggest that the existing regulatory framework requires stronger enforcement mechanisms, including improved coordination between regulatory authorities, enhanced auditing requirements, and stricter penalties for non-compliance.

9.2.3 Diversion of CSR Funds Through Intermediary Organizations

The diversion of CSR funds through intermediary organizations represents one of the most serious challenges identified in this study. Many corporations implement CSR initiatives through external organizations such as NGOs, charitable trusts, and foundations. While such partnerships can facilitate the efficient execution of development projects, they also create opportunities for financial misappropriation when adequate oversight is absent.

Investigations conducted by enforcement authorities have revealed that several intermediary organizations involved in CSR implementation were used as conduits for diverting funds. In certain cases, companies donated CSR funds to charitable organizations that subsequently returned a large portion of the funds to the donors through cash withdrawals or layered financial transactions.[103]

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[101] Income Tax Department investigation uncovering fraudulent NGOs used for routing CSR funds.
[102] CSR diversion scheme involving approximately ₹800 crore uncovered during enforcement raids across multiple states in India.
[103] Reports on bogus trusts suspected of laundering CSR funds through layered financial transactions.

This practice effectively allowed corporations to claim compliance with CSR obligations while retaining control over the funds. Such arrangements undermine the integrity of the CSR framework and defeat the purpose of mandatory CSR spending.

The misuse of intermediary organizations also raises concerns regarding the regulation of non-governmental organizations involved in CSR implementation. Although many NGOs perform valuable social work, the absence of standardized accreditation systems makes it difficult to distinguish legitimate organizations from fraudulent entities.

9.2.4 Governance Failures Within Corporate Structures

Corporate governance failures constitute another major factor contributing to the misuse of CSR funds. Effective CSR implementation requires active oversight by the board of directors, CSR committees, and independent directors. However, the findings of this study indicate that in several cases, these governance mechanisms fail to operate effectively.

Boards of directors often delegate CSR responsibilities to specialized committees without exercising sufficient oversight over the implementation of projects. Similarly, CSR committees may focus primarily on compliance with statutory spending requirements rather than evaluating the social impact of CSR initiatives.

The role of independent directors in monitoring CSR activities is also critical, yet their involvement in CSR oversight is often limited. Inadequate scrutiny by corporate boards may allow irregularities in CSR spending to go unnoticed for extended periods.

Corporate governance scholars have emphasized that weak internal controls and lack of accountability within corporate structures create opportunities for financial misconduct. The failure of governance institutions to effectively supervise CSR activities therefore represents a significant weakness within the CSR framework.[104]

9.2.5 Lack of Transparency and Impact Assessment

Transparency and accountability are essential components of effective CSR governance.
However, the findings of this study indicate that many companies provide only limited information regarding the implementation and outcomes of their CSR initiatives.

Although companies are required to disclose CSR expenditures in their annual reports, such disclosures often focus primarily on financial data rather than on the social impact of the projects undertaken. As a result, stakeholders may find it difficult to evaluate whether CSR funds are being utilized effectively.

The absence of independent impact assessment mechanisms further contributes to this problem. Without systematic evaluation of CSR projects, it becomes difficult to determine whether the funds allocated by corporations are producing meaningful development outcomes.

International best practices in CSR governance emphasize the importance of third-party audits, public disclosure of project outcomes, and community participation in monitoring development

[104] Reports on bogus trusts suspected of laundering CSR funds through layered financial transactions.

initiatives. The limited adoption of such practices in India highlights the need for reforms aimed at strengthening transparency in CSR reporting.

9.2.6 Ethical Implications and Loss of Public Trust

The misuse of CSR funds also raises serious ethical concerns and contributes to the erosion of public trust in corporate institutions. CSR initiatives are intended to demonstrate the commitment of corporations to social welfare and responsible business practices. When companies misuse CSR funds or engage in fraudulent reporting, they undermine the credibility of the CSR framework and damage the reputation of the corporate sector as a whole.

Recent controversies involving fraudulent CSR schemes have demonstrated how such misconduct can have far-reaching social consequences. In one notable case investigated in Kerala, individuals were deceived through a scheme that falsely claimed to provide subsidized consumer goods through CSR funding. Authorities later discovered that the scheme involved large-scale financial fraud affecting thousands of victims.[105]

Such incidents highlight the broader ethical implications of CSR misuse. Beyond financial losses, these scandals erode public confidence in corporate philanthropy and create skepticism regarding the sincerity of corporate social initiatives.

Restoring public trust therefore requires corporations to adopt stronger ethical standards and demonstrate genuine commitment to social responsibility. Transparent reporting, independent audits, and meaningful stakeholder engagement are essential for rebuilding confidence in the CSR framework

9.3 Suggestions and Recommendations

The analysis of the CSR regulatory framework and the misuse of CSR funds in India reveals that although the statutory provisions under the Companies Act, 2013 have established a strong foundation for corporate social responsibility, several structural and governance deficiencies continue to undermine the effectiveness of the system. Instances of diversion of CSR funds, weak monitoring mechanisms, lack of transparency, and inadequate regulation of implementing agencies have demonstrated the need for comprehensive reforms.

Recent enforcement actions have highlighted the seriousness of these challenges. Investigations conducted by the Income Tax Department uncovered a massive CSR diversion racket involving nearly ₹800 crore that was routed through fake trusts and shell organizations across multiple Indian states. Authorities found that funds claimed to have been used for education and social welfare were never actually utilized for such purposes.[106]

Similarly, frauds involving the misuse of CSR funding mechanisms have been reported in several states, including cases where intermediaries falsely promised to arrange CSR funding for NGOs and subsequently siphoned off large sums of money. Such incidents demonstrate the urgent

[105] Investigation into a large-scale CSR fraud scheme in Kerala involving false claims of subsidized goods funded through CSR contributions.
[106] Income Tax Department investigation revealing a CSR diversion racket involving approximately ₹800 crore across several Indian states.

need for stronger regulatory oversight and practical reforms aimed at improving transparency and accountability in CSR implementation. [107]

In light of these findings, this study proposes several policy recommendations aimed at strengthening CSR governance in India and ensuring that CSR funds are utilized effectively for social development.

9.3.1 Strengthening Regulatory Oversight

One of the most important reforms required in the CSR framework is the strengthening of regulatory oversight by government authorities. Although the Ministry of Corporate Affairs (MCA) supervises CSR compliance, the scale of CSR spending in India has grown significantly since the introduction of mandatory CSR provisions. Corporate entities in India have collectively spent thousands of crores of rupees on CSR projects, making it essential to establish stronger monitoring systems.

A practical solution would be the creation of a **centralized CSR monitoring authority or digital regulatory platform** that tracks CSR spending across companies in real time. Such a system could integrate data from corporate disclosures, financial filings, and CSR project reports to enable regulators to identify irregularities at an early stage.

Another important reform would be to strengthen coordination between regulatory bodies such as the **Ministry of Corporate Affairs, the Income Tax Department, the Enforcement Directorate, and state authorities**. Many CSR diversion schemes involve complex financial transactions across multiple jurisdictions, making it necessary for investigative agencies to share information and collaborate more effectively.

In addition, stricter penalties should be imposed for companies and individuals found guilty of CSR fund diversion. Strong enforcement actions can act as a deterrent against fraudulent practices and encourage companies to comply with CSR regulations more responsibly.

9.3.2 Mandatory Transparency and Public Disclosure

Transparency is a fundamental requirement for effective CSR governance. Although companies are required to disclose CSR expenditures in their annual reports, these disclosures often provide limited information regarding the actual implementation and outcomes of CSR projects.

To address this issue, companies should be required to maintain **publicly accessible digital CSR dashboards** that provide detailed information about CSR projects, including project objectives, budgets, implementing agencies, timelines, and impact assessments. This information should be made available not only to regulators but also to the general public and civil society organizations.

The Companies (CSR Policy) Amendment Rules, 2021 introduced several measures aimed at improving transparency, including the requirement that implementing agencies must register with the government through **Form CSR-1** before receiving CSR funds.[108]

[107] CSR funding fraud cases involving intermediaries falsely promising CSR funds to NGOs.(times of india journal)
[108] Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021.

However, further reforms are required to ensure that CSR disclosures include measurable social outcomes rather than merely financial data. Companies should be required to publish **independent impact assessment reports** for major CSR projects. Under existing rules, companies with a CSR obligation exceeding ₹10 crore must conduct impact assessments for large CSR projects through independent agencies.[109]

Strengthening public disclosure requirements will allow stakeholders such as investors, researchers, and community organizations to evaluate the effectiveness of CSR initiatives and identify potential misuse of funds.

9.3.3 Strengthening Governance Mechanisms Within Companies

Corporate governance mechanisms play a critical role in ensuring that CSR funds are utilized responsibly. Boards of directors and CSR committees must actively supervise CSR activities rather than treating them as routine compliance obligations.

One important recommendation is to strengthen the role of **independent directors** in monitoring CSR activities. Independent directors should be required to review CSR project proposals, monitor implementation progress, and ensure that CSR funds are utilized for legitimate social purposes.

Companies should also establish **internal CSR audit mechanisms** to evaluate the effectiveness and integrity of CSR projects. Such audits should verify whether the funds allocated for CSR initiatives have actually been used for the intended activities.

Another important reform would be the introduction of **whistle-blower protection mechanisms specifically for CSR activities**. Employees or stakeholders who report irregularities in CSR spending should be protected from retaliation and encouraged to report unethical practices.

Strengthening corporate governance structures will ensure that CSR initiatives are implemented with greater accountability and ethical responsibility

9.3.4 Regulation of CSR Implementing Agencies

Many CSR projects are implemented through external organizations such as NGOs, charitable trusts, and foundations. While these organizations often possess specialized expertise in social development, they also present potential risks if adequate regulatory safeguards are not in place.

To address this issue, the government introduced the requirement that all implementing agencies must register with the Ministry of Corporate Affairs through **Form CSR-1**, which generates a unique registration number for entities authorized to receive CSR funds.[110]

However, further reforms are necessary to strengthen the regulation of such organizations. The government should establish a **national accreditation system for CSR implementing agencies**, similar to the regulatory framework used for financial intermediaries. Only accredited organizations with demonstrated experience in social development should be permitted to implement CSR projects.

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109 Rule 8(3), Companies (CSR Policy) Rules, 2014 (as amended in 2021) regarding mandatory impact assessment of large CSR projects.
110 Regulatory framework governing CSR implementing agencies and digital registration requirements.

Additionally, implementing agencies should be required to maintain **transparent financial records and periodic project reports** that can be audited by independent authorities. This will ensure that CSR funds are utilized effectively and that implementing organizations remain accountable for the projects they undertake.

Recent investigations into CSR fund diversion schemes have revealed that several fraudulent trusts and shell organizations were created solely for the purpose of receiving CSR donations and diverting funds through complex financial transactions.[111]

Stronger regulation of implementing agencies will therefore play a crucial role in preventing such misuse and ensuring that CSR initiatives genuinely contribute to social development.

9.3.5 Introduction of Impact-Based Evaluation

One of the most significant reforms required in the Indian CSR framework is the introduction of a robust **impact-based evaluation system**. Traditionally, CSR compliance has largely focused on financial expenditure rather than the actual social impact generated by CSR projects. Many companies measure CSR success primarily in terms of the amount of money spent rather than the tangible outcomes achieved for communities. As a result, several CSR initiatives fail to produce meaningful or sustainable development outcomes.

To address this issue, CSR governance in India must shift from a **spending-based approach to an impact-based approach**. Companies should be required to demonstrate measurable social outcomes such as improvements in education levels, healthcare access, environmental sustainability, and livelihood generation. This approach would ensure that CSR initiatives are evaluated based on their effectiveness rather than merely on financial compliance.

The Companies (CSR Policy) Amendment Rules, 2021 have already introduced a limited form of impact evaluation. Under Rule 8(3), companies with a CSR obligation exceeding ₹10 crore must conduct independent impact assessments for CSR projects with significant financial outlays. The objective of this requirement is to evaluate whether CSR projects have actually benefitted the target communities and to identify areas requiring improvement.[112]

However, the scope of this requirement remains limited and does not apply to many CSR projects undertaken by smaller corporations. Therefore, the government should consider expanding the impact assessment requirement to a wider range of CSR projects. Independent third-party agencies such as research institutions, universities, and social audit organizations should be authorized to conduct these evaluations.

Recent CSR controversies highlight the importance of impact-based evaluation. In a major fraud uncovered in Kerala in 2025, individuals were deceived into paying money for consumer goods such as scooters and laptops that were falsely claimed to be distributed under CSR programs.
Investigations later revealed that the scheme involved fraudulent financial transactions across multiple bank accounts and large sums of money collected from thousands of victims.[113]

If strong impact-evaluation mechanisms had been in place, such fraudulent schemes could have been detected earlier. Therefore, the introduction of **mandatory impact-based evaluation** is

[111] Investigations revealing misuse of CSR funds through shell NGOs and fake charitable trusts.
[112] Companies Act, 2013, § 135 (India).
[113] Investigation into a large CSR fund fraud involving multiple bank accounts and financial transactions linked to fake welfare schemes.(The week editorial)

essential for ensuring that CSR initiatives produce genuine social benefits and prevent misuse of funds.

Additionally, technological solutions such as **digital monitoring systems, geotagging of CSR projects, real-time financial tracking, and data-driven reporting platforms** can significantly improve the transparency and effectiveness of CSR implementation. By integrating technology with impact assessment, regulators and stakeholders can monitor CSR activities more effectively and ensure that funds are utilized for their intended purposes.

9.3.6 Encouraging Stakeholder Participation

Another crucial reform required in the CSR framework is the promotion of **stakeholder participation in CSR planning and implementation**. Currently, many CSR projects are designed and implemented primarily by corporate management or external consultants without adequate consultation with the communities that are supposed to benefit from these initiatives.

Stakeholder participation is essential for ensuring that CSR initiatives address the actual needs of local communities. Beneficiaries, local authorities, civil society organizations, and grassroots institutions should be actively involved in identifying development priorities and evaluating the outcomes of CSR projects.

One practical approach to strengthening stakeholder participation would be the establishment of **community monitoring committees** for major CSR projects. These committees could include representatives from local communities, non-governmental organizations, academic institutions, and local government bodies. Their role would be to monitor project implementation, verify the utilization of funds, and provide feedback to corporate CSR committees.

Public consultation mechanisms can also play an important role in improving CSR governance.
Before initiating large CSR projects, companies should conduct consultations with local stakeholders to identify the most pressing development needs of the community. This participatory approach can ensure that CSR initiatives are aligned with local priorities and generate sustainable social impact.

The importance of stakeholder participation becomes particularly evident in cases where CSR initiatives fail to deliver promised benefits. In several recent controversies, victims were misled by individuals claiming to distribute consumer goods through CSR funding. In one such case, investigations revealed that thousands of people were persuaded to pay money based on false promises of CSR-supported welfare schemes, resulting in widespread financial losses.[114]

If community stakeholders had been involved in verifying the authenticity of such schemes, many victims might have avoided falling prey to fraudulent activities. Therefore, encouraging stakeholder participation is an essential component of effective CSR governance.

Furthermore, stakeholder participation can also strengthen public accountability by enabling civil society organizations and community representatives to monitor CSR activities independently. This collaborative approach can significantly reduce the risk of corruption and misuse of CSR funds.

[114] Police investigation into a CSR fraud scheme in Kerala involving thousands of victims and widespread complaints(the Indian express)

9.4 Conclusion

The findings of this study highlight several structural, regulatory, and ethical challenges associated with the implementation of CSR policies in India. Although the Companies Act, 2013 established a pioneering framework for mandatory corporate social responsibility, the practical implementation of CSR initiatives continues to face significant obstacles.

The analysis presented in this study demonstrates that the misuse of CSR funds often occurs due to weak monitoring mechanisms, inadequate corporate governance, lack of transparency, and insufficient regulation of implementing agencies. Recent investigations and enforcement actions have revealed large-scale CSR diversion schemes involving fraudulent organizations, shell companies, and complex financial transactions.

For example, law enforcement agencies have uncovered several CSR-related frauds involving false promises of subsidized goods, misuse of NGO networks, and diversion of funds through multiple bank accounts. These incidents illustrate how weaknesses in the CSR governance framework can be exploited by individuals seeking to misuse CSR resources for personal gain.[115]

The recommendations proposed in this chapter emphasize the need for comprehensive reforms aimed at strengthening CSR governance in India. These reforms include stronger regulatory oversight, enhanced transparency and public disclosure, improved corporate governance mechanisms, stricter regulation of implementing agencies, impact-based evaluation of CSR projects, and increased stakeholder participation in CSR decision-making processes.

Ultimately, the effectiveness of CSR initiatives depends not only on legal compliance but also on the ethical commitment of corporations to contribute meaningfully to social development.
Companies must recognize that CSR is not merely a statutory obligation but a moral responsibility toward society.

Strengthening accountability mechanisms and promoting transparency in CSR implementation will play a crucial role in restoring public trust and ensuring that CSR funds are utilized for their intended purpose of promoting sustainable development and social welfare in India.

[115] Enforcement actions in fake CSR funding schemes involving promises of subsidized consumer goods.(Hindustan times)

CHAPTER 10: GENERAL CONCLUSION

10.1 Overall Conclusion of the Study

Corporate Social Responsibility (CSR) represents one of the most significant developments in modern corporate governance and business regulation. Over the past decade, the concept of CSR has evolved from a voluntary philanthropic initiative into a legally enforceable obligation for companies in several jurisdictions. India occupies a distinctive position in this evolution, as it became the **first country in the world to introduce mandatory CSR spending through statutory legislation** under Section 135 of the Companies Act, 2013. The legislative framework requires qualifying companies to allocate at least two percent of their average net profits toward socially beneficial activities identified under Schedule VII of the Act. This statutory innovation reflected the Indian legislature's intention to integrate corporate resources with national development objectives.

The introduction of mandatory CSR provisions was widely welcomed by policymakers, scholars, and civil society organizations as a progressive step toward inclusive development. The Indian CSR model sought to mobilize corporate capital for addressing pressing social challenges such as poverty, education, healthcare, environmental protection, rural development, and gender equality.
As observed by corporate governance scholars, CSR regulation in India represents an attempt to transform the corporate sector into an active partner in the country's socio-economic development agenda.[1]

Since the implementation of Section 135 in 2014, CSR spending by Indian companies has increased significantly. According to data published by the Ministry of Corporate Affairs, thousands of companies across India collectively contribute billions of rupees annually toward CSR activities. These funds have supported numerous initiatives, including construction of schools, improvement of healthcare infrastructure, environmental conservation programs, skill development projects, and disaster relief measures.[2] Such initiatives demonstrate the potential of CSR to act as a powerful mechanism for promoting sustainable development.

However, despite these positive contributions, the present study has demonstrated that the implementation of CSR policies in India faces several structural, regulatory, and ethical challenges. The research undertaken in this dissertation has identified significant weaknesses in the monitoring and governance of CSR activities, which have occasionally led to misuse, misreporting, or diversion of CSR funds.

One of the most important findings of this study is that **legal compliance with CSR expenditure does not necessarily translate into effective social impact**. In many cases, companies prioritize meeting the statutory spending requirement rather than ensuring that CSR initiatives produce meaningful developmental outcomes. As noted in several academic studies, the emphasis on expenditure rather than outcomes has resulted in a compliance-oriented approach to CSR rather than a genuinely transformative one.[3]

Another major concern identified in this research is the **lack of transparency and accountability in CSR implementation mechanisms**. Many CSR projects are executed through intermediary organizations such as non-governmental organizations, charitable trusts, and corporate foundations. While these organizations often play an important role in delivering social services, inadequate regulatory oversight sometimes creates opportunities for financial irregularities, misreporting of expenditures, or diversion of funds. In certain cases, CSR projects have been implemented through entities closely associated with the companies themselves, raising concerns regarding conflicts of interest and weak governance structures.

Recent controversies relating to CSR fraud and misrepresentation further illustrate these challenges. Investigations in certain states have revealed schemes in which individuals falsely claimed to distribute goods or welfare benefits through CSR funding, thereby defrauding thousands of citizens. Such incidents highlight the urgent need for stronger verification mechanisms and improved regulatory oversight in CSR implementation.[4]

The study also emphasizes that CSR misuse has far-reaching consequences for various stakeholders. When CSR funds are misappropriated or improperly utilized, the most severely affected stakeholders are the intended beneficiaries, including economically disadvantaged communities who depend on CSR initiatives for social support. The diversion of CSR funds deprives these communities of essential services such as education, healthcare, and livelihood opportunities.

Furthermore, CSR controversies also have significant implications for **corporate governance and investor confidence**. Modern investors increasingly evaluate companies based on environmental, social, and governance (ESG) criteria. Instances of CSR misuse can therefore undermine investor trust and negatively affect corporate reputation in domestic as well as global markets. Corporate misconduct in the field of CSR can also weaken public confidence in the broader concept of corporate accountability.

The research undertaken in this dissertation demonstrates that many of the challenges associated with CSR implementation arise from **institutional weaknesses in monitoring and enforcement mechanisms**. Although the Companies Act provides a legal framework for CSR governance, regulatory authorities often face practical difficulties in verifying whether CSR funds have been utilized effectively. The absence of a centralized monitoring system, limited transparency in reporting practices, and inadequate impact assessment procedures further complicate regulatory oversight.

Scholarly commentary in corporate law literature suggests that the Indian CSR framework must evolve beyond a purely expenditure-based compliance model. Instead, regulators should focus on developing mechanisms that ensure measurable social impact and greater public accountability.
Some experts have recommended integrating CSR reporting with broader sustainability reporting frameworks such as ESG disclosures, which can provide a more comprehensive assessment of corporate social performance.[5]

The study also highlights the importance of strengthening the regulatory framework governing CSR implementing agencies. Many CSR projects are carried out by external organizations whose financial and operational accountability may not always be adequately monitored. Establishing clear regulatory standards for these organizations and requiring periodic independent audits could significantly improve transparency and reduce the risk of fund diversion.

Another important reform identified in this study is the introduction of **impact-based evaluation of CSR initiatives**. Rather than focusing solely on financial expenditure, companies should be required to demonstrate measurable outcomes such as improvements in educational attainment, healthcare access, environmental sustainability, and economic empowerment of communities.
Independent third-party evaluations conducted by academic institutions, social research organizations, or professional audit agencies could play a crucial role in ensuring the credibility of such assessments.

In addition, the study emphasizes the importance of **community participation in CSR governance**. In many cases, CSR initiatives are designed without sufficient consultation with local communities. Encouraging stakeholder participation in the planning, implementation, and monitoring of CSR projects can significantly enhance transparency and ensure that CSR programs address the actual needs of beneficiaries.

Despite the challenges identified in this research, it is important to recognize that CSR remains a powerful instrument for promoting social development. When implemented responsibly and transparently, CSR initiatives can complement government welfare programs and contribute significantly to national development goals. The corporate sector possesses financial resources, managerial expertise, and technological capabilities that can be effectively utilized to address complex social challenges.

Ultimately, the success of CSR governance depends not only on legal regulation but also on the ethical commitment of corporations to act as responsible members of society. Corporate leaders must recognize that CSR is not merely a statutory obligation but an integral component of sustainable business practices. By adopting transparent governance structures, strengthening accountability mechanisms, and prioritizing genuine social impact, corporations can play a transformative role in promoting inclusive and sustainable development in India.

In conclusion, while the Indian CSR framework represents a pioneering experiment in corporate regulation, its long-term success will depend on continuous institutional reforms, stronger enforcement mechanisms, and greater public accountability. Addressing the challenges identified in this dissertation will be essential for ensuring that CSR funds are utilized effectively and that the promise of corporate social responsibility as a tool for social transformation is fully realized.

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Ministry of Corporate Affairs, Government of India https://www.mca.gov.in

National CSR Portal https://csr.gov.in

Securities and Exchange Board of India https://www.sebi.gov.in

NITI Aayog Official Website https://www.niti.gov.in

PRS Legislative Research https://prsindia.org

Reserve Bank of India https://www.rbi.org.in

Invest India https://www.investindia.gov.in

H. Online Legal Databases

Manupatra Legal Database.

SCC Online (Supreme Court Cases Database). Indian Kanoon Legal Database.

ANNEXURE

Annexure I

Statutory Provision Relating to Corporate Social Responsibility

Section 135 of the Companies Act, 2013

1. Every company having:
   - Net worth of ₹500 crore or more, or
   - Turnover of ₹1000 crore or more, or
   - Net profit of ₹5 crore or more

during any financial year shall constitute a **Corporate Social Responsibility Committee** of the Board.

2. The CSR Committee shall consist of **three or more directors**, out of which at least **one director shall be an independent director**.
3. The CSR Committee shall formulate and recommend a **Corporate Social Responsibility Policy** indicating the activities to be undertaken by the company as specified in **Schedule VII** of the Companies Act, 2013.
4. The Board of Directors shall ensure that the company spends at least **two percent of the average net profits of the company made during the three immediately preceding financial years** in pursuance of its CSR Policy.

Annexure II

Schedule VII Activities under the Companies Act, 2013

CSR activities permitted under Schedule VII include:

1. Eradicating hunger, poverty and malnutrition.
2. Promotion of education, including special education and vocational skills.
3. Promoting gender equality and empowering women.
4. Ensuring environmental sustainability and ecological balance.
5. Protection of national heritage, art and culture.
6. Measures for the benefit of armed forces veterans and their dependents.
7. Training to promote rural sports and nationally recognized sports.
8. Contribution to the Prime Minister's National Relief Fund or similar government funds.
9. Rural development projects.
10. Slum area development.

Annexure III

CSR Spending Trends in India

According to data published by the **Ministry of Corporate Affairs CSR Portal**, CSR spending by Indian companies has steadily increased since the implementation of mandatory CSR provisions.

Financial Year	Estimated CSR Spending (₹ Crore)
2014–2015	10,000+
2016–2017	13,000+

Financial Year	Estimated CSR Spending (₹ Crore)
2018–2019	17,000+
2020–2021	20,000+
2022–2023	26,000+

Major sectors receiving CSR funding include:

- Education
- Healthcare
- Rural Development
- Environmental Sustainability
- Skill Development

Annexure IV

Illustrative CSR Governance Structure in Companies

A typical CSR governance framework in large corporations includes:

1. **Board of Directors**
    - Approves CSR policy and oversees implementation.
2. **CSR Committee**
    - Recommends CSR activities.
    - Monitors CSR expenditure.
3. **CSR Implementation Team**
    - Executes CSR projects.
    - Coordinates with NGOs and implementing agencies.
4. **Independent Auditors / Impact Assessment Agencies**
    - Evaluate effectiveness of CSR initiatives.

Annexure V

Example of CSR Project Reporting Format

Companies are required to disclose CSR activities in their **Annual Report**. Typical CSR reporting includes:

- CSR policy statement
- Composition of CSR committee
- Amount of CSR funds allocated
- Amount spent on CSR projects
- Details of implementing agencies
- Impact assessment report (where applicable)

Annexure VI

Recent Investigations into CSR Misuse

Recent investigations by law enforcement agencies have highlighted cases where individuals falsely claimed to distribute goods such as scooters, laptops, and sewing machines through CSR funding schemes.
Thousands of individuals were reportedly deceived into paying advance money under the false belief that they would receive subsidized goods through CSR initiatives.

Such cases illustrate the risks associated with **lack of regulatory oversight and weak verification mechanisms** in CSR implementation. These incidents have prompted authorities to emphasize stronger monitoring of CSR activities and stricter regulation of organizations claiming to operate CSR programs.

Annexure VII

Impact Assessment Requirement under CSR Rules

The **Companies (CSR Policy) Amendment Rules, 2021** introduced mandatory impact assessment for certain CSR projects.

Key provisions include:

- Companies with **average CSR obligation of ₹10 crore or more** must conduct impact assessment.
- Impact assessment must be conducted by **independent agencies**.
- The assessment report must be placed before the **Board of Directors** and included in the **annual CSR report**.