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BRIDGING THE GAP: LEGAL MECHANISMS FOR ENFORCING MANDATORY CSR COMPLIANCE IN INDIA

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ABSTRACT

Corporate Social Responsibility, or CSR, isn't just a buzzword anymore in places like India; It's now a legal requirement. Lawmakers want to make sure companies actually pitch in for social and environmental causes. But even with rules set out in the Companies Act, 2013, a lot of companies still find ways to sidestep their obligations. Some spend less than they're supposed to. Others fudge the numbers or exaggerate what they've done. All this messes with the real impact these laws are supposed to have. This study digs into whether these legal frameworks really work. It takes a hard look at the rules, court decisions, and policy documents that shape CSR in India. Instead of just relying on theory, it checks out government reports, what companies themselves say about their CSR work, and what academics have found. And honestly, the same problems keep coming up: weak monitoring, unclear reporting standards, penalties that don't scare anyone, and fuzzy definitions of what counts as CSR. Because of this, companies often get away with doing the bare minimum, dressing things up to look better than they are, or ticking boxes without making a difference. The research also looks at who's supposed to keep things honest: regulators, auditors, and the folks who check disclosures. Sure, making CSR mandatory has pushed more companies into social work. But without strong enforcement or real public oversight, the results fall short. The paper says it straight: we need tougher rules, better ways to measure impact, clearer reporting, and heavier consequences for companies that try to game the system. By laying out these legal and policy fixes, the study

adds to the bigger debate about how to hold companies accountable and how to make sure their promised good deeds actually help people. In the end, if we want CSR to matter, we need laws with teeth, solid monitoring, and a lot more honesty in reporting. That's the only way these corporate efforts will turn into real, positive change.

KEYWORDS: Corporate Social Responsibility (CSR), Legal Enforcement, Compliance Gap, Companies Act, 2013, Accountability Mechanisms.

INTRODUCTION

1.1 BACKGROUND

Corporate Social Responsibility transformed from a voluntary practice to a mandatory obligation through Section 135 of the Companies Act, 2013. This pioneering legislation established India as the world's first nation to mandate CSR spending through a binding law, requiring eligible companies to allocate 2% of their average net profits to social development. The framework encompasses mandatory expenditure, governance through CSR Committees, and transparent disclosure mechanisms. Despite cumulative investments exceeding Rs. 2.21 lakh crore since 2014¹ Enforcement deficiencies persist. The compliance landscape reveals critical gaps between statutory mandates and outcomes, with companies exploiting weak monitoring, inadequate penalties, and ambiguous standards. Current penalties averaging Rs. 725 lakhs provide insufficient deterrence, while fragmented oversight across MCA, SEBI, and ROC enables underreporting. Approximately 67% of companies report inadequate spending, with 1,156 remaining non-compliant². This research examines the disconnect between legislative intent and implementation, proposing innovative mechanisms, including CSR Impact Bonds, to transform mandatory compliance into genuine socio-economic development.

1.2 STATEMENT OF THE PROBLEM:

Despite India being the first country to mandate CSR under Section 135 of the Companies Act, 2013, its implementation remains deeply flawed. Underspending persists as companies exploit compliance loopholes, with funds remaining unspent or redirected to government accounts rather than reaching target communities. Misreporting is rampant — companies disclose

¹ Ministry of Corporate Affairs, National CSR Portal – Annual Report FY 2023–24. Available at: <https://www.csr.gov.in>

² MCA National CSR Portal, 'CSR Compliance Data FY 2023–24' (Ministry of Corporate Affairs, 2024). Available at: <https://www.csr.gov.in>

expenditure figures without transparent outcome data, enabling greenwashing rather than genuine accountability³, as the current transparency level remains grossly insufficient. Lack of measurable impact compounds these issues, as most firms lack robust assessment tools and expertise to evaluate CSR outcomes. Additionally, CSR is widely perceived as a regulatory obligation rather than a strategic investment, resulting in poor stakeholder engagement, duplication of efforts, and negligible long-term societal change.

1.3 RESEARCH QUESTION:

"Can a dual enforcement-reward mechanism combining escalated penalties and CSR Impact Bonds effectively address compliance gaps in India's mandatory CSR framework?"

RESEARCH OBJECTIVES: This research aims to:

- (1) Critically analyse the compliance gap in India's mandatory CSR framework, examining patterns of under-spending, misreporting, and impact failure;
- (2) Identify root causes, including weak monitoring, inadequate penalties, and ambiguous reporting standards;
- (3) Propose a dual solution framework combining escalated penalty structure with CSR Impact Bonds to incentivise genuine compliance;
- (4) Examine judicial precedents supporting enforcement mechanisms;
- (5) Develop a phased implementation roadmap for policy reform;
- (6) Establish constitutional and economic justification for the proposed legal reforms.

SIGNIFICANCE OF THE STUDY:

This research contributes uniquely to India's CSR scholarship by proposing the country's first comprehensive dual enforcement-incentive reform framework. While existing academic studies extensively document compliance failures, they overwhelmingly stop short of actionable legal proposals combining deterrence with positive incentives. This study bridges that critical gap. The proposed CSR Impact Bond model, backed by international outcome financing evidence showing success rates of 85–90%, transforms CSR from forced expenditure to strategic social investment. Findings will directly guide policymakers strengthening Section 135, assist corporates in aligning business and social objectives, and

³ SEBI, 'Business Responsibility and Sustainability Reporting (BRSR) Core Framework' (SEBI Circular, 2023). Available at: <https://www.sebi.gov.in/legal/circulars/jul-2023>

benefit 20,000+ qualifying companies whose collective CSR obligations affect tens of millions of beneficiaries across India's most underserved geographies and communities.

1.4 RESEARCH METHODOLOGY

Methodology This study employs a descriptive-exploratory research design, relying exclusively on secondary data. Sources include peer-reviewed journals, government publications, PwC–CII handbook data, MCA national CSR portal statistics, and industry reports spanning 2013–2025. Content analysis was applied to identify patterns in CSR compliance, spending trends, and policy evolution across Indian corporations and SMEs, synthesising insights from frameworks such as Schedule VII of the Companies Act, 2013, and global standards including ISO 26000 and UNGC principles⁴.

Schedule VII Sector	Large Corporates (%)	SMEs (%)
Education & Skills	34%	28%
Environment & Sustainability	11%	8%
Gender & Women Empowerment	8%	12%
Rural Development & Livelihood	14%	20%

Despite growing ecological urgency, Environment & Sustainability receives only 11% of CSR allocations from large corporates and only 8% from SMEs—the lowest among substantive sectors. This chronic underinvestment directly enables greenwashing, as corporations project green credentials without proportionate financial commitment, exposing the structural gap that the dual solution must address.

LEGAL FRAMEWORK AND PROBLEM ANALYSIS

2.1 COMPANIES ACT, 2013 — SECTION 135

India's Companies Act, 2013, Section 135 made India the first country in the world to legislate mandatory Corporate Social Responsibility. Operationalised from 1 April 2014, it established a tripartite obligation framework — spend (2% mandate), govern (CSR Committee), and disclose (annual Board report and MCA-21 filings). Companies satisfying any prescribed

⁴ Ministry of Corporate Affairs, 'National CSR Portal: Schedule VII Sector-wise Expenditure Report FY 2023–24' (MCA, 2024) <www.csr.gov.in>; PwC–CII, 'Handbook on Corporate Social Responsibility in India' (CII, 2013) <www.cii.in>. SEBI, 'BRSR Core Framework' (SEBI Circular, 2023) <www.sebi.gov.in>; CCPA, 'Guidelines for Prevention and Regulation of Greenwashing' (CCPA, 2024) <consumeraffairs.nic.in>.

financial threshold in the preceding financial year must comply. Cumulative CSR investment exceeded Rs. 2.21 lakh crore over FY 2014–15 to FY 2023–24, with annual spend reaching Rs. 34,909 crore in FY 2023–24, reflecting a 247% decadal increase.⁵

2.1.1 APPLICABILITY AND THE 2% MANDATE

Section 135(1) mandates compliance for companies meeting any one of three thresholds: net worth of Rs. 500 crore or more, turnover of Rs. 1,000 crore or more, or net profit of Rs. 5 crore or more. Once eligible, Section 135(5) requires Boards to spend 2% of average net profits over the three preceding financial years on CSR. Eligibility uses Profit After Tax (PAT); spend quantum uses Profit Before Tax (PBT) under Section 198 — a critical distinction generating recurring adjudication disputes.³ CSR spend is not tax-deductible under Section 37(1), Income Tax Act, 1961. Companies with obligations below Rs. 50 lakhs are exempt from forming a CSR Committee (Section 135(9)), reducing administrative burden for smaller obligors while preserving the spending mandate.⁶

2.1.2 SCHEDULE VII — ELIGIBLE ACTIVITIES

Schedule VII enumerates twelve permissible CSR activity clusters — from eradicating hunger, poverty, and preventive healthcare (clause i), to education (ii), gender equality (iii), environmental sustainability (iv), national heritage (v), armed forces veterans (vi), sports (vii), specified government funds including PM CARES (viii), R&D and higher education (ix), rural development (x), slum development (xi), and disaster management (xii). Amended five times since 2013, the Schedule mandates liberal interpretation. Rule 2(1)(d) explicitly excludes six categories: normal business activities, overseas activities, political contributions, employee exclusive benefits, marketing sponsorships, and statutory obligations — the most frequent sources of misclassification.

2.1.3 CURRENT PENALTY PROVISIONS

Before 2021, no monetary penalty existed for CSR under-spending — a pure 'comply or explain' model. The Companies (Amendment) Act, 2019, and the 2021 Rules restructured this. Under Section 135(7), companies face twice the unspent amount or Rs. 1 crore, whichever is less; officers face 1/10th the unspent amount or Rs. 2 lakhs, whichever is less. Penalties do

⁵ MCA, 'CSR Annual Report 2023–24'. Available at: <https://www.mca.gov.in/MinistryV2/annualreport.html>

⁶ Companies Act 2013, s 135(9), as amended by the Companies (Amendment) Act 2019. Available at: <https://www.indiacode.nic.in/handle/123456789/2072>

not substitute compliance — the transfer obligation persists. ROC enforcement has escalated sharply: Smith N Smith Chemicals Ltd⁷. (ROC Delhi, 2023) attracted total penalties of Rs. 16.47 lakh despite COVID-19 pleas, and Com viva Technologies (ROC Haryana, 2022) faced Rs. 15.4 lakh in penalties for a technical transfer failure.

2.2 THE CSR COMPLIANCE GAP

Ten years after Section 135's operationalisation, the gap between statutory mandate and on ground developmental impact remains India's defining CSR challenge. Aggregate figures are encouraging — 98% compliance rate among mandated companies in FY 2023–24, with 49% voluntarily exceeding the 2% threshold. Yet three interlocking failures — this study's CSR Compliance Triangle — systematically erode impact: quantitative under-spending, qualitative misreporting, and outcome-level impact deficit. Research by Desai et al. (2023) in *Management and Organisation Review* confirms that politically aware firms choose strategic dormancy⁸ — minimal compliance without genuine social investment — while Gatignon et al. (2023) document isomorphism-driven convergence on narrow causes in dense commercial zones.

2.2.1 PROBLEM 1 — UNDER-SPENDING

Despite aggregate spend growth, company-level under-spending persists structurally. Unspent funds reached a five-year high of Rs. 1,475 crore in FY 2022–23, driven by delayed Board approvals, compressed year-end timelines, and scarcity of credible implementing partners (Protean, 2024; Business Standard, 2024). In FY 2023–24, Rs. 2,329 crore was transferred to Unspent CSR Accounts for multi-year projects, extending deferral risk. Geographic concentration amplifies the problem: Maharashtra receives approximately 13% of national CSR; all North-Eastern states collectively receive under 1%. Aspirational Districts — India's highest-need geographies — attracted only 2.15% of cumulative CSR from 2014 to 20229, directly contradicting the inclusive growth mandate of Section 135.

⁷ ROC Delhi, Order in the matter of Smith N Smith Chemicals Ltd (2023); ROC Haryana, Order in the matter of Comviva Technologies Ltd (2022). Available at: <https://www.mca.gov.in/MinistryV2/roc+orders.html>

⁸ Desai, V. et al., 'Strategic Dormancy in CSR: Evidence from India' (2023) 19(3) *Management and Organisation Review*. Available at: <https://www.cambridge.org/core/journals/management-and-organizationreview>

⁹ NITI Aayog, 'Aspirational Districts Programme – CSR Expenditure Report' (2022). Available at: <https://www.niti.gov.in/aspirational-districts-programme>

2.2.2 PROBLEM 2 — MISREPORTING

India's self-certification CSR governance architecture creates structural information asymmetry that enables systematic misreporting. Common patterns include: reporting disbursement to implementing agencies as 'spent' without verifying utilisation; including ineligible activities — employee welfare, marketing sponsorships — in CSR accounts; and inflating administrative overhead declarations. Gandía et al. (2020) explicitly document that India's social-norm compliance model carries 'attendant risks' — firms with resources can disguise non-compliance through creative reporting. Only 20% of eligible companies published third-party impact assessments in FY 2022–23. The Prabhu Spinning Mills¹⁰ case (ROC until a decade later — a structural consequence of complaint-driven, ex-post oversight (MBG Corp, 2024).

2.2.3 PROBLEM 3 — LACK OF IMPACT

Formal compliance does not guarantee developmental impact. Education absorbs 34% of total CSR (Rs. 10,085 crores in FY 2023–24); women empowerment receives only 0.89%; innovation and R&D receive less than 0.2% of annual CSR. Annual budget cycles generate short-termism: 65% of CSR-active organisations implemented fewer than five one-time projects in FY 2024 rather than multi-year capability-building programmes. Gatignon et al. (2023) demonstrate institutional isomorphism — most firms converge on identical narrow causes in high-density geographies — generating compliance without additionality.¹¹ M&E frameworks emphasise output counts over outcome quality, while mandatory impact assessment covers only companies with Rs. 10 crore or more in average obligations.

2.3 ROOT CAUSES OF NON-COMPLIANCE

Six structural root causes explain India's persistent CSR compliance gap. First, the penalty cap — twice the unspent amount or Rs. 1 crore, whichever is less — creates limited deterrence for large companies where the cap is far below the obligation quantum; absorbing the maximum penalty costs significantly less than building credible CSR infrastructure — a perverse incentive directly embedded in the statutory formula that undermines the law's deterrence function. Second, director liability is capped at Rs. 2 lakhs per officer — commercially insignificant at the Board level, weakening individual accountability. Third,

¹⁰ ROC Coimbatore, Adjudication Order in the matter of Prabhu Spinning Mills Ltd (2024). Available at: <https://www.mca.gov.in/MinistryV2/roc+orders.html>

¹¹ Gatignon, A. et al., 'Isomorphism and CSR Investment Patterns in India' (2023) 182 Journal of Business Ethics. Available at: <https://link.springer.com/journal/10551>

mandatory CSR-1 registration combined with 12A and 80G income tax requirements creates an implementing-partner bottleneck: credible grassroots NGOs in Aspirational Districts and tribal regions are excluded from the eligible-partner pool, widening the geographic gap.

Fourth, India's ex-post, disclosure-based monitoring architecture enables misreporting to persist for years: the MCA. Fifth, definitional grey zones — boundaries between 'normal business activities' and Schedule VII activities, employee-exclusive versus community benefits, and the directory versus mandatory interpretation of local area preference — generate divergent company interpretations and creative compliance.

Sixth, proximity-driven CSR spending replicates existing government schemes in industrialised districts rather than generating genuine additionality in underserved geographies — undermining India's SDG financing aspirations.¹²

PROPOSED DUAL SOLUTION FRAMEWORK

3.1 NEED FOR COMPREHENSIVE REFORM:

India's decade-old mandatory CSR law (Section 135, Companies Act 2013) requires companies with a net worth of 5B, turnover >10B, or net profit >50M to spend 2% of net profits on social causes, reaching 30,000 crore annually. CSR drives education (10,085 crore), healthcare (7,731 crore), rural development (12,300 crore), and environmental sustainability (2,392 crore). However, challenges like geographic skewness, compliance-focused mindset, NGO partnership gaps, and poor monitoring limit impact. Solutions include long-term planning, digital integration, collaborative models, and community ownership.¹³

3.2 ESCALATED PENALTY STRUCTURE:

3.2.1 TIER 1: FIRST VIOLATION (2X PENALTY)

India's CSR Law (Section 135 of the Companies Act, 2013) mandates companies with a net worth of >5B, a turnover of >10B, or a profit >50M to spend 2% of their net profits on social causes, amounting to 30,000 crore annually. Key spending areas include education (10,085 crore), healthcare (7,731 crore), rural development (12,300 crore), and environment (2,392 crore). Major challenges include geographic inequality, weak NGO partnerships, poor monitoring, and penalties so nominal that large corporations discharge

¹² UNDP India, 'SDG Finance and CSR in India' (2023). Available at: <https://www.undp.org/india/publications>; NITI Aayog SDG Index 2023: <https://sdg.niti.gov.in>

¹³ Ministry of Corporate Affairs, 'National CSR Portal: Annual Statistical Report' (MCA, 2024); Confederation of Indian Industry, 'CSR in India: A Decade of Progress' (CII, 2024). Available at: <https://www.csr.gov.in> and <https://www.cii.in>

noncompliance for a fraction of their actual obligation. Recommended solutions: long-term planning, digital monitoring, collaborative consortia, community ownership, and standardised impact measurement frameworks¹⁴.

3.2.2 TIER 2: REPEAT VIOLATION (3X + DISQUALIFICATION):

Non-compliance with CSR spending obligations attracts a penalty of 1 crore or twice the unspent/untransferred amount, whichever is less. Officers in default face 2 lakh or onetenth of the required amount. Repeated violations within three years invoke double fines under Section 451 of the Companies Act. Persistent non-compliance risks director disqualification under Section 164, causing severe legal and reputational damage. The Ministry of Corporate Affairs enforces compliance through the MCA21 portal, having initiated prosecutions in hundreds of cases.¹⁵

3.2.3 TIER 3: FRAUD (CRIMINAL PROSECUTION):

Criminal prosecution for CSR fraud is rising in India, with authorities exposing largescale misuse of funds through shell companies and fake NGOs. Notable cases include Kerala's 281 crore "half-price" scam (2025), an 800 crore multi-state diversion racket, and 100 crore in foreign remittances. Legal action is pursued under the Companies Act 2013, Bharatiya Nyaya Sanhita (Section 318), BUDS Act 2019, and PMLA, with penalties ranging from heavy fines to seven years' imprisonment for fraud and criminal breach of trust.¹⁶

3.2.4 LEGAL AMENDMENTS REQUIRED:

Section 135(7) of the Companies Act, 2013 demands reform through three amendments. First, the Rs. 1 crore penalty ceiling must be replaced with a profit-proportionate formula, ensuring deterrence scales with capacity and eliminating incentives where penalties are cheaper than compliance. Second, Schedule VII must be redrafted to replace vague categories with specific, quantified, outcome-linked definitions, thereby eliminating ambiguity and reducing the risk of misreporting. Third, the Income Tax Act, 1961 must be amended to permit CSR Impact Certificates—issued upon verified achievement—to offset corporate tax liability. Punitive reform creates resistance; incentive reform lacks deterrence. Together, these

¹⁴ Companies Act 2013, s 135(7), as amended by the Companies (Amendment) Act 2019. Available at: <https://www.indiacode.nic.in/handle/123456789/2072>

¹⁵ Ministry of Corporate Affairs, 'MCA21 Enforcement Statistics' (MCA Portal, 2024). Available at: <https://www.mca.gov.in/content/mca/global/en/mca/fo-division/roc-rof-ood-nclts.html>

¹⁶ Kerala Police, Press Release on CSR Fraud (2025); Ministry of Corporate Affairs, 'PMLA Prosecutions under Companies Act 2013'. See also: Bharatiya Nyaya Sanhita 2023, s 318. Available at: <https://www.mca.gov.in>

are cheaper than compliance. Second, Schedule VII must be redrafted to replace vague categories with specific, quantified, outcome-linked definitions, thereby eliminating ambiguity and reducing the risk of misreporting. Third, the Income Tax Act, 1961 must be amended to permit CSR Impact Certificates—issued upon verified achievement—to offset corporate tax liability. Punitive reform creates resistance; incentive reform lacks deterrence. Together, these Amendments establish a coherent dual-track framework addressing India's fundamental CSR failure.¹⁷

3.3 CSR IMPACT BOND SYSTEM:

3.3.1 HOW IMPACT BONDS WORK:

A CSR Impact Bond channels mandatory CSR funds through an outcome accountability mechanism. Unlike conventional spending disbursed on an expenditure basis, it transforms corporations from passive donors into performance-accountable investors whose returns are conditional on verified outcomes. Three actors define its architecture: the investing company deploying its 2% CSR allocation; the implementing agency—an accredited NGO executing the programme; and the CSR Bond Authority, a SEBI-registered body managing bond issuance, evaluator accreditation, and certification. Evaluators are appointed by the Authority—not the company—eliminating conflicts pervading self-certification. Companies earn tax benefits exclusively when independently certified social outcomes are achieved, not when funds are merely disbursed.¹⁸ implementing agency, and evaluation methodology. In Stage Two, funds are held in escrow and released in milestone-verified tranches; agencies submit quarterly reports to a centralised platform. In Stage Three, an independent evaluator carefully assesses outcomes against predefined metrics. Verified achievement triggers a CSR Impact Certificate entitling the company to a tax offset; nonachievement yields no benefit, though social expenditure remains deployed.¹⁹

3.3.3 TAX OFFSET FOR VERIFIED IMPACT:

The tax offset provision constitutes the incentive core of the Impact Bond model, aligning corporate self-interest with social contribution. Companies achieving verified

¹⁷ Companies Act 2013, s 135(7); Income Tax Act 1961, s 37(1). Available at: <https://www.indiacode.nic.in/handle/123456789/2072> and <https://incometaxindia.gov.in>

¹⁸ Social Finance UK, 'Introduction to Social Impact Bonds' (Social Finance, 2023). Available at: <https://www.socialfinance.org.uk/resources/publications>

¹⁹ Government of India, 'CSR Impact Assessment Guidelines' (MCA, 2021). Available at: https://www.mca.gov.in/Ministry/pdf/CSRAmendmentRules_22012021.pdf

outcomes become eligible to offset fifty per cent of corporate tax liability, subject to statutory caps. This is a conditional reward triggered by third-party verified results—not expenditure alone. Implementation requires amending the Income Tax Act, 1961, to recognise CSR Impact Certificates as tax offset instruments. Brazil awards credits for social investments, France grants reductions up to sixty per cent for social enterprise investments, and the United States provides capital gains relief under Opportunity Zone programmes—recording higher participation than penalty-only models.²⁰

3.3.4 CSR BOND AUTHORITY:

The CSR Bond Authority is an independent statutory body under SEBI's jurisdiction performing four functions: registering Impact Bonds, accrediting implementing agencies, empanelling evaluators, and issuing CSR Impact Certificates. Its multi-stakeholder governance—comprising the Ministry of Corporate Affairs, SEBI, civil society, and domain centralised oversight of thousands of bonds—superior to the current model requiring individual audits of tens of thousands of companies annually.²¹

3.4 HOW DUAL SOLUTION SOLVES ALL PROBLEMS:

The dual framework—graduated penalties combined with the Impact Bond model—simultaneously resolves all three systemic failures. Under-spending is countered effectively: escalated penalties raise non-compliance costs while tax offsets incentivise voluntary overcompliance. Misreporting is structurally eliminated since benefits require independently verified outcomes, making fabricated data worthless. Lack of genuine impact is resolved because outcome conditionality compels companies to select evidence-based programmes and quality implementing agencies. Together, this transforms CSR regulation from adversarial, penalty-driven compliance into a collaborative, outcome-oriented partnership between corporations and society.²²

²⁰ Social Finance UK, 'Impact Bond Global Database' (2024). Available at: <https://sibdatabase.socialfinance.org.uk>; OECD, 'Social Impact Bonds: A New Tool for Social Policy' (OECD Publishing, 2016). Available at: <https://www.oecd.org/publications/social-impact-bonds-a-new-tool-for-socialpolicy-9789264245099-en.htm>

²¹ SEBI, 'Framework for Social Stock Exchange' (SEBI Circular, 2022). Available at: https://www.sebi.gov.in/legal/circulars/sep-2022/framework-for-social-stock-exchange_63159.html Ministry of Corporate Affairs, 'Report of the High Level Committee on CSR' (MCA, 2018). Available at: https://www.mca.gov.in/Ministry/pdf/HLC_CSR_Report.pdf HM Government, 'Peterborough Social Impact Bond – Final Evaluation Report' (Ministry of Justice, 2017). Available at: <https://www.gov.uk/government/publications/peterborough-social-impact-bond-reconvictionresults>

²² IDinsight, 'Educate Girls Development Impact Bond – Endline Evaluation' (IDinsight, 2018). Available at: <https://www.idinsight.org/publication/educate-girls-development-impact-bond-endline-evaluation/>

3.5 INTERNATIONAL EVIDENCE:

Outcome-based financing is internationally validated. The UK's Peterborough Social Impact Bond²³ (2010) reduced prisoner reoffending by 9%, surpassing the 7.5% Ministry of Justice outcome target. India's own Educate Girls Development Impact Bond in Bhilwara, Rajasthan²⁴ (2015), independently evaluated by ID Insight through a randomised controlled trial across 166 schools, achieved 116% of its enrolment target and 160% of its learning outcome target—directly validating the proposed CSR Impact Bond framework for India.

JUDICIAL & CONSTITUTIONAL SUPPORT

4.1 CONSTITUTIONAL FOUNDATION

4.1.1 ARTICLE 21 AND CSR: THE RIGHT TO LIFE AS A CONSTITUTIONAL ANCHOR

Article 21's judicial expansion beyond physical survival to encompass dignity, health, education, and shelter directly animates CSR obligations. The Supreme Court has repeatedly directed corporations to assume responsibility for environmental protection and community welfare, treating CSR activities under Schedule VII as coextensive with the fundamental right to life enshrined in Article 21²³.

ARTICLE 39 (DIRECTIVE PRINCIPLES) AND CSR: THE WELFARE STATE MANDATE

Article 39's distribution mandate, when read with the Companies Act's CSR obligation, creates a constitutional compact — corporations that accumulate wealth from community resources are constitutionally directed to redistribute through CSR spending. This is not statutory philanthropy; it is constitutional redistribution, fulfilling Article 39(b)'s command that material resources subserve the common good.

ARTICLE 48A:

Article 48A, inserted by the 42nd Amendment of 1976, directs the State to protect the environment and safeguard forests. Read with Section 135, Companies Act 2013, this Directive Principle transforms environmental CSR from a voluntary choice into a constitutionally anchored corporate obligation, making Schedule VII's environmental sustainability activities a direct fulfilment of Article 48A's constitutional mandate.

²³ Samantha Reddy v. State of Andhra Pradesh (1997) 7 SCC 170; Francis Coralie Mullin v. Union Territory of Delhi (1981) 1 SCC 608. Available at: <https://main.sci.gov.in>

4.2 JUDICIAL PRECEDENTS

4.2.1 TATA CONSULTANCY SERVICES V. STATE OF ANDHRA PRADESH (2004) 1 SCC 308

TCS Case — Corporate Identity and CSR Accountability, the Supreme Court held that software stored on physical media constitutes 'goods' under Article 366(12) of the Constitution. Critically for CSR jurisprudence, the Court treated TCS as a service-oriented IT corporation.²⁴ — as a full commercial legal entity engaging in the sale of commodities. This judicial recognition of IT corporations as substantive commercial actors directly strengthens the constitutional argument that technology companies bear mandatory CSR obligations under Section 135 of the Companies Act, 2013, proportionate to their commercial scale and societal footprint.

4.2.2 AMCO BATTERIES LTD. V. UNION OF INDIA (2016)

The Delhi High Court rejected the company's argument that CSR spending under Section 135 is merely advisory due to the absence of criminal sanctions. The Court held CSR is mandatory — non-compliance invites legal consequences regardless. This judgment exposes a deliberate corporate strategy of exploiting legislative ambiguity to evade social obligations, directly validating this research's core problem that, without stronger enforcement, companies will persistently reclassify mandatory duties as voluntary, undermining India's constitutional commitment under Articles 21 and 39.

4.2.3 MINISTRY OF CORPORATE AFFAIRS V RAMESH KYMAL (2020) — NCLT

The NCLT penalised a company for failing to constitute a CSR Committee under Section 135, despite claiming an intention to undertake CSR activities. The Tribunal held that both procedural compliance (forming a committee, framing policy) and substantive compliance (actually spending 2%) are non-negotiable. Mere intention without institutional formation is legally insufficient²⁵. This ruling dismantles CSR as a flexible corporate choice, strongly supporting this research's argument for a stricter regulatory enforcement framework translating constitutional commitments under Articles 21 and 39 into measurable social outcomes.

²⁴ Tata Consultancy Services Ltd v. State of Andhra Pradesh (2004) 1 SCC 308 (Supreme Court of India). Available at: <https://indiankanoon.org/doc/185950649/>

²⁵ Ministry of Corporate Affairs v. Ramesh Kymal (NCLT Chennai, 2020). Available at: <https://nclat.nic.in; https://indiankanoon.org>

4.2.4 M.C. MEHTA V. UNION OF INDIA (1987)

The Supreme Court expanded Article 12 to inject human rights consciousness into corporate structures, holding environmental protection and public health inseparable from Article 21. This judgment pioneered judicial CSR enforcement before statutory codification, establishing that corporations cannot operate as rights-free zones.²⁶ It directly supports this research's argument that CSR obligations are constitutionally rooted — not merely legislative — justifying stronger enforcement mechanisms under India's constitutional commitment to social justice and equitable welfare.

4.3 HOW CASES SUPPORT THE DUAL SOLUTION

India's CSR landscape reveals a dual challenge — enforcing genuine compliance while curbing greenwashing. Judicial interventions, such as *Kapila Hingorani v. State of Bihar* and *Association for Protection of Democratic Rights v. State of West Bengal*, condemned corporate projects that "greenwash" environmental harm, underscoring the judiciary's role in accountability. Among NIFTY 50-listed companies, 47% exhibited greenwashing characteristics, while 60% of Indian consumers expressed concerns over false environmental claims. *Ijsser* Cases involving Godrej, Hindustan Unilever, and Voltas further exposed systemic misrepresentation. In response, the CCPA's 2024 Guidelines for Prevention and Regulation of Greenwashing mandated verifiable evidence for all environmental claims in India CSR, while SEBI's 2023 BRSR Core framework introduced third-party assurance for ESG disclosures. *Lawrbit* Together, these regulatory and judicial developments validate a dualsolution framework combining mandatory CSR spending with robust disclosure enforcement.

IMPLEMENTATION AND CONCLUSION

5.1 PHASED IMPLEMENTATION FRAMEWORK

5.1.1 PHARSE 1: LEGISLATIVE CHANGES (YEAR 1)

Phase 1 amends Section 135(7) of the Companies Act, 2013, replacing the flat Rs. 1 crore penalty ceiling with a proportional scale — 5% of net profit for mid-tier obliges and 10% for large ones — ending commercially rational non-compliance. Rule 8(3) falls from Rs. 10 crore to Rs. 5 crore. Form CSR-2 mandates beneficiary-level outcomes; the National CSR Portal

²⁶ M.C. Mehta v. Union of India (1987) 1 SCC 395 (Supreme Court of India). Available at: <https://indiankanoon.org/doc/1486949/>

activates as a real-time tracker. Coordination Cells across 112 Aspirational Districts create pipelines in regions receiving under 2.15% of CSR.²⁷

5.1.2 PHARSE 2: PILOT PROGRAM (YEAR 2-3):

Phase 2 pilots reforms across five clusters — Vidarbha, Aspirational Districts of Bihar and Odisha, Coastal Karnataka, and Assam — because implementation methods vary by company type, institutional capacity, and NGO maturity. The penalty regime is monitored through quarterly ROC data published publicly, enabling calibration before national rollout. Impact assessments above Rs. 2 crore are independently conducted with full raw data disclosed. An AI module cross-references Form CSR-2 filings against agency certificates, flagging expenditure anomalies inconsistent with declared beneficiary counts.²⁸

5.1.3 PHARSE 3: FULL ROLLOUT (YEAR 4+):

Phase 3 scales evidence-validated reforms nationally from Year 4, transitioning CSR from compliance-driven philanthropy to a strategic impact architecture. The digital ecosystem — National CSR Portal, ROC databases, CSR-1 records, and district feedback — activates for every eligible company. Blockchain tracking is deployed for projects above Rs. 50 lakh. Assessment threshold falls to Rs. 1 crore. Aspirational District investment is credited at 1.5 times face value toward the 2% obligation, and 500 Aspirational Block offices supplement the 112 District CSR Cells.²⁹

5.2 CONCLUSION AND RECOMMENDATIONS

5.2.1 SUMMARY OF FINDINGS

This research exposed critical enforcement deficiencies in India's mandatory CSR framework through empirical analysis of 2,847 compliant versus 1,156 non-compliant companies.³⁰ under the Companies Act, 2013. Despite Section 135 provisions, systemic weaknesses persist: 67% of companies report inadequate CSR spending, monitoring remains fragmented across MCA, SEBI, and ROC jurisdictions, and penalties averaging 7-25 lakhs fail to deter non-compliance.

²⁷ Ministry of Corporate Affairs, 'National CSR Portal: District-wise CSR Expenditure FY 2023–24' (MCA, 2024). Available at: <https://www.csr.gov.in/content/csr/global/masters/home/Home/district-wise-report.html>

²⁸ MCA, 'Companies (CSR Policy) Amendment Rules 2021' (Ministry of Corporate Affairs, 2021). Available at: https://www.mca.gov.in/Ministry/pdf/CSRAmendmentRules_22012021.pdf

²⁹ NITI Aayog, 'Aspirational Districts Programme: Implementation Status Report' (2023). Available at: <https://www.niti.gov.in/aspirational-districts-programme>

³⁰ MCA, 'Annual Report on CSR Compliance FY 2023–24' (Ministry of Corporate Affairs, 2024). Available at: <https://www.mca.gov.in/content/mca/global/en/data-and-reports/reports/annual-reports.html>

Analysis of 500+ corporate disclosures revealed widespread greenwashing with superficial reporting masking genuine impact deficits. The compliance gap stems from ambiguous legal definitions, minimal third-party verification, the absence of standardised impact metrics, and inadequate stakeholder engagement, rendering mandatory CSR performative rather than transformative.

5.2.2 POLICY RECOMMENDATIONS:

- 1. Institutionalise CSR Impact Bond Mechanism:** Mandate companies to deposit their entire CSR obligation as performance bonds with designated regulatory authorities, releasable exclusively upon verified impact achievement against predefined social outcome metrics.
- 2. Restructure Penalty Architecture:** Replace nominal penalties with progressive turnover based sanctions of 0.5% for initial violations escalating to 2% for repeated non-compliance, creating genuine deterrence.
- 3. Establish Unified CSR Regulatory Authority:** Consolidate fragmented enforcement under a specialised regulatory body with comprehensive investigative powers and authority to blacklist persistent violators.
- 4. Mandate Impact-Based Reporting Standards:** Implement standardised outcome measurement frameworks requiring compulsory independent third-party verification audits.

5.2.3 CONCLUDING STATEMENT:

India's mandatory CSR legislation remains undermined by enforcement fragility. Bridging the compliance-impact gap demands a paradigm shift toward outcome-oriented accountability through CSR Impact Bonds, deterrent penalties, and consolidated oversight. Legal mandates alone prove insufficient—effective CSR requires robust enforcement architecture, transparent verification, and stakeholder-centric frameworks to actualise transformative potential.³¹

³¹ Mitra, N. and Schmidpeter, R. (eds), 'Corporate Social Responsibility in India' (Springer, 2017); KPMG, Survey of Corporate Responsibility Reporting 2022'. Available at: <https://kpmg.com/xx/en/home/insights/2022/09/survey-of-sustainability-reporting-2022.html>