

DEVELOPMENT OF CORPORATE SOCIAL RESPONSIBILITY (CSR) IN INDIA

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Abstract

Corporate Social Responsibility (CSR) in India has undergone a significant transformation from a voluntary, philanthropy-driven practice to a structured and legally mandated framework under the Companies Act, 2013. This research paper explores the historical evolution of CSR in India, tracing its roots from traditional charitable activities of business houses to its integration into modern corporate governance. It further examines the statutory provisions governing CSR, particularly Section 135 of the Companies Act, 2013, along with the CSR Rules, 2014, which establish compliance requirements, monitoring mechanisms, and reporting obligations for eligible companies.

The paper critically analyzes the implementation of CSR initiatives across various sectors such as education, healthcare, environmental sustainability, and rural development, highlighting their contribution to socio-economic development. At the same time, it evaluates the practical challenges faced in execution, including issues of transparency, inadequate impact assessment, regional imbalances in fund allocation, and the tendency of corporations to treat CSR as a compliance requirement rather than a strategic responsibility.

Additionally, the study considers recent developments and amendments in CSR regulations, emphasizing enhanced accountability and the growing alignment of CSR activities with sustainable development goals (SDGs). Through a comprehensive analysis, the paper aims to assess the effectiveness of CSR as a tool for inclusive growth and suggests measures to strengthen its impact. It concludes that while India's mandatory CSR regime is a progressive step, there is a need for a more impact-oriented, participatory, and transparent approach to fully realize its potential in achieving long-term sustainable development.

Research Objectives

1. To examine the evolution and development of Corporate Social Responsibility (CSR) in India.
2. To analyze the legal framework governing CSR under the Companies Act, 2013 and related rules.
3. To evaluate the impact of CSR initiatives on socio-economic development in India.
4. To identify the challenges in the implementation of CSR policies.
5. To suggest measures for improving the effectiveness and accountability of CSR practices in India.

Research Methodology

This research paper is based on a **doctrinal method of research**, relying primarily on secondary sources of data. Relevant information has been collected from statutes

such as the Companies Act, 2013, rules and amendments relating to CSR, books, journal articles, government reports, and authoritative online sources.

The study adopts an **analytical and descriptive approach** to examine the evolution, legal framework, impact, and challenges of CSR in India. Judicial decisions, policy documents, and CSR reports have also been referred to for a comprehensive understanding of the subject.

I. Introduction

Corporate Social Responsibility (CSR) has emerged as a significant concept in contemporary corporate governance, reflecting the responsibility of businesses towards society beyond profit-making objectives. It encompasses a wide range of activities undertaken by corporations to contribute to social, economic, and environmental development while maintaining ethical standards in their operations. In the Indian context, CSR is not merely a modern corporate practice but has its roots deeply embedded in the country's traditional ethos of philanthropy and community welfare.²³

Historically, Indian businesses have engaged in charitable activities such as the construction of schools, hospitals, and religious institutions, often motivated by moral and cultural values rather than legal obligations.²⁴ However, with the advent of globalization, liberalization, and increased corporate influence in the economy, the role of businesses in society has undergone a substantial transformation. Corporations are now expected to act as responsible stakeholders, addressing social inequalities and environmental concerns alongside their economic pursuits.²⁵

The concept of CSR in India gained formal recognition with the enactment of the Companies Act, 2013, which marked a paradigm

shift by introducing a statutory obligation for certain classes of companies to undertake CSR activities.²⁶ Section 135 of the Act mandates eligible companies to allocate at least two percent of their average net profits towards CSR initiatives, thereby institutionalizing corporate participation in nation-building. This legislative intervention distinguishes India as one of the first countries to adopt a mandatory CSR regime, setting a global precedent in corporate accountability.²⁷

Despite the progressive nature of this framework, the implementation of CSR in India raises several pertinent questions regarding its effectiveness, transparency, and long-term impact. While many corporations have undertaken significant initiatives in areas such as education, healthcare, and environmental sustainability, concerns remain about the uneven distribution of CSR funds, lack of proper monitoring mechanisms, and the tendency of companies to treat CSR as a mere compliance requirement.²⁸

In this context, the present study seeks to examine the development of CSR in India by analyzing its historical evolution, legal framework, and practical implementation. It further aims to evaluate the challenges associated with CSR practices and assess their overall impact on socio-economic development. By doing so, the paper attempts to provide a comprehensive understanding of CSR as a tool for sustainable and inclusive growth in India.²⁹

2. Evolution of Corporate Social Responsibility in India

The evolution of Corporate Social Responsibility (CSR) in India reflects a gradual transition from traditional philanthropic practices to a structured and legally regulated framework. This development can be understood through

²³ Upendra Baxi & Amita Dhanda (eds.), *Corporate Social Responsibility: Legal and Ethical Dimensions* (Indian Law Institute, New Delhi, 2011)

²⁴ Ministry of Corporate Affairs, *Corporate Social Responsibility Voluntary Guidelines, 2009* (Government of India, New Delhi)

²⁵ World Business Council for Sustainable Development, *Corporate Social Responsibility: Meeting Changing Expectations* (WBCSD, Geneva, 1999)

²⁶ The Companies Act, 2013 (Act No. 18 of 2013)

²⁷ Organisation for Economic Co-operation and Development (OECD), *OECD Guidelines for Multinational Enterprises* (OECD Publishing, 2011)

²⁸ KPMG, *India CSR Reporting Survey 2020* (KPMG India, 2020)

²⁹ United Nations, *Transforming Our World: The 2030 Agenda for Sustainable Development* (UN General Assembly Resolution A/RES/70/1, 2015)

distinct historical phases, each characterized by varying motivations, approaches, and levels of corporate engagement.

2.1 Philanthropic and Pre-Industrial Phase

The earliest form of CSR in India can be traced to the pre-industrial period, where business activities were closely linked with social and religious obligations. Merchants and traders engaged in acts of charity such as the construction of temples, dharamshalas, and educational institutions. These activities were primarily driven by ethical, cultural, and religious values rather than any formalized corporate responsibility.³⁰

Prominent industrial families, even during the early stages of industrialization, continued this tradition by contributing to community welfare. Their efforts laid the foundation for the modern concept of CSR in India.

2.2 Industrialization Phase

During the late 19th and early 20th centuries, with the growth of industrialization, CSR began to take a more organized form. Industrialists such as the Tata and Birla groups undertook initiatives aimed at improving the working and living conditions of their employees. These included the establishment of schools, hospitals, and housing facilities for workers.³¹

This phase marked a shift from purely charitable activities to a broader sense of responsibility towards employees and local communities, although CSR remained voluntary and largely unregulated.

2.3 Post-Independence and Mixed Economy Phase

After India gained independence in 1947, CSR evolved in alignment with the country's socio-economic development goals. The adoption of a mixed economy model placed significant emphasis on public sector enterprises, which

were expected to contribute to nation-building and social welfare.³²

During this period, corporate responsibility was influenced by principles of social justice and equitable distribution of resources. Businesses, particularly public sector undertakings, engaged in activities such as rural development, employment generation, and infrastructure development. However, CSR still lacked a formal legal framework and remained largely discretionary.

2.4 Liberalization and Globalization Phase

The economic reforms of 1991 marked a turning point in the evolution of CSR in India. Liberalization, privatization, and globalization led to increased participation of private corporations in the economy. Consequently, expectations from businesses expanded beyond profit-making to include social and environmental accountability.³³

During this phase, CSR became more strategic and aligned with global standards. Companies began adopting international frameworks and best practices, integrating CSR into their business models. The focus shifted towards sustainable development, stakeholder engagement, and corporate governance.³⁴

2.5 Statutory and Contemporary Phase

The most significant development in the evolution of CSR in India came with the enactment of the Companies Act, 2013, which introduced mandatory CSR obligations for certain categories of companies.³⁵ Section 135 of the Act requires eligible companies to constitute a CSR Committee and allocate at least two percent of their average net profits towards specified CSR activities.

This legislative intervention transformed CSR from a voluntary initiative into a statutory duty,

³⁰ Upendra Baxi & Amita Dhanda (eds.), *Corporate Social Responsibility: Legal and Ethical Dimensions* (Indian Law Institute, New Delhi, 2011)

³¹ Dharendra Kumar, *Corporate Social Responsibility in India: A Legal Perspective* (LexisNexis, New Delhi, 2014)

³² Ministry of Corporate Affairs, *Corporate Social Responsibility Voluntary Guidelines, 2009* (Government of India, New Delhi)

³³ Sanjay K. Agarwal, *Corporate Social Responsibility in India* (Sage Publications, New Delhi, 2008)

³⁴ Organisation for Economic Co-operation and Development (OECD), *OECD Guidelines for Multinational Enterprises* (OECD Publishing, 2011)

³⁵ The Companies Act, 2013 (Act No. 18 of 2013)

making India a pioneer in mandatory CSR regulation.³⁶ In the contemporary period, CSR is increasingly aligned with sustainable development goals (SDGs), focusing on long-term impact, transparency, and accountability.³⁷

3. Legal Framework of Corporate Social Responsibility in India

The legal framework governing Corporate Social Responsibility (CSR) in India is primarily enshrined in the Companies Act, 2013, which marks a significant shift from voluntary corporate philanthropy to a mandatory compliance-based regime. This framework is supplemented by the Companies (Corporate Social Responsibility Policy) Rules, 2014, along with subsequent amendments that aim to enhance transparency, accountability, and effectiveness in CSR implementation.

3.1 Statutory Recognition under the Companies Act, 2013

The introduction of CSR provisions under the Companies Act, 2013 represents a landmark development in corporate law. Section 135 of the Act mandates that companies meeting certain financial thresholds—namely, a net worth of ₹500 crore or more, or turnover of ₹1000 crore or more, or a net profit of ₹5 crore or more—are required to undertake CSR activities.³⁸

Such companies are obligated to constitute a CSR Committee of the Board, consisting of at least three directors, including at least one independent director. The Committee is responsible for formulating and recommending a CSR Policy, indicating the activities to be undertaken, and monitoring its implementation.

Furthermore, the Act requires companies to spend at least two percent of their average net profits of the preceding three financial years on CSR activities. In cases where the company fails to spend the prescribed amount, it must

provide reasons for such failure in its Board's Report. This "comply or explain" approach reflects a balance between mandatory obligation and corporate flexibility.

3.2 Companies (CSR Policy) Rules, 2014

The Companies (Corporate Social Responsibility Policy) Rules, 2014 provide detailed guidelines for the implementation of CSR provisions. These rules define key terms such as "CSR Policy" and "CSR Activities" and outline the modalities for execution, including the roles of implementing agencies.³⁹

The Rules permit companies to undertake CSR activities through registered trusts, societies, or Section 8 companies, thereby encouraging collaboration with non-governmental organizations. They also emphasize the need for proper monitoring mechanisms and periodic reporting to ensure accountability.

Additionally, Schedule VII of the Companies Act specifies the broad areas in which CSR activities may be undertaken, including education, healthcare, environmental sustainability, gender equality, and rural development.⁴⁰ This provides flexibility to companies while ensuring alignment with national development priorities.

3.3 Amendments and Strengthening of CSR Provisions

The CSR framework in India has undergone significant changes through subsequent amendments, particularly the Companies (Amendment) Act, 2019 and 2020. These amendments have introduced stricter compliance requirements and enforcement mechanisms.⁴¹

One of the key changes is the treatment of unspent CSR funds. Companies are now required to transfer unspent amounts related to ongoing projects to a special account within a specified period, failing which such funds must

³⁶ KPMG, *India CSR Reporting Survey 2020* (KPMG India, 2020)

³⁷ United Nations, *Transforming Our World: The 2030 Agenda for Sustainable Development* (UN General Assembly Resolution A/RES/70/1, 2015)

³⁸ The Companies Act, 2013 (Act No. 18 of 2013), § 135(1)

³⁹ The Companies (Corporate Social Responsibility Policy) Rules, 2014, r. 2

⁴⁰ The Companies Act, 2013, sch. VII

⁴¹ The Companies (Amendment) Act, 2019 (Act No. 22 of 2019); The Companies (Amendment) Act, 2020 (Act No. 29 of 2020)

be transferred to funds specified in Schedule VII, such as the Prime Minister's National Relief Fund.

Moreover, non-compliance with CSR provisions now attracts penalties, thereby reinforcing the mandatory nature of CSR obligations. The introduction of impact assessment requirements for large CSR projects further reflects a shift towards outcome-based evaluation rather than mere expenditure.⁴²

3.4 Judicial and Regulatory Approach

Although CSR is largely governed by statutory provisions, regulatory authorities such as the Ministry of Corporate Affairs (MCA) play a crucial role in issuing circulars and clarifications to guide companies in compliance.⁴³ The judiciary in India has also indirectly supported CSR principles by emphasizing corporate accountability and sustainable development in various decisions, even though direct litigation on CSR obligations remains limited.⁴⁴

The evolving regulatory framework indicates a growing recognition of CSR as an integral component of corporate governance and social responsibility.

4. Impact and Challenges of Corporate Social Responsibility in India

Corporate Social Responsibility (CSR) in India has emerged as a significant mechanism for promoting inclusive growth and sustainable development. Since the enactment of the Companies Act, 2013, CSR initiatives have expanded considerably in scale and scope, contributing to various socio-economic sectors. However, despite notable achievements, the implementation of CSR continues to face several structural and operational challenges.

4.1 Impact of CSR in India

The institutionalization of CSR has led to increased corporate participation in social development initiatives. One of the most significant impacts has been observed in the

field of education, where companies have contributed to building schools, providing scholarships, and improving educational infrastructure.⁴⁵ Similarly, CSR initiatives have strengthened the healthcare sector through the establishment of hospitals, health camps, and sanitation programs, particularly in rural and underdeveloped areas.

CSR has also played a crucial role in promoting environmental sustainability. Corporations have undertaken projects related to afforestation, waste management, renewable energy, and water conservation, thereby contributing to ecological balance and climate change mitigation.⁴⁶ These initiatives align with global sustainability frameworks and demonstrate the growing commitment of Indian corporations towards environmental responsibility.⁴⁷

In addition, CSR has facilitated rural development and livelihood generation by supporting skill development programs, women empowerment initiatives, and community-based projects.⁴⁸ Such efforts have helped bridge the gap between urban and rural development, contributing to poverty alleviation and social inclusion.

Another important impact of CSR is the enhancement of corporate reputation and stakeholder trust. Companies actively engaged in CSR are often perceived as socially responsible entities, which strengthens their brand value and fosters long-term relationships with stakeholders.⁴⁹

4.2 Challenges in CSR Implementation

Despite these positive outcomes, CSR in India faces several challenges that hinder its effectiveness. One of the primary concerns is the lack of transparency and accountability in

⁴² The Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021

⁴³ Ministry of Corporate Affairs, *General Circular No. 21/2014* (18 June 2014)

⁴⁴ M.C. Mehta v. Union of India, (1987) 1 SCC 395

⁴⁵ KPMG, *India CSR Reporting Survey 2020* (KPMG India, 2020)

⁴⁶ Ministry of Corporate Affairs, *National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011* (Government of India)

⁴⁷ United Nations, *Transforming Our World: The 2030 Agenda for Sustainable Development* (UN General Assembly Resolution A/RES/70/1, 2015)

⁴⁸ Sanjay K. Agarwal, *Corporate Social Responsibility in India* (Sage Publications, New Delhi, 2008)

⁴⁹ World Business Council for Sustainable Development, *Corporate Social Responsibility: Meeting Changing Expectations* (WBCSD, Geneva, 1999)

the utilization of CSR funds. In many cases, companies fail to provide detailed disclosures regarding the implementation and outcomes of their CSR activities.⁵⁰

Another significant challenge is the tendency of corporations to treat CSR as a compliance obligation rather than a strategic responsibility. The mandatory nature of CSR under the Companies Act, 2013 has, in some instances, resulted in a “tick-box” approach, where companies focus on meeting statutory requirements rather than achieving meaningful social impact.⁵¹

The uneven geographical distribution of CSR funds is also a major issue. CSR activities are often concentrated in urban and industrial regions, leaving remote and underdeveloped areas underserved. This imbalance undermines the objective of inclusive development.

Furthermore, there is a lack of proper monitoring and impact assessment mechanisms. While recent amendments have introduced provisions for impact assessment, their implementation remains inconsistent, leading to difficulties in evaluating the actual effectiveness of CSR initiatives.⁵²

Limited community participation and inadequate collaboration with local stakeholders further restrict the success of CSR projects. In many cases, CSR activities are designed without adequately understanding the needs of the target communities, resulting in suboptimal outcomes.⁵³

Lastly, regulatory complexities and frequent amendments pose challenges for companies in ensuring compliance. Smaller companies, in particular, may face difficulties in understanding and implementing CSR requirements effectively.⁵⁴

5. Recommendations and Conclusion

5.1 Recommendations

While the CSR framework in India has made significant progress, there remains considerable scope for improving its effectiveness and ensuring that it achieves its intended objectives of inclusive and sustainable development. The following recommendations are suggested to strengthen the CSR regime in India:

Firstly, there is a need to enhance transparency and accountability in CSR activities. Companies should be required to provide detailed and standardized disclosures regarding the utilization of CSR funds, project outcomes, and impact assessments. Strengthening reporting mechanisms will help in building stakeholder trust and ensuring that CSR initiatives are not merely symbolic.⁵⁵

Secondly, CSR should be approached as a strategic responsibility rather than a compliance obligation. Corporations must integrate CSR into their core business strategies and align their initiatives with long-term developmental goals. This would ensure that CSR activities create sustainable value rather than short-term benefits.⁵⁶

Thirdly, the government should encourage equitable distribution of CSR funds across regions. Special incentives or policy measures may be introduced to promote CSR investments in underdeveloped and remote areas, thereby addressing regional disparities and fostering balanced growth.⁵⁷

Further, there is a need to strengthen monitoring and impact assessment mechanisms. Independent third-party evaluations should be encouraged to objectively assess the effectiveness of CSR projects. The introduction of mandatory impact assessment under recent amendments is a

⁵⁰ KPMG, *India CSR Reporting Survey 2020* (KPMG India, 2020)

⁵¹ Dharendra Kumar, *Corporate Social Responsibility in India: A Legal Perspective* (LexisNexis, New Delhi, 2014)

⁵² The Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021

⁵³ Ministry of Corporate Affairs, *Corporate Social Responsibility Voluntary Guidelines, 2009* (Government of India, New Delhi)

⁵⁴ The Companies Act, 2013 (Act No. 18 of 2013), § 135

⁵⁵ KPMG, *India CSR Reporting Survey 2020* (KPMG India, 2020)

⁵⁶ Dharendra Kumar, *Corporate Social Responsibility in India: A Legal Perspective* (LexisNexis, New Delhi, 2014)

⁵⁷ Sanjay K. Agarwal, *Corporate Social Responsibility in India* (Sage Publications, New Delhi, 2008)

positive step, but its implementation must be made more robust and uniform.⁵⁸

Additionally, greater emphasis should be placed on community participation and stakeholder engagement. CSR initiatives should be designed based on the actual needs of local communities, ensuring their active involvement in planning and execution. This participatory approach will enhance the relevance and sustainability of CSR projects.⁵⁹

Lastly, capacity-building initiatives should be undertaken to assist companies, particularly smaller entities, in understanding and complying with CSR requirements. Clear guidelines, training programs, and simplified procedures can help in improving overall compliance and effectiveness.⁶⁰

5.2 Conclusion

Corporate Social Responsibility in India has evolved from a voluntary philanthropic practice to a comprehensive legal framework that mandates corporate participation in social development. The enactment of the Companies Act, 2013 represents a pioneering effort in institutionalizing CSR, positioning India as a global leader in mandatory CSR regulation.⁶¹

The impact of CSR initiatives in sectors such as education, healthcare, environmental sustainability, and rural development demonstrates the potential of corporate involvement in addressing socio-economic challenges. However, the effectiveness of CSR is often constrained by issues such as lack of transparency, inadequate monitoring, regional imbalances, and a compliance-driven approach.⁶²

In this context, it is essential to move beyond a quantitative focus on CSR expenditure towards a qualitative emphasis on impact and sustainability. The recent amendments to CSR

provisions, including stricter compliance requirements and impact assessment mechanisms, indicate a progressive shift towards greater accountability.⁶³

Ultimately, CSR should be viewed not merely as a statutory obligation but as an integral component of corporate governance and ethical responsibility. A collaborative approach involving corporations, government, and civil society is crucial to maximizing the potential of CSR as a tool for inclusive and sustainable development.⁶⁴

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⁵⁸ The Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021

⁵⁹ Ministry of Corporate Affairs, *Corporate Social Responsibility Voluntary Guidelines, 2009* (Government of India, New Delhi)

⁶⁰ The Companies Act, 2013 (Act No. 18 of 2013), § 135

⁶¹ The Companies Act, 2013 (Act No. 18 of 2013)

⁶² KPMG, *India CSR Reporting Survey 2020* (KPMG India, 2020)

⁶³ The Companies (Amendment) Act, 2019 (Act No. 22 of 2019); The Companies (Amendment) Act, 2020 (Act No. 29 of 2020)

⁶⁴ United Nations, *Transforming Our World: The 2030 Agenda for Sustainable Development* (UN General Assembly Resolution A/RES/70/1, 2015)

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