



Research Article

An Analysis of the Companies Act, 2013 with Special Reference to the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021

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Abstract

Corporate Social Responsibility (CSR) has emerged as an important component of contemporary corporate governance, accountability and sustainable development. India occupies a distinctive position in the global CSR landscape because the Companies Act, 2013 introduced a statutory framework requiring eligible companies to undertake CSR activities. Section 135 of the Companies Act, 2013, read with Schedule VII and the Companies (Corporate Social Responsibility Policy) Rules, 2014, established the principal legal framework governing CSR in India. Subsequently, substantial amendments were introduced in 2021 through the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021, notified by the Ministry of Corporate Affairs on 22 January 2021.

The present research paper analytically examines the statutory framework of CSR under the Companies Act, 2013, with particular emphasis on the 2021 Amendment Rules. The study focuses on the eligibility criteria for CSR, the role of the Board and CSR Committee, CSR expenditure, administrative overheads, treatment of unspent CSR amounts, excess expenditure, surplus arising from CSR activities, impact assessment, implementation agencies, registration requirements and disclosure mechanisms. The study adopts a doctrinal and analytical research methodology based primarily on statutory provisions, government notifications, official circulars and secondary legal literature.

The analysis demonstrates that the 2021 reforms sought to strengthen transparency, accountability, monitoring and outcome-oriented CSR governance. At the same time, implementation challenges remain regarding compliance costs, measurement of social impact, capacity of implementing agencies, interpretation of CSR activities and effective monitoring of unspent funds. The paper concludes that the 2021 framework represents an important transition from a predominantly expenditure-oriented approach towards a more structured, disclosure-based and accountability-oriented CSR regime.

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1. INTRODUCTION

Corporate Social Responsibility has developed from a voluntary business practice into an important component of corporate governance and sustainable development. The relationship between business and society has increasingly been examined not merely in terms of profit generation but also in relation to social welfare, environmental sustainability, ethical conduct and stakeholder interests.

India has developed a distinctive legal approach to CSR. The Companies Act, 2013 introduced a statutory framework under Section 135 for eligible companies, thereby creating a formal relationship between corporate activity and social responsibility. Under the framework, companies satisfying specified financial thresholds are required to comply with prescribed CSR obligations and to undertake activities falling within the areas identified under Schedule VII of the Act.

Section 135 applies to companies meeting any one of the specified thresholds relating to net worth, turnover or net profit. The statutory framework also establishes institutional responsibilities for the Board of Directors and, where applicable, the CSR Committee. Eligible companies are required to spend at least two per cent of the average net profits of the immediately preceding three financial years on CSR activities, subject to the statutory conditions.

The CSR framework has undergone several amendments since the enactment of the Companies Act, 2013. Among the most significant changes were those introduced in January 2021. The Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021 were notified on 22 January 2021 through G.S.R. 40(E). The amendment revised several definitions and compliance requirements with the stated objective of strengthening the CSR ecosystem, improving disclosures and simplifying compliance.

The 2021 amendments are therefore significant from a corporate-law perspective because they moved CSR governance beyond the basic requirement of spending and toward greater institutional accountability, documentation, reporting, monitoring and impact assessment.

2. Background of Corporate Social Responsibility in India

The development of CSR in India may be understood through three broad stages. The first stage was characterized largely by philanthropy and voluntary social contributions by business groups. The second stage was influenced by corporate citizenship, stakeholder theory and socially responsible business practices. The third stage emerged through legislative intervention, particularly with the Companies Act, 2013.

The Companies Act, 2013 made India one of the first jurisdictions to introduce a statutory CSR spending framework. Section 135, Schedule VII and the Companies (CSR Policy) Rules, 2014 together created the principal legal architecture for CSR.

The Ministry of Corporate Affairs has described CSR as a statutory obligation under Section 135 and emphasized that the framework provides companies with flexibility to formulate and implement CSR projects while requiring appropriate disclosure and accountability.

The statutory framework was designed not merely to collect financial contributions but to encourage companies to participate in social and developmental activities. Schedule VII identifies broad areas such as education, health, poverty alleviation, environmental sustainability, rural development and other socially beneficial activities.

3. Legal Framework under Section 135 of the Companies Act, 2013

3.1 Applicability of CSR Provisions

Section 135 applies to a company satisfying any one of the following criteria during the relevant financial period:

- Net worth of ₹500 crore or more;
- Turnover of ₹1,000 crore or more; or
- Net profit of ₹5 crore or more.

The existence of any one of these thresholds brings the company within the CSR framework.

Thus, CSR applicability is not restricted to large listed companies alone. Eligible private companies may also fall within the statutory framework if they satisfy the prescribed conditions.

3.2 CSR Committee

Section 135 establishes a CSR Committee mechanism for eligible companies, subject to the statutory framework and subsequent amendments. The Committee is responsible for formulating and recommending the CSR Policy, recommending the amount of expenditure and monitoring implementation.

The CSR Committee therefore acts as an institutional mechanism connecting the company's social objectives with Board-level governance.

3.3 Role of the Board

The Board of Directors plays the central role in CSR governance. It is responsible for approving the CSR Policy, ensuring that CSR activities are undertaken and ensuring compliance with the statutory requirements.

The CSR framework has consequently made CSR a matter of corporate governance rather than merely a philanthropic activity.

3.4 CSR Expenditure

Section 135 requires eligible companies to spend at least two per cent of the average net profits of the three immediately preceding financial years on activities covered by the CSR framework. The statutory calculation of net profit is linked to Section 198 of the Companies Act.

The expenditure requirement creates a measurable statutory obligation and distinguishes India's CSR framework from purely voluntary CSR models.

4. Companies (CSR Policy) Amendment Rules, 2021

The Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021 were notified on 22 January 2021. The notification expressly amended the Companies (CSR Policy) Rules, 2014 and introduced important changes

concerning definitions, implementation, expenditure, impact assessment and reporting.

The amendments are significant because they seek to establish a more systematic relationship between CSR expenditure, governance and social outcomes.

5. Major Changes Introduced by the 2021 Amendment Rules

5.1 Revised Definition of CSR

The 2021 Rules provided a more detailed definition of CSR and clarified activities that would not ordinarily qualify as CSR.

The framework excludes activities undertaken in the normal course of business, subject to specific statutory exceptions introduced under the rules. The amendment also addressed activities benefiting employees and other activities that fall outside the intended CSR framework.

This clarification is significant because it attempts to prevent companies from treating ordinary business expenditure as CSR expenditure.

5.2 Administrative Overheads

The 2021 framework introduced a ceiling on administrative overheads in relation to CSR expenditure. Administrative overheads are generally understood as expenses related to general management and administration of CSR functions and are distinct from direct project expenses relating to designing, implementing, monitoring and evaluating particular CSR projects.

The limitation is intended to ensure that a substantial proportion of CSR funds reaches the intended social activities rather than being absorbed by administrative costs.

5.3 Surplus Arising from CSR Activities

The 2021 framework clarified the treatment of surplus generated from CSR activities. Such surplus is not to be treated as ordinary business profit. Instead, it is required to be utilized or transferred in accordance with the CSR framework.

This provision strengthens the principle that CSR funds should remain dedicated to social objectives rather than becoming a source of commercial profit.

5.4 Excess CSR Expenditure

The amended framework permitted, subject to prescribed conditions, the setting off of excess CSR expenditure against future CSR obligations for the immediately succeeding financial years. The official CSR FAQ confirms that such set-off is applicable from 22 January 2021 and is subject to the conditions specified in the rules.

This mechanism recognizes situations in which a company may voluntarily spend more than the statutory minimum in a financial year while maintaining an overall compliance framework.

5.5 Unspent CSR Amount

The 2021 amendments significantly strengthened the treatment of unspent CSR amounts.

Where the unspent amount relates to an ongoing project, it is required to be transferred to the prescribed Unspent CSR Account and utilized in accordance with the statutory time limits and requirements.

Where the unspent amount does not relate to an ongoing project, the Act requires transfer in accordance with Section 135 and the prescribed statutory framework.

The revised approach converts what had previously been predominantly an explanatory requirement into a more structured financial accountability mechanism. The current official CSR FAQ describes CSR as a Board-driven and disclosure-based process and emphasizes the requirement to deal with unspent amounts under Sections 135(5) and 135(6).

5.6 CSR-1 Registration

The amended rules introduced a registration mechanism for implementing agencies undertaking CSR activities on behalf of companies. The purpose was to improve transparency regarding the identity and eligibility of entities implementing CSR projects.

This development is important because a large CSR ecosystem involves trusts, societies, Section 8 companies and other implementing organizations. Registration provides a mechanism for creating greater visibility concerning participating implementing agencies.

5.7 Impact Assessment

One of the most significant developments was greater emphasis on impact assessment.

The 2021 framework introduced requirements concerning impact assessment for specified classes of companies and projects. The approach recognizes that CSR should not be evaluated solely in terms of money spent; the social effect of expenditure is also relevant.

The emphasis on impact assessment therefore represents a shift from **input-based CSR** toward **outcome-oriented CSR**.

5.8 Annual Action Plan

The amended framework strengthened planning requirements by introducing the concept of an annual action plan for CSR activities.

An annual action plan enables a company to identify:

1. the CSR projects to be undertaken;
2. implementation arrangements;
3. expenditure requirements;
4. monitoring mechanisms; and
5. expected outcomes.

Such planning can improve continuity and reduce fragmented or ad hoc CSR spending.

6. Analytical Comparison of the Pre-2021 and 2021 CSR Framework

Area	Earlier CSR Framework	2021 Framework
CSR applicability	Based on statutory financial thresholds	Threshold-based framework retained
CSR spending	Minimum 2% expenditure	Minimum 2% requirement retained with enhanced compliance
Governance	Board and CSR Committee	Greater Board-level accountability and structured planning
Unspent amount	Disclosure/reasons and statutory requirements	More structured treatment, including ongoing-project mechanism
Excess expenditure	Less clearly operationalised	Set-off against future CSR obligations subject to conditions
Administrative expenses	General regulatory framework	Specific ceiling and definition
Implementing agencies	Limited formal registration structure	CSR-1 registration framework introduced
Impact assessment	Relatively limited emphasis	Greater emphasis for specified companies/projects
Reporting	CSR disclosures	More detailed and structured disclosure requirements
Monitoring	Disclosure-oriented	Greater emphasis on monitoring, documentation and outcomes

The comparison indicates that the 2021 reforms were not a fundamental replacement of Section 135 but rather a strengthening and operational refinement of the existing CSR regime.

7. CSR and Corporate Governance

CSR under the Companies Act, 2013 is closely associated with corporate governance. The Board is not merely expected to authorize expenditure; it has responsibility for policy approval, implementation and monitoring.

The CSR Committee provides an institutional mechanism for recommending and supervising CSR activities, while the Board remains accountable for statutory compliance.

This structure reinforces three principles of corporate governance:

Accountability: The company must disclose its CSR activities and expenditure.

Transparency: CSR policies, projects and expenditure are subject to formal reporting.

Responsibility: The company is expected to align CSR activities with the statutory objectives and recognized social priorities.

The Ministry of Corporate Affairs has characterized the CSR framework as disclosure-based and emphasized the role of the Board in planning, deciding, executing and monitoring CSR activities.

8. CSR, Sustainable Development and Social Justice

CSR has the potential to contribute to sustainable development by directing corporate resources toward public welfare. Areas such as education, healthcare, sanitation, environmental sustainability, rural development and livelihood enhancement correspond closely with broader development objectives.

However, CSR expenditure should not be understood as a substitute for governmental responsibility. The High-Level Committee on CSR emphasized that the primary purpose of CSR is to encourage responsible and sustainable business philosophy rather than simply mobilize resources to fill public expenditure gaps.

Thus, CSR should ideally complement wider development efforts while preserving corporate accountability to stakeholders.

9. Challenges in Implementation of the 2021 Framework

9.1 Measurement of Social Impact

A major challenge is the measurement of social outcomes. Monetary expenditure can be quantified relatively easily, while improvements in education, health, livelihood or environmental quality require more complex indicators.

Impact assessment can therefore become expensive and methodologically demanding.

9.2 Compliance Burden

Additional documentation, reporting, registration and monitoring requirements can increase compliance costs, particularly for companies implementing multiple small projects.

9.3 Capacity of Implementing Agencies

The effectiveness of CSR frequently depends upon the capacity of implementing agencies. Registration alone does not necessarily guarantee institutional competence, financial integrity or the capacity to produce measurable social outcomes.

9.4 Geographic Distribution

Although the statutory framework gives preference to local areas and areas surrounding company operations, companies may face practical difficulties in balancing local obligations with broader national or regional development priorities. Section 135 specifically recognizes local-area preference for CSR spending.

9.5 Project Continuity

Social development projects often require multi-year implementation. The ongoing-project framework is consequently important because short-term expenditure cycles may not correspond to the actual time needed for meaningful social change.

10. Major Findings

The study produces the following major findings:

First, the Companies Act, 2013 transformed CSR from a predominantly voluntary concept into a statutory corporate responsibility for eligible companies.

Second, Section 135 established a clear financial threshold and a minimum expenditure requirement of two per cent of average net profits.

Third, the 2021 Amendment Rules strengthened CSR governance by providing greater clarity regarding CSR expenditure, administrative overheads, implementation and disclosure.

Fourth, the treatment of unspent CSR funds became substantially more structured, thereby increasing financial accountability.

Fifth, the introduction of CSR-1 and enhanced regulation of implementing agencies attempted to improve transparency in the CSR implementation ecosystem.

Sixth, impact assessment reflects a significant conceptual movement from expenditure-based compliance toward outcome-based accountability.

Seventh, despite the strengthened legal framework, effective implementation remains dependent upon institutional capacity, professional monitoring, accurate impact measurement and meaningful stakeholder engagement.

11. Suggestions

The following measures may strengthen the effectiveness of the CSR framework:

Strengthening Impact Measurement

Companies should adopt measurable social and environmental indicators for CSR projects. Impact assessment should focus on long-term outcomes rather than simply measuring financial expenditure.

Greater Transparency

CSR disclosures should provide understandable information concerning project objectives, geographical coverage, expenditure, beneficiaries and measurable outcomes.

Capacity Building

Smaller implementing agencies should be provided with technical and managerial support to improve project planning, financial management and impact assessment.

Long-Term CSR Planning

Companies should prioritize multi-year CSR projects where social outcomes require sustained intervention.

Professionalisation of CSR Governance

CSR Committees and Boards should develop appropriate expertise in social development, project management, sustainability and impact assessment.

Better Stakeholder Participation

Local communities should be involved in identifying social needs, designing projects and evaluating outcomes.

12. CONCLUSION

The Companies Act, 2013 represents a significant development in Indian corporate law because it created a statutory foundation for Corporate Social Responsibility. Section 135 established the basic eligibility conditions, institutional structure and expenditure framework, while

Schedule VII identified areas in which CSR resources could be deployed.

The Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021 marked an important stage in the evolution of the CSR regime. The amendments introduced greater clarity regarding CSR activities, administrative overheads, surplus, excess expenditure, implementation agencies, annual action plans and impact assessment. The Ministry of Corporate Affairs has itself indicated that the 2021 amendments were intended to strengthen the CSR ecosystem, improve disclosures and facilitate compliance.

The significance of the 2021 framework lies particularly in its movement beyond the simple question of whether a company has spent the required amount. CSR governance increasingly concerns where the money is spent, how it is implemented, who implements it, how it is disclosed and what social impact is ultimately produced.

Nevertheless, legal compliance alone cannot guarantee meaningful social development. The effectiveness of CSR ultimately depends upon the quality of project design, stakeholder participation, institutional capacity and credible impact assessment.

It may therefore be concluded that the 2021 Amendment Rules have strengthened the legal architecture of CSR in India by moving the framework toward greater accountability, transparency and outcome orientation. The future effectiveness of the framework will depend upon consistent enforcement, high-quality disclosure, professional implementation and genuine alignment between corporate resources and social needs.

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