CSR NORMS AND PRACTICES

VOLUME II ISSUE 2

DEMYSTIFYING CSR ONGOING PROJECTS AND RELATED COMPLIANCE REQUIREMENTS

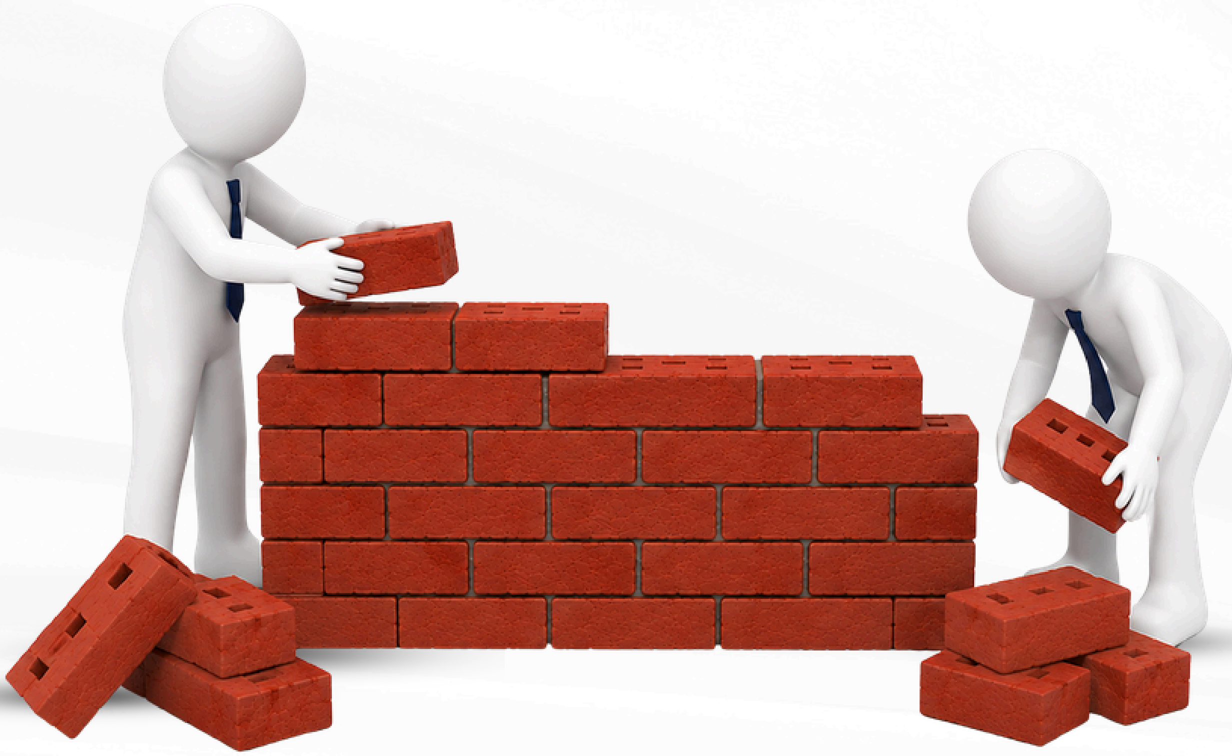

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TABLE OF CONTENT

1. Introduction

The idea that wealth carries with it a responsibility towards society is not new. Long before Corporate Social Responsibility (CSR) became part of legal and corporate vocabulary, giving back to society was a widely accepted social obligation in India. Over time, what was once understood as a moral and philanthropic responsibility gradually evolved into a structured legal obligation with the introduction of mandatory CSR under Section 135 of the Companies Act, 2013. Today, CSR is no longer viewed merely as charity or an annual spending obligation; it is increasingly recognized as a framework through which corporate resources are expected to contribute meaningfully to long-term social development.

As the CSR framework matured, an important regulatory reality became evident. Meaningful social change cannot always follow an annual financial calendar. Development interventions in areas such as education, healthcare, livelihoods, and environmental sustainability often require continuity, multi-year planning, and sustained execution. Recognizing this, the amended CSR framework introduced the concept of ongoing projects, marking an important shift from a year-end expenditure mindset to a more project-based and outcome-driven approach. This transition also brought reporting and disclosure into sharper focus, not merely to establish that funds have been spent, but to demonstrate how projects are progressing, how unspent amounts are being managed, and whether intended outcomes remain on track.

Through the CSR Norms and Practices series, we have so far examined the evolution and applicability of CSR, the principles governing CSR expenditure, fund utilisation, governance structures, and most recently, impact assessment, reflecting the growing emphasis on outcomes within the CSR framework. Continuing this journey of understanding the evolving CSR landscape, Volume 2, Issue 2 of CSR Norms and Practices, titled "Demystifying CSR Ongoing Projects and Related Compliance Requirements," examines these two closely linked dimensions of compliance and governance. This issue seeks to unpack the legal framework, practical considerations, and disclosure requirements surrounding ongoing projects, while highlighting how transparent reporting strengthens accountability and reinforces the larger purpose of CSR.

2. Evolution of the Concept of Ongoing Projects

The Ministry of Corporate Affairs acknowledged that CSR in India had moved beyond its initial phase and had begun to gather critical mass. In this context, the High Level Committee on CSR, constituted in 2018, reviewed the CSR framework after several years of implementation, drawing on data, stakeholder consultations, and practical experience to examine the need for a more robust and coherent CSR ecosystem.

In its report, the Committee examined issues relating to the treatment of unspent CSR amounts and recommended a structured mechanism for dealing with amounts earmarked for approved projects that could not be completed within a financial year. At the same time, policy discussions on responsible business conduct were also evolving. The National Guidelines on Responsible Business Conduct (NGRBC), released by the Ministry of Corporate Affairs in 2019, encouraged businesses to contribute towards inclusive growth and sustainable development while assessing and understanding the impact of their actions.

The NGRBC's Annexure 3, which sets out the Business Responsibility Reporting Framework, requires companies to report on social impact assessments, the number of beneficiaries covered under CSR projects, and examples of how community initiatives contribute to local and national development indicators. This emphasis on tracking outcomes across time, rather than merely recording expenditure at a point in time, supported a more outcome-oriented understanding of CSR.

The Ministry of Corporate Affairs later introduced the Companies (CSR Policy) Amendment Rules, 2021, which formally recognized "ongoing projects" as a distinct category within CSR implementation and prescribed a legal framework for fund treatment, governance responsibilities, and reporting obligations.

3. Understanding Ongoing Projects

An ongoing project is defined under Rule 2(1)(i) of the Companies (Corporate Social Responsibility Policy) Rules, 2014 (as amended), referring to projects that:

- are undertaken in fulfilment of the company's CSR obligations;
- is intended to be undertaken over more than one financial year;
- has a maximum timeline of three financial years, excluding the year in which the project commenced; and

- would also include a project, if any, which was originally approved for one year but later extended beyond one year by the Board based on a reasonable justification.

The Ministry of Corporate Affairs vide its General Circular No. 14/2021 dated 25th August 2021 (hereinafter referred to as the “FAQs on CSR”) clarified that the concept of an ongoing project is intended to cover projects having clearly identifiable commencement and completion timelines. It is not meant to include projects that merely remain incomplete or where CSR funds remain unspent at the end of a financial year. Accordingly, an ongoing project generally refers to a CSR initiative that has been approved for implementation over multiple financial years in accordance with a defined project timeline. This may be understood through the following example: a company undertakes a CSR project for the establishment of smart classrooms and digital learning infrastructure across government schools in rural districts. While the project commences in FY 2025–26, implementation involves multiple phases, including infrastructure setup, installation of equipment, teacher training, and monitoring of educational outcomes over the next two financial years. Since the project has been structured for implementation over multiple years within the prescribed timeline, it would qualify as an ongoing project. However, as mentioned above, an exception is also provided for projects that were originally approved for completion within one financial year but whose duration is subsequently extended by the Board beyond one financial year based on reasonable justification in accordance with the CSR Rules.

A common misconception is that the term “ongoing project” is restricted to large infrastructure or capital asset-based projects such as construction of school buildings, hospitals, community centres, sanitation facilities, or other physical infrastructure, which typically require more than one financial year for completion.

However, the Ministry of Corporate Affairs has clarified that the scope of an ongoing project is much wider. As clarified in the FAQs on CSR, an ongoing project may or may not involve the creation of capital assets or development of infrastructure. The determining factor is not the nature of the asset being created, but whether the project has been approved and structured as a multi-year CSR intervention within the timelines prescribed under the CSR Rules.

Accordingly, projects relating to education, healthcare, livelihood promotion, skill development, environmental sustainability, community development, or similar CSR activities may also qualify as ongoing projects, provided they satisfy the conditions prescribed under the CSR framework.

4. Commencement of Ongoing Project

For a project to qualify as an ongoing project, it is essential that the project has actually commenced within the relevant financial year. Approval of the project by the Board, inclusion in the CSR Annual Action Plan, or allocation of CSR funds, by themselves, may not be sufficient to classify a project as an ongoing project.

The FAQs on CSR clarify that a project must have identifiable commencement and completion timelines. Accordingly, a project shall be regarded as having "commenced" when the company has either:

- issued a work order relating to the project; or
- awarded a contract for execution of the project.

It also clarifies that the companies are required to plan and implement ongoing projects within the prescribed statutory timeline, as the period of an ongoing project cannot be extended beyond the maximum permissible duration (i.e., three financial years, excluding the financial year in which it commenced) under any circumstances.

5. Unspent Funds in Ongoing Projects

5.1 Funds Remaining with the Company

The treatment of unspent CSR amounts depends on whether the unspent amount relates to an ongoing project or not.

As per Section 135(6) of the Companies Act, 2013, if the unspent amount pertains to an ongoing project, the company is required to transfer such amount, within thirty days from the end of the financial year, to a special bank account called the "Unspent CSR Account". The amount so transferred must be utilised towards the ongoing project in accordance with the company's CSR Policy and within the time period permitted under the CSR framework for ongoing projects. The FAQs on CSR further clarify that the unspent CSR account is a specifically designated account meant exclusively for the implementation of ongoing CSR projects. Thus, the amount lying in such account cannot be utilized for the general business purposes of the company. It cannot be used for even creating a charge, providing collateral, or for any other business activity unrelated to the implementation of the ongoing project. In addition, where a company has any unspent CSR amount relating to an ongoing project, it is also required to constitute a CSR Committee and comply with the relevant provisions (Proviso to Rule 3(1) of the Companies (CSR Policy) Amendment Rules, 2022).

On the other hand, where the unspent amount does not relate to an ongoing project, the company is required to transfer such amount to a fund specified in Schedule VII of the Companies Act, 2013 within six months from the end of the financial year. The FAQs on CSR further clarify that companies are not permitted to utilise such unspent amount for any other CSR activity during this intervening six-month period. Accordingly, the amount must be transferred to a Schedule VII fund within the prescribed timeline (refer CSR Norms & Practices, Volume 1 – Issue 2 for a detailed discussion).

5.2 Funds Lying with the Implementing Agency

The FAQs on CSR clarify that any unutilised CSR funds already disbursed by a company to an implementing agency shall also form part of the unspent CSR amount. Accordingly, while determining compliance with Section 135(5) and Section 135(6), companies are required to consider not only the amounts lying with them but also any portion of CSR funds that remains unutilised with the implementing agency at the end of the financial year.

Where such unutilised amount relates to an ongoing project, the company is required to ensure that the corresponding amount is transferred to the Unspent CSR Account within thirty days from the end of the financial year. Similarly, where the amount does not relate to an ongoing project, the company must ensure its transfer to a fund specified in Schedule VII within the prescribed timeline. The FAQs on CSR further clarify that the responsibility for such transfer rests entirely with the company. Therefore, it is immaterial whether the implementing agency has refunded the unutilised amount to the company or not. The company cannot defer or avoid its statutory obligation on the ground that the funds continue to remain with the implementing agency.

Accordingly, companies should establish appropriate monitoring mechanisms and contractual arrangements with implementing agencies to ensure timely identification, reporting, and recovery of unutilised CSR funds so that the transfer requirements prescribed under Section 135 can be complied with within the stipulated timelines.

6. Maintenance of the Unspent CSR Account

The FAQs on CSR clarify that a company may maintain a single Unspent CSR Account for all ongoing projects pertaining to a particular financial year. Accordingly, there is no requirement to open separate Unspent CSR Accounts for each ongoing project. However, where unspent amounts relating to different financial years are transferred under Section 135(6), the company is required to maintain separate Unspent CSR Accounts for each such financial year. Thus, while project-wise segregation of bank accounts is not mandatory, year-wise segregation of unspent CSR amounts is required under the CSR framework.

7. Board Responsibility in Ongoing Projects

As the ongoing projects extend across multiple financial years and involve utilization of unspent CSR amounts, the Board assumes a central role in ensuring both compliance and effective implementation. The FAQs on CSR, has clarified that the responsibilities of the Board in case of ongoing projects, inter alia, include:

- identification of the ongoing projects;
- determination of year-wise allocation of funds;
- transferring the unspent money to a separate bank account;
- monitoring the implementation of the projects with reference to the approved timelines and year-wise allocation; and
- making modifications, if any, for smooth implementation of the projects within the overall permissible time period.

Rule 4(6) of The Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021 states that:

In case of ongoing project, the Board of a Company shall monitor the implementation of the project with reference to the approved timelines and year wise allocation and shall be competent to make modifications, if any, for smooth implementation of the project within the overall permissible time period.

In addition to the above, the Ministry has also clarified that the Board may, upon recommendation of the CSR Committee and under exceptional circumstances, abandon or modify an ongoing project, either partially or wholly, during the prescribed project period. However, such decisions should be supported by reasonable justification and should remain consistent with the objectives of the company's CSR Policy and the applicable statutory framework.

Further, Rule 4(5) of the Companies (Corporate Social Responsibility Policy) Rules, 2014, as amended, casts an obligation upon the Board to satisfy itself that the CSR funds disbursed for implementation of projects (including ongoing projects) have been utilized for the approved purposes and in the manner authorized. In this regard, the Chief Financial Officer or the person responsible for financial management is required to certify utilization of such funds.

8. Implementation of Ongoing Projects

Ongoing projects may be implemented either directly by the company or through eligible implementing agencies in accordance with Rule 4 of the CSR Rules. As discussed in CSR Norms & Practices, Volume 1 – Issue 2, eligible implementing agencies include Section 8 companies, registered public trusts, registered societies, statutory bodies, and certain entities established by the Central or State Government, subject to the conditions prescribed under the CSR Rules.

The FAQs on CSR further clarify that once a project is approved by the Board as an ongoing project, the company may choose to implement it either on its own or through an eligible implementing agency.

An important development was introduced through the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2026. The amendment inserted Rule 4A, which permits companies to undertake CSR activities through subscription to a Zero Coupon Zero Principal (ZCZP) Instrument issued by a Not for Profit Organisation (NPO) registered with the Social Stock Exchange, subject to specified conditions.

Under the amended framework, the amount invested through such instruments cannot exceed ten percent of the company's total CSR expenditure for the relevant financial year. The NPO issuing the instrument is required to utilize the funds for projects having a duration not exceeding three succeeding financial years from the date of issue and, upon termination of listing of the instrument, transfer any unspent amount to a fund specified under Schedule VII of the Companies Act, 2013.

This amendment expands the modes through which CSR projects may be implemented and enables companies to support eligible social projects through Social Stock Exchange listed NPOs in addition to the traditional implementation mechanisms available under the CSR Rules.

9. Modification of Project Allocations

As a general principle, CSR funds approved for a particular project are expected to be utilized for the purposes of that project. This is particularly relevant in the case of ongoing projects, where project-wise budgets, implementation timelines, and utilisation of funds are monitored over multiple financial years.

However, practical challenges may arise during the implementation of CSR projects. So, the FAQs on CSR clarified that the budget earmarked for one CSR project may be utilized towards another project. In such cases, the Board and the CSR Committee should appropriately record the changes in the proposed allocation and suitably modify the approved spending plan, annual action plan, and related disclosures to reflect the revised utilization of funds.

10. Consequences of Non-Compliance

The CSR framework is supported by specific penal provisions to ensure compliance with the requirements relating to spending and transfer of unspent CSR amounts. Section 135(7) of the Companies Act, 2013 provides that where a company fails to comply with the provisions relating to the transfer of unspent CSR amounts under Section 135(5) or Section 135(6), the company and its officers may be subject to monetary penalties.

In such cases, the company is liable to a penalty equal to twice the amount required to be transferred to the Fund specified in Schedule VII or to the Unspent CSR Account, as the case may be, subject to a maximum of ₹1 crore. Further, every officer of the company who is in default is liable to a penalty equal to one-tenth of the amount required to be transferred, subject to a maximum of ₹2 lacs.

The FAQs on CSR further clarify that these penalties are in addition to, and not in substitution of, the company’s obligation to transfer the amount as required under the law. Accordingly, payment of the penalty does not absolve the company from complying with the statutory requirement of transferring the unspent CSR amount to the appropriate account or fund.

11. Reporting Requirements for Ongoing Projects

The CSR framework places significant emphasis on transparency and accountability in relation to ongoing projects. Accordingly, companies are required to make appropriate disclosures regarding the identification, funding, implementation, and utilisation of funds relating to ongoing projects through various reporting mechanisms prescribed under the Companies Act, 2013 and the Companies (CSR Policy) Rules, 2014.

11.1 Annual CSR Report and Board's Report

The Annual Report on CSR forming part of the Board’s Report requires companies to disclose details of ongoing projects, including project-wise allocations, amounts spent during the financial year, and unspent amounts, if any. Where any amount remains unspent in relation to an ongoing project, the company is required to disclose the amount transferred to the Unspent CSR Account in accordance with Section 135(6) of the Act.

11.2 Filing of Form CSR-2

Companies covered under the CSR provisions are also required to furnish details of their CSR activities through Form CSR-2. The form captures project-wise information relating to CSR expenditure, including details of ongoing projects, amounts allocated, amounts spent, transfers made to the Unspent CSR Account, transfers to Schedule VII Funds, and details of implementing agencies.

11.3 Auditor's Reporting Responsibilities

The auditor is also required to report on compliance relating to unspent CSR amounts. Clause 3(xx)(a) of the Companies (Auditor's Report) Order, 2020 (CARO 2020) requires the auditor to report whether any amount remaining unspent relating to an ongoing project, has been transferred to a special account in compliance with Section 135(6) of the Act. While examining compliance, the auditor is expected to verify whether the company has appropriately recognized a provision for the unspent CSR obligation, wherever required, in accordance with the applicable accounting framework, namely Accounting Standard (AS) 29 or Indian Accounting Standard (Ind AS) 37 relating to Provisions, Contingent Liabilities and Contingent Assets. In cases where the statutory period of thirty days from the end of the financial year for transferring the amount to the Unspent CSR Account has not expired as on the date of the auditor's report, the auditor is required to report based on the information available up to the date of the audit report.

In such situations, the auditor may clarify that the period prescribed under Section 135(6) for making the transfer has not yet elapsed and, therefore, compliance cannot be conclusively assessed as on the reporting date.

12. Conclusion

The introduction of the concept of ongoing projects has added an important structural dimension to the CSR framework in India by enabling companies to undertake long-term and phased social interventions within a defined regulatory mechanism. While the framework provides operational flexibility for implementation of multi-year CSR initiatives, it simultaneously places enhanced compliance and monitoring responsibilities upon companies and their Boards.

From identification and commencement of projects to utilisation of unspent CSR amounts, maintenance of the Unspent CSR Account, disclosures, and oversight by the Board and CSR Committee, ongoing projects involve several interconnected legal and procedural requirements. Companies are therefore required to adopt a structured and well-documented approach towards planning, execution, monitoring, and reporting of such projects in order to ensure effective implementation as well as regulatory compliance.

__CSR Norms and practices__ aims to provide information and guidance on various aspects of CSR compliance and implementation. The information provided are correct and relevant to the best of the knowledge of the author and contributor. It is suggested that the reader should cross check all the facts, law and content before using them. The author or the publisher will not be responsible for any loss or damage to any one in any manner.

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