Ashok Prasad writes:

Labourers work at the construction site of a commercial complex in New Delhi
Building a better future: the Indian government has brough in to affect new CSR guidelines requiring companies to spend 2% of their net profit on social development. Photograph: Anindito Mukherjee/REUTERS

India is the first country in the world to mandate corporate social responsibility. On 1 April this year, the government of India implemented new CSR guidelines requiring companies to spend 2% of their net profit on social development.

It sounds like legislation to be celebrated – but does it go far enough? Global Reporting Initiative's (GRI) Sustainability Reporting for Sustainable Development conference, held this June in India, issued a joint declaration (pdf) stating that while the government bill was welcome

The 2% ruling could lead to forced philanthropy, 'tick box' behaviour, tokenism or even corruption, and masking of data to avoid having to comply. Time will show if this legislation will have a real impact on poor people's lives and prevent actual environmental degradation.

The GRI conference, attended by thought leaders from business, civil society, social service, academia and the government, issued the Mumbai Declaration, which among a list of 13 points specifically highlights these issues with the government's CSR guidelines.

This is not the first less than positive response to the Indian government's CSR guidelines; business leaders have expressed concerns from the corporate perspective. Ratan Tata, the former chairman of Tata Sons, the holding company of the $100bn Tata group, has said:

We have a phenomenon which is meant to be good but is going to be somewhat chaotic ... we don't as yet know what kind of monitoring there'll be in terms of how well this money is used.

Concerns about the motives and implementation of this new mandate have also been voiced by Azim Premji, the philanthropist and head of the £3.4bn IT services firm Wipro, part of the global Dow Jones Sustainability Index. Last year he said:

My worry is the stipulation should not become a tax at a later stage ... Spending 2% on CSR is a lot, especially for companies that are trying to scale up in these difficult times. It must not be imposed.

Can government-mandated CSR be a social development path for a nation in which over 900 million have a mobile connection but only 600 million (36% of the population) has access to a clean toilet? While the current CSR spending by the top 100 Indian companies is estimated at £0.6bn per annum, the Indian Institute of Corporate Affairs anticipates that about 6,000 Indian companies will be required to undertake CSR projects in order to comply with the new guidelines, with many companies undertaking these initiatives for the first time. Some estimates indicate that the CSR spends in India could triple to £1.8bn a year.

The government has set out specific guidelines on how CSR activities should be handled. These stipulate that the CSR activities need to be implemented by a CSR committee that includes independent directors. This committee will be responsible for preparing a detailed plan on CSR activities, including the expenditure, the type of activities, roles and responsibilities of various stakeholders and a monitoring mechanism for such activities. The company board is required to approve the CSR policy for the company and disclose its contents in their report as well as publishing the details on the company's official website. If the company fails to spend the prescribed amount, the board in its report is required to specify the reasons.

The government's suggested CSR activities include measures to eradicate hunger, promote education, environmental sustainability, protection of national heritage and rural sports, and contributions to prime minister's relief fund. The company can implement these CSR activities on its own, through its non-profit foundation or through independently registered non-profit organisations that have a record of at least three years in similar activities. This provision has led to a boom in the number of NGOs that can implement these CSR activities. A recent article in the Times of India reported that there are over 2m operational NGOs in India.

Choosing the right one from such a large number of NGOs won't be easy. Some organisations such as Samhita Social Ventures and HelpYournNGO are trying to facilitate this process by setting up online portals to assist. These portals group the NGOs across different sectors such as education, sanitation, women's welfare, water, livelihood, and children and also seek to provide a qualitative evaluation of the NGOs.

While the larger companies typically have CSR teams to carry out evaluations and monitor the spends, the SMEs without a specialist team assigned for this activity might find it difficult to plan and monitor the spends. The government regulations allow such SMEs to pool their CSR funds with other companies to achieve scale and share a collective implementation process.

NGO evaluation portals and the pooling of resources by SMEs could help to streamline the CSR investments, and questions will continue to be asked about the government's role in mandating such investments. Even as this debate continues, the more important question that the Indian businesses need to answer is how do we align these government mandated CSR activities to handle India's socio-environmental challenges while enabling better long term profits for the business?