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CSR implementation in India through Zero Coupon Zero Principal Instruments: Opportunities and Challenges for Public Sector undertakings (PSUs)

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ABSTRACT

India's Social Stock Exchange (SSE) is a regulated platform to finance eligible social projects. Not-for-profit organisations (NPOs) can raise funds with Zero Coupon Zero Principal (ZCZP) instruments through it. The planned incorporation of these instruments in the corporate social responsibility (CSR) framework in 2026 opens up new avenues for corporate involvement yet also poses governance and ground-level implementation issues, especially for public sector undertakings (PSUs). The purpose of the study is to explore the doctrinal nature of the regulatory underpinnings, opportunities, and challenges faced by Public Sector Undertaking firms during the process of introducing ZCZP, through a conceptual paper based on doctrinal analysis and thematic synthesis of official guidance and academic literature. Some of the benefits may be increased social project participation, formal disclosures, joint financing, and expert interventions. These barriers encompass impactful CSR project availability, lack of clarity in the project approvals process, due diligence requirements, timing and challenges in social impact measurement for fundraising, and Statutory audit requirements. The paper outlines a new ZCZP governance model, with four stages of regulatory alignment, project screening, approval with subscription, and monitoring. It argues that the instruments of ZCZP should be considered as an additional source of CSR funding, not as a replacement for the traditional mode of implementation. The framework needs to be tested empirically before it can be claimed that there is an impact improvement.

Keywords: Corporate Social Responsibility; Zero Coupon Zero Principal; Social Stock Exchange; Public Sector Undertakings; Social Finance

1. INTRODUCTION

Corporate Social Responsibility (CSR) is basically an approach adopted by profit-making Indian companies to dedicate a portion of their profits (**at least 2%** of their average net profits made during the three immediately preceding financial years) to the common social good to give back to the society within which they operate (Ministry of Corporate Affairs (MCA). (2013). It started in India with a noble concept of Charity for societal upliftment and then transitioned to Philanthropy activity and was finally made a mandatory statutory compliance under the law through the CSR Gazette Notification issued in 2014. India is the

only country in the world that has mandated CSR as a statutory requirement. In the last 12 years, CSR has given great dividends to both Organizations implementing CSR as well as to the needy & deprived section of society.

The Companies Act, 2013 introduced a mandatory CSR regime for qualifying Indian companies to shift the funds towards activities specified in Schedule VII. The traditional way of implementing CSR is by doing direct projects or association with an eligible implementing agency. These can maintain local relationships while restricting the exposure of projects to networks beyond the local level. Social Stock Exchange is a new initiative incorporated into the fabric of SEBI's regulation, and it aims to facilitate the relationship between social purpose organisations and social purpose investors by providing for structured disclosures and social purpose fundraising (SEBI, 2022; SEBI, 2023).

Expansion of scope of Schedule VII of Companies Act, 2013

The scope of Schedule VII of the Companies Act has been expanded by inserting a new item (xiii) — "Subscription to zero coupon zero principal instruments on Social Stock Exchange" — as a valid CSR activity. Further, to facilitate the implementation of CSR through Zero Coupon Zero Principal Instrument, an amendment in the CSR Policy Rules, 2014 has been made wherein the definitions of 'Not for Profit Organization' and 'Zero Coupon Zero Principal Instrument' have been introduced in Rule 2 and the criteria for Corporate Social Responsibility implementation through zero coupon zero principal instrument has been enumerated in Rule 4A. (MCA, 2026a; MCA, 2026b).

The Ministry of Corporate Affairs (MCA) had notified the subscribed amount on the SSE through a Zero Coupon Zero Principal (ZCZP) instrument as a CSR activity via an amendment in May 2026 (MCA, 2026a; MCA, 2026b).

What is a Zero Coupon Zero Principal (ZCZP) instrument

A ZCZP instrument is a security issued by an NGO registered on the Social Stock Exchange. Unlike traditional shares and bonds, which provide Interest and growth in principal value, these instruments don't provide a financial return, and the money would be used for the social cause for which it is subscribed and will not be returned to the investor.

The unique feature of ZCZP instruments is that the subscribers do not receive any coupon, and there is no recovery of the principal. They are not meant for investment income, but instead, for social funding. The result is a legal connection between corporate CSR budgets and fundraising through exchanges. However, the legal eligibility is not the decision factor of project selection, expenditure approval or outcome verification for companies.

Such worries are especially strong among PSUs, which are frequently subjected to formal delegations of financial power, audit demands and community commitments relating to their operations. The current paper examines ZCZP opportunities and challenges and proposes an action-oriented model of governance for responsible adoption.

2. LITERATURE REVIEW AND RESEARCH GAP

Carroll's (1991) CSR pyramid includes; economic, legal and ethical responsibilities with philanthropic activity. The stakeholder approach (Freeman, 1984) proposes that spending on social issues should consider the beneficiaries and communities, as well as the concerns of

corporations. Porter and Kramer (2006) suggest that a greater alignment of social needs and organisational strategy will lead to better quality corporate engagement. Such views can be helpful for decisions on CSR that are not only about the amount of spending.

Social investment is defined by Nicholls (2010) as an institutional space that incorporates various funding logics and value expectations. The SSE is a regulatory expression of this broader initiative to organise social finance in India. The guidance of SEBI and the NSE guidebook outline the procedures for disclosures, the eligibility criteria, and the process for fundraising under the SSEs framework, as well as the working of the SSEs financing (SEBI, 2023; NSE, 2025). Ebrahim & Rangan (2014) warn that activities, outputs and outcomes are all different types of social performance and that social impact cannot be assumed to be the same as the completion of the funding.

There is a narrow divide between the regulatory route and its application to PSU decision-making. Official materials outline the requirements for both issuers and raising, however, companies have to combine with the internal approvals, project risk, CSR priorities and audit evidence.

Research Propositions

P1: Greater clarity in the alignment of CSR eligibility, SSE requirements and internal approval authority is positively associated with organisational readiness to subscribe to ZCZP instruments, particularly among PSUs.

P2: Risk-based screening of NPO governance, project feasibility and beneficiary relevance strengthens the expected relationship between SSE disclosure quality and responsible ZCZP subscription decisions.

P3: Cross-functional coordination among CSR, Finance, Legal and Audit functions is positively associated with timely, documented and accountable ZCZP adoption.

P4: Monitoring the proportionality of the use of funds, their outputs, and outcomes of beneficiaries will contribute to organisational learning and credibility of the ZCZP-funded CSR activities

3. OBJECTIVES, RESEARCH QUESTIONS AND METHODOLOGY

This study aims to achieve three objectives, namely: To explore the legal and institutional setting that guides ZCZP subscriptions as one mode of CSR implementation in India; To critically analyse the possibilities, institutional obstacles and risks of accountability that companies, especially PSUs, face; and To develop a conceptual governance framework for project screening, approval, subscription, monitoring and learning. The study is informed by three research questions, which are: What are the financing and governance possibilities offered by the ZCZP mechanism to corporations for implementing CSR? What are the obstacles of regulation, operations and accountability that may hinder responsible ZCZP subscriptions by the study adopts a qualitative conceptual design combining doctrinal analysis of the Companies Act, 2013, the CSR Policy Rules and applicable SEBI SSE instruments with thematic synthesis of relevant scholarship and regulatory guidance. No interviews, surveys, observed subscriptions or project-level outcome data were collected.

Accordingly, the propositions and proposed governance mechanisms remain conceptual and require empirical validation.

4. REGULATORY FRAMEWORK

The legal basis is based on Section 135 of the Companies Act 2013 and Schedule VII of the Companies Act 2013 along with Companies (CSR Policy) Rules, 2014. In May 2026, item (xiii) was inserted into Schedule VII to allow for recognition of subscriptions to ZCZP instruments on the SSE; related Rule 4A imposes conditions on the route, (MCA, 2026a; MCA, 2026b). The limit is set at 10% of total CSR spending for the financial year for such expenditure. This ceiling is compatible with a complementary substitution not a wholesale substitution model.

SEBI has adopted SSE framework for social enterprises' eligibility and disclosures, as well as for the issuance of ZCZP instruments. Operational requirements as per SEBI's framework circulars 2022 and 2023 with the master circular dated January, 2026 and the review of NPO registration and subscription conditions dated April, 2026 should be read together. Registration as an NPO does not guarantee an NPO will remain compliant with the required entry conditions in the future, nor does it guarantee that it will have impact.

For subscribing PSU the regulatory analysis ought to be linked to in-house financial governance. Company must confirm eligibility of CSR, the status of CSR issuing entity, project alignment, approvals and budget before subscribing. It's important to have records of those steps in the future.

Table 1. Regulatory and institutional responsibilities.

Area	Core issue	PSU response
CSR law	Eligible subscription; Rule 4A ceiling	Check budget, conditions and authorisation
SEBI SSE framework	NPO registration, issuance and disclosures	Verify current issuer and offer documents
Internal governance	Delegated powers and financial controls	Document CSR–Finance–Legal review
Accountability	Use of funds and project outcomes	Retain reports and monitoring evidence

Source: Author synthesis of MCA (2026a, 2026b) and SEBI (2022–2026).

5. OPPORTUNITIES FOR ZCZP ADOPTION

Wider access and project diversity

The SSE has the potential to bring companies to access projects with potential NPOs, not part of the current network of implementing agencies. This could be useful when the Psu is looking for specific skills in education, disability inclusion, skills, livelihoods, healthcare or environmental sustainability. But the mere fact of being eligible and visible does not mean the project is of good quality; screening of the project is still required.

Structured disclosure and accountability

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Documentation of the fundraising can highlight objectives, proposed budgets and intended beneficiaries to potential contributors. This type of data can aid in initial appraisal and provide a source of documentation for audit review. However, disclosure is pre-requisite to informed observation, not proof that desired results have happened (Ebrahim & Rangan, 2014).

Scale and collaborative financing

A project can have a number of corporate or other subscribers which means that less of a project may depend on any one donor and possibly effective interventions can be replicated. Collaborative finance can be especially applicable to cross-district projects that need some resources to be pooled. Contributors still require clarity on how to report, coordinate and take responsibility; there is no magic in securing more funds and eradicating implementation risks.

Specialised interventions

Technically competent NPOs may be able to assist a company in programmes that may be hard to deliver directly. Specialist capability needs to be evaluated in terms of governance, staffing, track record, feasibility and the relevance for beneficiaries. The key opportunity is therefore to have a wider, more formal funding stream, not a presumed increased impact.

Table 2. Opportunities and safeguards

Opportunity	Possible contribution	Essential safeguard
Project discovery	Broader choice of NPO interventions	Independent suitability checks
Disclosures	Better pre-subscription information	Verify accuracy and completeness
Pooled financing	Support for larger interventions	Clear responsibilities
Specialist expertise	Access to targeted services	Capacity and outcome review

Source: Author conceptual synthesis of SEBI SSE guidance and social-performance literature.

6. INSTITUTIONAL CHALLENGES FOR PSUS

Regulatory interpretation and approval

PSUs must reconcile the Companies Act, CSR Policy Rules, and SEBI requirements with internal delegations of power. Ambiguity in the approval path or the division of responsibility between CSR, Finance, Legal and the competent authority can be delaying factors for participation. A written implementation protocol can decrease ambiguity and ensure proper review.

Availability and strategic fit

The universe of NGOs is considerably wider than the set of SSE-registered NPOs that have completed ZCZP fundraising. SEBI's 2025 consultation reported 111 NPO registrations and 10 NPOs raised ₹22 crore (historical) as of 31 December 2024, which should not be treated as current numbers (SEBI, 2025). Projects might also not meet a PSU's geographical priorities, community requirements or budget timeline.

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Audit trails and due diligence

Fundraising by exchange does not take away accountability from the public sector. A PSU must have a defensible reason for choosing a project, risk analysis performed, the person who approved the contribution, and compliance determined. Registration is not sufficient in place of a governance, financial statement, related party exposure and implementation capability and beneficiary selection assessment. A risk-based review is proportionate and can prevent under-scrutiny and duplication.

Measuring outcomes

The amendment to the CSR (2026) includes a specific exception from the CSR impact assessment required by the subscribing company in the case of projects financed through such instruments (MCA, 2026a). This is not to claim that the effectiveness of a project is determined or that voluntary monitoring has no values. PSUs are not required to monitor and report on milestones, expenditure, beneficiary reach and indicators of credible outcomes as the exempt statutory assessment.

Timing, non-repayment and local commitments

Fundraising may not occur when it is time to approve and budget for annual CSR. Poor performance can't be tackled as if the contribution were a "recoverable loan," since there is no interest nor repayment of principal for ZCZP subscriptions. Businesses need therefore to take into account the timing, feasibility, and reputation challenge beforehand. The PSU's approved thematic and local-community commitments should also be applied to projects.

7. PROPOSED ZCZP–CSR GOVERNANCE FRAMEWORK

A six-stage process is developed that incorporates legal eligibility and institutional decision making. The framework is conceptually based on stakeholder responsibility (Freeman, 1984), institutional social finance (Nicholls, 2010) and proportionate impact measurement (Ebrahim & Rangan, 2014).

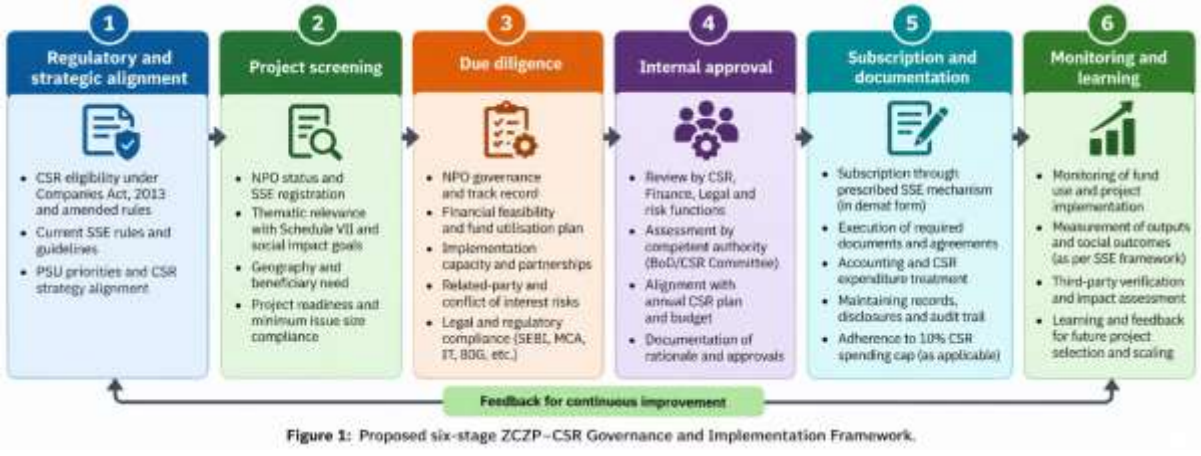


Figure 1: Proposed Six-Stage ZCZP–CSR Governance and Implementation Framework
Source: Author-developed conceptual framework.

Figure 1 suggests that ZCZP-Corporate Social Responsibility (CSR) implementation goes through six stages, which include regulatory and strategic alignment; project screening; due diligence; internal approvals; subscriptions and documentation; and monitoring and learning.

Feedback facilitates continuous improvement of project selection, accountability, and CSR governance.

Conceptual Relationships and Feedback Mechanism

The framework links regulatory and strategic alignment to screening and risk assessment, followed by internal approval, documented subscription and outcome-oriented monitoring. Its proposed relationships are conditional: disclosure supports appraisal but does not replace independent verification; monitoring supplies feedback for later project selection. Figure 1 below presents the decision sequence and feedback loop as a block diagram.

8. DISCUSSION AND RECOMMENDATIONS

There is potential value in ZCZP subscriptions between statutory CSR spends and organised social finance mechanisms. However, disclosure does not necessarily imply social good, nor is the appropriate instrument necessarily applicable to all organisations and projects. The key challenge for PSUs in the implementation of the approach is how the two can be linked.

Five steps are proposed for successful implementation of CSR through ZCZP instruments.

(1) Preparation of an internal implementation memorandum on eligibility, accounting and approvals;

(2) development of due diligence requirements based on risk;

(3) Definition of roles and responsibilities for CSR, Finance, Legal and Audit;

(4) monitoring of appropriate outputs and outcomes despite statutory exemption from the assessment requirement; and

(5) Launch of a few pilot projects.

Contributions of the Paper

- **Theoretical contribution:** The paper integrates stakeholder responsibility, institutional social finance and proportionate impact measurement into a single, implementation-oriented ZCZP–CSR governance model. It advances testable propositions without claiming that ZCZP is empirically superior to conventional CSR.
- **Practical contribution:** The proposed screening, due-diligence and monitoring checkpoints provide a structured decision aid for evaluating eligible NPO projects and documenting fund use.
- **Managerial contribution:** The framework identifies roles for CSR, Finance, Legal, Audit and the competent approving authority, helping PSU managers coordinate approvals, manage non-repayment risks and retain an auditable decision trail.
- **Policy contribution:** The analysis identifies the need for clearer implementation guidance, comparable project disclosures and proportionate monitoring practices while retaining the complementary role of the ZCZP route within the stated CSR pending ceiling.

Implications

For corporate CSR teams, ZCZP should be treated as a targeted additional financing channel, not a default substitute for direct implementation or grants. For PSUs, documented project fit, delegated approvals and ex-ante risk evaluation are essential before subscription. For NPOs,

the model underscores reliable disclosures, delivery capacity and timely reporting. For regulators and SSE operators, accessible guidance and consistent reporting definitions may reduce transaction uncertainty without equating formal listing with verified social impact.

Limitations and Future Research Agenda

This is a conceptual and doctrinal study based on regulatory documents and selected scholarship; it includes no interviews, organisational records, transaction-level observations or beneficiary impact evaluation. Consequently, the propositions and six-stage framework are not empirically validated. Regulatory requirements may evolve, and PSU governance structures vary across organisations.

Future research should conduct comparative case studies of PSU and private-company subscriptions, interview CSR and compliance decisionmakers, examine issue-level disclosure and utilisation records, and compare ZCZP-financed projects with similar conventional CSR projects. Longitudinal studies could test P1–P4 using approval duration, screening quality, reporting completeness and beneficiary outcome measures, while distinguishing association from causation.

9. CONCLUSION

The ZCZP instruments expand the financing avenues of CSR in India by introducing the Social Stock Exchange to eligible NPO projects and corporate contributors. The benefits may involve access to specialized projects, disclosures that are structured and collective financial support. However, their practical adoption is limited by the availability of projects, how they are interpreted by the regulatory framework, approvals within the organizations, the expectations in an audit and the risk of timing, not to mention the need to create soundly grounded social results. The proposed six-stage scheme is linked in a coherent governance framework from compliance through selection, due diligence, to approval, on to subscription and monitoring. ZCZP is not only a CSR listing channel, but it also has a social value, which relies not only on the listing but also on the implementation. Empirical research in the future needs to look at real subscriptions, institutional experiences and results for the beneficiaries,

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