WORKING GROUP REPORT ON SOCIAL STOCK EXCHANGE

Chairman's Note

The Hon'ble Finance Minister's bold vision of a Social Stock Exchange could not have come at a more opportune time for India. In a country whose policymakers have always striven to create economic prosperity for all, the seeds of a form of capital that would prioritize social returns over financial returns have always been present in the policymaker's conception of Indian business and enterprise. It is no wonder then that India is the only country in the world to have mandated a Corporate Social Responsibility role for its private enterprises, and that it is also one of the world's fastest growing impact investing destinations. Yet, much more can and should be done. India's economic imperative is to feed, clothe, educate and empower more than a billion people, in ways that conserve and grow its natural, cultural and social heritages. It cannot expect to accomplish this lofty objective on the strength of conventional commercial capital alone. If that were possible, India would not be home to over 3 million non-profit organizations who are working tirelessly to close the capabilities gap for hundreds of millions of Indians. These NPOs must receive adequate financial assistance to continue and multiply their stalwart efforts. They represent the core of the Hon'ble Finance Minister's vision for a new form of enterprise in India, one in which the entrepreneur is an agent of positive social impact more than anything else.

The SEBI SSE Working Group is proud to publish this report that gives form and content to the Hon'ble Finance Minister's vision. In the report, the Working Group has laid out the modalities for creating a Social Stock Exchange that will serve as a platform for fundraising and also incorporate a set of procedures by which social impact will be measured and reported. One of the biggest challenges faced by NPOs is visibility to investors and donors. By pairing innovative instruments by which NPOs could associate with the SSE (among them direct listing via a new class of securities), with a reporting standard that offers investors and donors a standardized framework for measuring social impact, the Social Stock Exchange will revolutionize the state of play in the social sector. That is not all. An entire ecosystem of actors will organically grow and evolve as a result of the report's recommendations being implemented. In time, this ecosystem centered on the SSE will chart a course of social and economic development unlike anything that India has previously witnessed.

Shri Ishaat Hussain
Chairman
Working Group on SSE

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1 Introduction

The Millennium Development Goals (MDGs) and the Sustainable Development Goals (SDGs) have provided a set of common aspirational targets for governments to build a more sustainable, safe and prosperous world. In tandem, the corporate sector has begun to adopt a variety of measures to ensure that their activities are not causing harm to society or the environment. Investing has also shifted towards an Environmental Social Governance (ESG) framework.

The Hon'ble Finance Minister as part of the Budget Speech for FY 2019-20 had announced as follows:

"It is time to take our capital markets closer to the masses and meet various social welfare objectives related to inclusive growth and financial inclusion. I propose to initiate steps towards creating an electronic fund raising platform- a social stock exchange-under the regulatory ambit of Securities and Exchange Board of India for listing social enterprises and voluntary organizations working for the realization of a social welfare objective so that they can raise capital as equity, debt or as units like a mutual fund."

1.1 Constitution of the Working Group

Accordingly, SEBI constituted a working group on 'Social Stock Exchanges' (SSE) under the Chairmanship of Shri Ishaat Hussain on September 19, 2019. The other members of the working group are as follows:

i. Shri TV Mohandas Pai, Chairman of Manipal Global Education; Ex-Director (Infosys)
ii. Ms. Roopa Kudva, MD, Omidyar Network India
iii. Shri Amit Chandra, Chairman, Bain Capital (Private Equity firm); noted philanthropist
iv. Dr. Saurabh Garg, Principal Secretary to Government of Odisha
v. Dr. Shamika Ravi, Director of Research, Brookings India; Member, PM's Economic Advisory Council
vi. Shri Vineet Rai, - Founder and MD, Aavishkaar Venture Management Services Private Limited
*vii. Representative from Ministry of Corporate Affairs**
viii. Dr. Ashima Jain (Representative from Department of Economic Affairs)
ix. Shri. Hemant Gupta (CEO- BSE Samman)
x. Shri J Ravichandran (Group President, NSE)
xi. Shri Girish Sohani (President, BAIF Research Foundation)
xii. Shri Amarjeet Singh (Executive Director- Securities and Exchange Board of India)
xiii. Ms. Ruchi Chojer (CGM- Securities and Exchange Board of India)
xiv. Shri Jeevan Sonparote (CGM- Securities and Exchange Board of India); Convener

* No formal representative was nominated by Ministry of Corporate Affairs. The second meeting of the working group was attended by Shri Uday Khomane from the office of ROC, Mumbai.

1.2 Terms of reference

The broad terms of reference to the working group were to review and recommend

i. Possible structures and mechanisms, within the securities market domain, to facilitate raising of funds by social enterprises and voluntary organizations
ii. Associated regulatory framework inter-alia covering the issues relating to eligibility norms for participation, disclosures, listing, trading, oversight etc.

1.3 Process followed

The working group had its first meeting on October 01, 2019 and decided to follow a consultative approach. The working group decided to carry out broader consultations with various stakeholders and subject matter experts including with the following:

a. Voluntary Organizations
b. Social Enterprises
c. Existing ecosystem players such as internet based platforms helping raise funds for Voluntary organizations/ social causes etc.
d. Philanthropic Organisations (family owned/ institutions)

Accordingly, the working group in its subsequent meetings held on October 25, 2019 and November 25, 2019 met with various stakeholders. Opportunities were provided to make presentations/ suggestions on subjects relevant to the stakeholder. The working group greatly benefitted from the deliberations with the stakeholders.

A drafting team of the working group was also formed comprising of Chairman- Shri Ishaat Hussain, Ms. Roopa Kudva, Shri Amit Chandra, Shri Vineet Rai, Shri Amarjeet Singh, and Shri Jeevan Sonparote, officers of SEBI and DVARA Trust/ DVARA Research. The team met on December 18th , 2019, January 14th, 2020 and February 11, 2020.

The working group again met on March 13, 2020 and May 11, 2020 to finalise the report.

1.4 Executive Summary

Our recommendations are based on some key principles.

First, in the spirit of the Hon'ble FM's words, we have provided a holistic set of recommendations – supporting the flow of funds and enabling fundraising structures. Our recommendations aim to not only expand the range of available instruments and pools of available capital, but also establish robust standards of social impact and financial reporting, and create the right enabling environment for this sector by nurturing sector-level infrastructure institutions such as information repositories and social auditors. We believe this ecosystem approach is crucial if we are to scale up funding for such enterprises working to serve social welfare objectives in our country.

Second, our approach is based on the principle of additionality, i.e., enhancing and increasing the range of instruments and structures available, and not replacing or diluting anything that already exists. All existing mechanisms continue to be available as before.

Third, given the diversity of interpretations that the term has, we have not sought to define a for-profit social enterprise. We believe that a self-declaration approach, whereby enterprises choose whether they want to be categorised as a social enterprise, and consequently commit to additional reporting on social impact, is the best one, because the enterprises themselves are best

placed to take a call based on the costs or benefits to them of being classified as a social enterprise.

Fourth, designing the Social Stock Exchange (SSE) also requires a recognition that for-profit social enterprises (henceforth to be referred to as FPEs) are different from non-profit social enterprises (henceforth to be referred to as NPOs) – they operate in different ways and have different financing needs. The working group has, therefore, suggested different approaches for each under the aegis of the SSE. Yet, our recommendations also propose unifying elements and common approaches for the two under the SSE umbrella. These constitute the common minimum reporting standard for all enterprises. The standard incorporates reporting of social impact, governance and financials. Over time, the minimum standard is envisioned to evolve and become more rigorous and more sophisticated. A pathway for that evolutionary process is laid out in the report.

Finally, recognising that the vast majority of NPOs in India are very small, the principle of equity has been an important consideration. The pooling mechanisms under the Social Venture Fund (SVF) structure will enable the smaller NPOs to also benefit from the SSE. In addition, the SSE will also provide capacity building support to these smaller organisations to enhance their capabilities to meet the reporting norms laid out in the report.

Our recommendations are also motivated by a very urgent concern about the economic damage inflicted by Covid19, especially upon the poorest Indian households and large swathes of the informal sector. India will need a significant amount of patient capital to repair and rebuild those livelihoods, which are the bedrock of her economy. Conventional capital that prioritizes financial returns will not be able to carry such a burden all by itself. Social capital, on the other hand, is more suited for this role. It is not only patient but its goal is precisely to support and fortify social structures that are in danger of collapsing because of Covid19. The SSE is envisioned as one of the possible solutions to this pressing problem. It will aim at unlocking large pools of social capital, and encourage blended finance structures so that conventional capital can partner with social capital to address the urgent challenges of Covid19.

The SSE can be housed within the existing stock exchange such as the Bombay Stock Exchange (BSE) and/or National Stock Exchange (NSE). This will help the SSE leverage the existing infrastructure and client relationships of the exchanges to onboard investors, donors, and social enterprises (for-profit and non-profit). The SSE will have two primary roles:

(a) To effectively deploy the fundraising instruments and structures available under the regulatory guidelines towards social enterprises:
   - For FPEs: Equity and Social Venture Funds (SVFs)
   - For NPOs: zero coupon zero principal bonds, SVFs, Mutual Funds (MFs), various pay-for-success structures, other securities and units that may evolve
   - For Section 8 Companies: Equity and Debt

(b) To foster overall sector development by creating a capacity building unit which will be responsible for:
   - Encouraging the setting up of a Self-Regulatory Organization (SRO) that will bring together existing Information Repositories (IRs), in the immediate term for extending requisite support to SSE (as explained in Chapter 3)
   - Implementing the reporting standard for all social enterprises that benefit from the SSE

- Operating the "*capacity building fund*" for enhancing reporting capabilities by NPOs (particularly the smaller NPOs). Creating awareness and driving adoption of this fund among NPOs, philanthropists, and donors.
- Actively raising awareness and promoting the fundraising instruments/ structures available on the SSE among social enterprises and non-profit organisations

Both these roles are equally important to ensure that the SSE makes a meaningful impact.

In order to benefit from the SSE, i.e., avail of the fundraising instruments and structures described under (a) above, an NPO must commit to reporting in accordance with the minimum standard. In addition, an NPO may choose to register with an IR in order to further signal credibility and legitimacy to investors/ funders.

We see this report as the first important phase of a long journey – while these recommendations should help the sector make strides forward, more will need to be done in subsequent years as the market for such funding continues to mature.

The working group has benefited from consultations with key stakeholders: non-profits (varying in size, causes, and geography of operation), donors and philanthropic foundations and, on the for-profit side, social enterprises and impact investors. In addition, two surveys were carried out – a survey of retail donors (546) and a survey of non-profits (215). The working group also referred to a survey of 17 impact investors and 20 social enterprises run by Asha Impact, UNDP, KPMG, and the Impact Investors Council (IIC). Their inputs have been valuable.

We first describe our recommendations for NPOs and then our recommendations for FPEs. The reader is referred to Chapter 6 for a complementary recommendation with more details.

1.4.1 Summary of recommendations for NPOs

Our recommendations for the non-profit sector are aimed at driving sector-level development. These recommendations, if implemented as a package, can result in a vibrant and supportive ecosystem, enabling the non-profit sector to realise its full potential for creating social impact.

A. Activate and mainstream social capital to NPOs as zero coupon zero principal bonds to be directly listed on the SSE

There is a great opportunity to unlock funds from donors, philanthropic foundations and CSR spenders, in the form of zero coupon zero principal bonds. These bonds will be listed on the SSE. They will carry a tenure equal to the duration of the project that is being funded, and at tenure, they will be written off the investee's books. The zero coupon zero principal bond is particularly well suited to investors who are looking to create social impact but do not wish to have their funds returned to them. However, such bonds are not without risk, as there is no guarantee that the social impact that an NPO is promising will in fact be created. Accordingly, investors will be keen to channel funds only to credible and legitimate NPOs, which the SSE will ensure by requiring beneficiary NPOs to report on social impact in a standardized format.NPOs can also signal their credibility and legitimacy to investors/ funders by choosing to register with IRs, although such registration may not be mandated. Furthermore, investors in zero coupon zero principal bonds may also be awarded a tax benefit to incentivize their participation in this instrument.

The feasibility of introduction of such bonds, their exact modalities, entry norms, regulatory framework, etc may be worked out by the stock exchanges and SEBI.

There are no regulatory hurdles in listing shares or debt instruments of Section 8 companies and therefore these could be possible avenues for direct listing by select NPOs. However, so far these avenues have not been utilized by Section 8 companies apparently due to their inherent inability to provide financial return on investments. SEBI will work out an appropriate regulatory framework for allowing NPOs (Trusts/ Societies) to raise funds through issuance of zero coupon zero principal bonds which can also be utilized by Section 8 companies.

SEBI will continue to explore other instruments that shall be feasible for direct listing by NPOs and create enabling regulatory framework incorporating the listing/eligibility conditions for NPOs along with reporting/disclosure norms, compliance requirements/ penalty provisions.

B. Activate and mainstream already available funding structures, i.e., SVFs and MFs

SVF: Under the current SEBI Alternative Investment Fund (AIF) guidelines, one sub-type is SVFs, which have so far only been used for for-profit investments. However, as per Regulations 2(1)(v), 2(1)(u), and 16(4) of SEBI's AIF guidelines, SVFs can also function as grants-in, grants-out vehicles for charitable purposes. This has not been commonly understood, with the result that no SVF is currently being used for non-profit activity[1].

Further, SVFs can be more than just grants-in, grants-out vehicles. They can also be used for Impact Bonds, especially where pooling of funders and engagement of multiple NPOs becomes necessary[2]. A separate recommendation (see F below) addresses this possibility. In addition, CSR funds and foreign funds should be permitted to be deployed towards SVFs.

MF: This will operate as a standard MF, with the exception that the returns generated are channelled towards the financing of NPOs. The returns will be considered as donations made by the investors to NPOs. Existing asset management companies can play this role. There are already a few examples of those operating currently, such as Cancer Fund of HDFC MF. The objective would be to mainstream these structures by raising awareness[3].

The SSE should actively create widespread awareness of the proposed new instrument, the zero coupon zero principal bonds, and also promote increased use of the already available funding structures like SVFs and MFs for NPOs, thereby enabling access to additional pools of capital for NPOs.

C. Implement common minimum standards for reporting on social impact (please see table in Annexure 2)

Common minimum standards for reporting on social impact have been suggested for FPEs and NPOs. Impact is measured from the perspective of the beneficiary. This would help create some uniformity in impact reporting, which can support decision-making for donors.

D. Implement common minimum standards for reporting on governance and financials: (please see table in Annexure 2)

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[1] Hitherto they have been so only for for-profits
[2] In the report, this is structure 2A in Figure 4.1. The grants-in, grants-out SVF is structure 2C.
[3] Structures 1A and 1B in Figure 4.1

The suggested framework includes general information, governance, funding, and legal and statutory filings/reports.

Currently, there are no appropriate financial reporting standards for NPOs (except those that are Section 8 companies). We recommend that the IRs create appropriate standards in partnership with the Institute of Chartered Accountants of India (ICAI) so that NPOs can then adhere to these standards. SSEs may assist and coordinate this process. These new standards should be developed before the end of 2020. Any NPO that lists with an SSE should conform to these standards.

E. Develop new institutions that provide sector-level infrastructure

The SSE should also play a key role in ecosystem building, by promoting and encouraging institutions such as the following:

- IRs, which are necessary because of the dire lack of robust information on NPOs, unlike in the for-profit sector. IRs would work on enumeration of NPOs, their activities and areas of operation as well as for standardization and verification IRs can play an important role in building confidence in NPOs by providing credible and standardized information about them. They can also act as a "*feeder*" to the SSE by helping players on the SSE access additional opportunities to fund high-quality NPOs. The SSE should encourage the setting up of a Self-Regulatory Organization (SRO) that will bring together existing IRs such as GuideStar, DARPAN, and Credibility Alliance, for meeting the above ends.

- Social auditors, which will perform independent verification of impact reporting. While in the immediate term, NPOs need only self-report, through the intermediate term onwards, social auditors can take over this function. It is noted that social auditors will also have the capability to evaluate impact in a standardized way.

We expect that market forces will lead to the creation of a set of social auditors. Based on how these new institutions develop, over time the government can take a view on whether a more formal regulatory mechanism for these institutions is required.

F. Enable new funding mechanisms: pay-for-success (social impact bonds; development impact bonds)

Model 1: SVF, Pay-For-Success, Risk Investors
Social/development impact bonds (SIBs/DIBs), which can be brought under the SVF, particularly when multiple investors and multiple NPOs are involved in a single project. DIBs are a recent financial innovation that allow private investors to finance social services provided by NPOs. The investors are repaid with an additional return by outcome funders if providers achieve expected social outcomes, but lose their investment if providers fail to meet those outcomes. The DIBs can also be listed on the SSE.

Model 2: Other, Pay-For-Success, Lending Partners
In the case of the social/development impact bond above, the lending partner bears some risk if the promised social impact is not created. The intermediary's role is to choose implementation agencies (NPOs) in a way that will minimize this risk, and also to bear some risk itself by providing first-loss guarantees. A variation of this structure has CSR donors playing the role of outcome funders. The intermediary here is a wealth manager.

G. Provide capacity building support for reporting requirements

To support NPOs in enhancing reporting capabilities, the SSE should set up a capacity-building fund that can bear some of the costs of increased reporting requirements. The fund will prioritise support to the smaller NPOs. Contributions to the fund can be made CSR-eligible. For philanthropic donors, these contributions should benefit from the same regulations/fiscal benefits available under 80G, etc.

H. Provide fiscal benefits (to NPOs and donors)

The government may consider the following recommendations in respect of donors and NPOs:

Donors

- Retain Section 80G in new tax structure.
- Allow philanthropic donors to claim 100% tax exemption for their donations under 80G to all NPOs that benefit from the SSE. Currently, donations to private NPOs with 80G certification can get only 50% tax deduction, whereas donations to government entities are eligible for 100%.
- Allow all investments in securities/ instruments of NPOs listed on SSE to be tax deductible**.**
- Allow corporates to deduct CSR expenditure from their taxable income. Currently, companies are explicitly barred from deducting CSR expenditure from their taxable income[4]. However, when companies spend on certain sectors like rural development, skill development, agricultural extension projects and the like, such expenditure may qualify for tax exemption under the relevant provisions of the IT Act, 1961[5]. This creates an artificial distinction between types of CSR expenditure, with some qualifying for tax exemption while others do not.
- Remove the 10% cap on income eligible for deduction under 80G, for donations to all NPOs that benefit from the SSE. In conversations with stakeholders, this restriction came up as a significant barrier towards greater philanthropic giving.
- Allow first time retail investors (who are investing in the SSE for the first time) to avail a 100% tax exemption on their investments in the SSE MF structure, subject to an overall limit of INR 1 Lakh. There is a precedent for this through the 80CCG section of the IT Act.

NPOs

- Enable fast-tracking of getting certifications for 12A, 12AA and 80G for all NPOs doing social and financial reporting, as per the guidelines outlined in chapter 3.
  Note: In time, the minimum reporting standard, as it becomes more rigorous and sophisticated, should entirely replace the 12A, 12AA, 80G certifications process.
- Re-evaluate the current budget proposal to make renewal of registration under 80G periodic. Any eligibility assessment for 80G may be conducted at the time of registration itself. Given that the annual loss of revenue on account of 80G is only INR 2516 crore, the loss of revenue on account of fake donations would be far lesser[6]. This would likely

[4] See question 5 on FAQ's on CSR - http://www.mca.gov.in/MinistryV2/faq+on+csr+cell.html – retrieved on 23-02-2020
[5] See Section 3.13, Report of the High Level Committee on Corporate Social Responsibility
[6] As per estimates of donations u/s 80G are available in Receipt Budget - Finance Bill 2020

be much lesser than the administrative cost incurred due to the periodic re-evaluation of 80G.

- Increase the limits under the IT Act on charitable institutions raising funds from commercial or semi-commercial activities to 50% from the current 20%. This would help NPOs become more sustainable.

I. Fine-tune regulations to unlock more funds

The government may consider the following recommendations in respect of CSR and FCRA:

CSR (for full list, please see the main report)[7]:

- Allow funding to NPOs on SSE to count towards CSR commitments of companies.
- The Ministry of Corporate Affairs (MCA) may authorize the trading of CSR spends between companies with excess CSR-spends and those with deficit CSR-spends, and the SSE can provide a platform for this purpose.
- To enable the pay-for-success funding structure that uses CSR grants for outcome funding purposes, the following changes may be made in section 135 of the Companies Act, dealing with CSR:
    - Allow CSR capital to be parked into an escrow account for a period of 3 years. At the end of the 3-year time period, the capital in the CSR escrow account should be liquidated and spent as per the Companies Act schedule VII within the subsequent financial year.
    - Allow accelerator grant to the NPO up to 10% of the program cost (in case outcomes are exceeded) to be counted as CSR expenditure. Such a grant would fund non-programmatic expenditure such as research, capacity building, etc.
    - The board and management of the corporate providing CSR funds should not be related to the NPO to avoid conflict of interest.

Foreign Contribution (Regulation) Act (FCRA)

- Clarify rule 4 of the FCR Rules, 2011, to enable foreign entities to invest in SVFs listed on the SSE, as the donors will not be taking decisions/have any discretion on deployment of their funds to specific NPOs[8]. These decisions will be taken by SEBI-regulated Indian fund managers and will therefore be easier for the government to monitor as they will have to conform to the Information Memorandum to be made public.

Alternative Investment Fund (AIF) regulations

- Lowering of existing minimum thresholds for SVFs could be suitably examined by SEBI.

1.4.2 Summary of recommendations for FPEs

FPEs will use the SSE to raise equity capital. They will, therefore, list on the SSE, which will be a segment of an existing high-turnover stock exchange such as the BSE and/or NSE. The equity

[7] The main report also discusses in detail how our CSR recommendations may be viewed in light of the recently released Draft CSR Policy Amendment Rules 2020 (http://feedapp.mca.gov.in/csr/)

[8] R. 4 of the FCRR, 2011 prohibits '*any activity or investment that has an element of risk of appreciation or depreciation of the original investment, linked to market forces, including investment in mutual funds or in shares*'. This requires a clarification, as it may prevent foreign entities from participating in SVFs.

instruments will be tradeable. Listing criteria will apply for FPEs, just as they apply for for-profit conventional enterprises who list on the main board of the BSE or NSE. However, there is a critical difference between for-profit social enterprises (FPEs) and for-profit conventional enterprises – the former will also be performing social impact reporting according to the minimum reporting standard outlined in the report. In other words, FPEs will have to demonstrate that they are in the business of "*creating positive social impact*". This will enable them to access a kind of capital that conventional for-profit enterprises do not have access to.

Further, association of FPEs with SSE must not be based only on self-reporting. To ensure that only bonafide FPEs are able to associate with SSE, SEBI, in consultation with the existing specialist entities, should work out a mechanism for assessing credentials of the social impact dimensions self-declared by the FPEs.

FPEs will also be able to raise funds using funding structures such as SVFs. In order to kickstart activity on the SSE for FPEs, we recommend tax incentives to investors (such as exemptions from the Security Transactions Tax and Long Term Capital Gains Tax) and tax relief to FPEs (for 5 years). Futher, the reference to "*muted returns*" in the current SVF guidelines needs to be revisited as the term is misleading and a deterrent for investment.

1.4.3 SSE for Covid19

The SSE is uniquely poised to become an important component of India's policy response to Covid19. As just one example, the recommendations to revitalize SVFs by expanding the pools of source capital and innovating new structures will substantially multiply the funding opportunities for the social sector. A Covid19 Aid Fund can be set up to activate solutions such as:

(a) Pay-for-success bonds with philanthropic foundations, CSR spenders and impact investors as outcome funders and domestic banks, Non Banking Financial Corporations (NBFCs) and impact investors as lenders

(b) Structured pooled loans with domestic banks and NBFCs as senior lenders, and philanthropic foundations, CSR contributions, and impact investors as junior lenders

Such solutions can fund the NPO-provided relief needed by migrant workers, and offer loan guarantees to NBFC-Microfinance Institutions (NBFC-MFIs) so that these instritutions may be able to extend debt moratoriums to their downstream borrowers.

1.4.4 Advancing the frontier of social finance

Other jurisdisctions like Brazil, South Africa, Canada, UK and Singapore also have SSEs, but the SSE we envision for India is a significant step forward from these other models because it:

(a) Provides a comprehensive solution for both FPEs and NPOs, instead of catering to one of these categories in isolation

(b) Goes beyond pure matchmaking/discovery to:

- Institutionalization of a common standard for reporting
- Open up avenues for direct listing and streamlining funding mechanisms for NPOs
- Innovation of new funding instruments and funding structures and

- The encouragement and development of an ecosystem to support the growth of social finance

2 The Imperative And The Opportunity

2.1 The rationale for a Social Stock Exchange (SSE)

The rationale for an SSE is multipronged. Most importantly, the public provision of essential services can be further improved, and private sector and non-profit sector provision can play a significant role in closing the gap. The SSE is meant to serve these private and non-profit sector providers by channeling greater capital to them. To take just three examples – education, health and agriculture – the potential of high-quality private and non-profit sector led provision becomes obvious.

The Human Development Index, which brings together the three dimensions of education, health and income to produce a comprehensive measure of a country's development achievements, ranks India 129 among 189 countries for the year 2019[9]. It is clear that India can benefit greatly from more funding to the social sector, which cares explicitly about creating sizeable and measurable impact. This will support the government in achieving its sector development outcomes.

2.2 Private funding for the social sector

The universe of enterprises that create social impact is vast and consists of a variety of legal forms. These can broadly be categorized into for-profit enterprises or FPEs (which include companies registered under the Companies Act, sole proprietorships, partnership firms, HUFs and limited liability partnerships) and NPOs(which include Section 8 companies, trusts and societies). The key difference between these two categories is that they source different kinds of capital. Specifically, FPEs can raise equity while NPOs cannot[10].

According to a 2019 Bain & Company report, philanthropic funding from individuals is the "*brightest spot*" among private funding for the social sector. While overall private funding for the social sector grew by 15% p.a. from INR 40,000 crore in 2014 to INR 70,000 crore in 2018, philanthropic funding saw the highest growth at 21% p.a. and constituted about 63% of private funding in 2018 (the remainder 27% was almost equally split between foreign sources and Corporate Social Responsibility (CSR) funding by domestic corporations)[11].

According to a 2019 OECD report, much of the philanthropic funding in India focuses on the sectors of health, education, water supply and sanitation[12]. In all these areas, the report claims, there are clear opportunities for collaborative efforts between multiple sources of funding (domestic philanthropy, international philanthropy, domestic CSR, public funding, and Official Development Assistance) to achieve impact at scale and especially in states and among populations that are not currently being served.

Whereas the philanthropic landscape in India has been mapped and studied in some detail, the same kind of exercise is more difficult to perform for non-profit organizations (NPOs). Part of

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[9] UNDP. 2019. *Human Development Report 2019*.

[10] Equity is a residual claim for the owner, i.e., it is a claim on profits. This means that the owners of an FPE can reasonably expect some financial gain. NPOs do not generate profits and therefore cannot issue equity. A caveat here is that Section 8 companies are allowed to organize on a share basis, and therefore can issue equity. However, the shares do not represent a residual claim on the Section 8 company's profits, as the law prevents dividends from being paid out to shareholders.

[11] Bain & Company. 2019. *India Philanthropy Report 2019*.

[12] OECD. 2019. *India's Private Giving: Unpacking Domestic Philanthropy and Corporate Social Responsibility*.

the reason is their sheer number. According to a 2012 government estimate, India has at least 31 lakh NPOs[13], more than double the number of schools and 250 times the number of government hospitals, amounting to about one NPO for every 400 Indians[14].

Part of the reason is also the variety of activities that NPOs are engaged in, making it difficult to capture their work within a common framework of assessment. GiveIndia, a platform that certifies and connects NPOs to funders, reports eight different causes served by the NPOs it works with: children, differently abled, education, elderly, livelihoods, health, women and the environment[15]. Measuring social impact cannot be easily standardized across these very different arenas of activity.

The difficulties of measuring outcomes have, in practice, been overcome to some extent by funding platforms such as GiveIndia and GuideStar. These platforms have created processes for certifying and registering NPOs, and this has led, in turn, to the innovation of new kinds of financial instruments designed to incentivize social change and economic development. The domain of impact investing represents this space of innovation.

As of 2018, 50% of the impact investors in India had invested an average of US $20 million[16]. 75% of impact investments were in pure equity instruments, 17% in pure debt instruments, and the remainder in equity, debt and blended instruments[17].

The primary sector destinations have been financial inclusion, education, agriculture and health. Impact investing enthusiasts are especially bolstered by the returns that these investments have garnered, with more than 67% of investors surveyed by the Brookings Foundation reporting returns higher than "*market*" (meaning the BSE Sensex, where the return is assumed to be 12.5%), and 42% stating that their returns were higher than 20%, albeit mainly from the microfinance sector[18].

2.3 Much more remains to be done

Despite the tremendous growth of private sector and non-profit sector participation in the social sector, India still faces a significant challenge in meeting the 2030 deadline for the UN-mandated Sustainable Development Goals (SDGs). The 2019 Bain & Company report on philanthropy states that India alone accounts for more than 20% of the world performance gap in 10 of the 17 SDGs and more than 10% of the gap in another 6. This translates into a funding gap of about INR 4.2 lakh crore annually for meeting only 5 of the 17 SGDs by 2030.

The enormous funding and performance gaps are only symptoms, however. These gaps are ultimately rooted in deeper realities of the Indian social sector that require careful thought as well as action.

Most importantly, the effectiveness of NPOs is contingent on adequate funding. Funding itself is, however, contingent on the demonstration of impact or outcomes. Unfortunately, there is no good vocabulary for talking about social impact and no single workhorse framework for impact

[13] Ministry of Statistics and Programme Implementation (MOSPI),
[14] National Accounts Division, Central Statistics Office, MOSPI. 2012. *Non Profit Institutions In India: A Profile And Satellite Accounts In The Framework Of System Of National Accounts (Including Statewise Comparison Of Profiles).*
[15] GiveIndia website. URL: https://www.giveindia.org/certified-indian-ngos
[16] Approximately INR 140 crore at current exchange rates
[17] Brookings India. 2019. *The Promise Of Impact Investing In India.*
[18] Brookings India. 2019. *The Promise Of Impact Investing In India.*

assessment. This again is due to the very heterogeneous activities and goals that NPOs are engaged in and pursue. While there is a conspicuous absence of any universally applicable framework for social impact measurement, funders may at least expect information about operating practices (expecially financial reporting and governance structures) and some basic indicators of social impact created. Even this is often unavailable, and hence the need for certification and registration by organizations such as GiveIndia and GuideStar.

At present, India has a number of conduits through which the social sector receives funding. These are both new (CSR, Impact investing, Socially Responsible Investing or SRI, etc.) and old (philanthropy, government agencies, etc.) and they work to varying degrees of effectiveness. Enabling these diverse channels to come together on a common platform and introducing uniform frameworks in reporting, measurement and standards can represent an important step forward in development of this sector. This is where the SSE has a big role to play.

2.4 The idea of an SSE

This report takes the view that the SSE is a set of processes as much as it is a place. This means that the SSE is not only a place where securities or other funding structures (as described in later chapters) are "*listed*" but also a set of procedures that act as a filter, selecting-in only those entities that are creating measurable social impact and reporting such impact. The working group believes that only by taking such a holistic view of the SSE can we hope to address the issue of the funding gap that this mechanism is expected to solve.The SSE shall be a separate segment under the existing stock exchanges.

As such, the measurement of social impact and the activity of social reporting must be institutionalized and mainstreamed for socially conscious investors to want to participate in the social sector. We recommend that both FPEs and NPOs are subject to a common minimum standard of reporting social impact, and operating practices (governance and financial reporting). While both FPEs and NPOs are concerned with social impact, the type of funding avenues open to them are fundamentally different given the nature of their legal structures and expectations of their "*fund providers*". As such, our recommendations for them are distinct and treated as such in different chapters.

No new legal structure will need to be created for social enterprises (whether FPEs or NPOs) to conform to. Rather, a declaration to intent to create social impact and a commitment to measuring and reporting such impact is key to identifying a social enterprise. In time, the reporting standard will evolve to higher levels of rigour, sophistication and differentiation, but in the immediate term, the SSE will derive much of its momentum from the laying out of a clear and transparent process for reporting social impact.

We expect an ecosystem of agencies to develop overtime for doing independent verification of above mentioned social impact reporting; however to ensure that only bonafide FPEs are able to associate with SSE, SEBI, in consultation with the existing specialist entities, should work out a mechanism for assessing credentials of the social impact dimensions self-declared by the FPEs. This is crucial to identify and allow only the true FPEs, that are genuinely creating social impact, to be associated with SSE.

Many investors and investees see the standardization of procedures as a key outcome of the SSE. In a 2019 survey conducted by the ATE Chandra Foundation and Sattva Consulting, various classes of investors (high- and ultra-high net worth individuals, corporate foundations, domestic foundations, global foundations and CSR actors) were asked to identify the potential benefits of an SSE. Better understanding of their work – meaning the filing of detailed financial statements

by investees, the design of compliance metrics, the identification and appointment of independent impact evaluators, and a standardized framework for impact measurement – emerged as a key demand from this group[19]. Additionally, the group appeared to agree on the necessity of developing new kinds of financial instruments and of treating non-profits and for-profits differently.

[19] Submission by ATE Chandra Foundation. 2019. *Social Stock Exchange: Inputs From CSR, Foundations And HNWIs.*

3 A Minimum Reporting Standard

3.1 Defining a social enterprise

In the last few decades, investors have responded to increasing signs of social and ecological degradation with concern and a positive intention to change things for the better. As a start, the performance evaluations of companies began incorporating, along with financial performance, their impact on people and the environment, and this came to be known as the "*triple bottom-line*" approach to reporting. The turn initially was to move towards limiting harm through the adoption of investment frameworks that negatively screened out companies that did not meet certain thresholds. But soon after, efforts came to focus on positive goals. Thus, the ESG, for instance, opts-in companies that go beyond limiting harm towards creating positive impacts along the three dimensions: E (Environment), S (Social) and G (Governance) .

While the work of addressing social problems has had a much longer history in India, the advent of SDGs provides a new frame for the articulation of social and ecological problems[20]. This has created a call to action among both organizations and entrepreneurs who wish to serve the social sector, and investors who wish to actively fund them.

What is being envisioned is a new kind of capital or a new kind of finance that expects "*returns*" beyond the purely financial, with social return being as or more important than financial return. Conventional capitalist enterprises, even if they are to bear the burden of being "*responsible*", are not expected to conform to this more refined standard of scrutiny.

The definition of a social enterprise would, therefore, seek to select a class or category of enterprises that are engaging in the business of "*creating positive social impact*". With this in mind, we recommend a minimum reporting standard that brings out this aspect clearly, by requiring all social enterprises, whether they are FPEs or NPOs, to state an intent to create positive social impact, to describe the nature of the impact they wish to create, and to report the impact that they have created. There will be an additional requirement for FPEs to conform to the assessment mechanism to be developed by SEBI.

Therefore, for us, an enterprise is "*social*" not by virtue of satisfying a legal definition but by virtue of committing to the minimum reporting standard. We should note, however, that even enterprises who do not state "*impact*" as their primary objective can create meaningful and lasting social impact. Thus, according to Jeremy Nicholls, chief executive of the Social Return On Investment (SROI) Network, "*all organizations regardless of their aims and objectives have an impact, and so, for the non-initiated, impact isn't and cannot be something unique to social purpose organizations or their investors*"[21]. This is one of the reasons that the working group has refrained from introducing a

[20] To a large extent, 'limiting harm' is coded in each country's legislations and regulations around human rights, child rights and juvenile justice, consumer protection, labour laws and fair compensation and equal remuneration, women's rights, forest rights, and so on. Different countries have varying levels of these protections in place. Work is needed to improve these protections, and therefore, the minimum threshold for a particular outcome may vary across countries. For instance, taking care to dispose effluents safely might already be in the law in some countries and so a company that does this cannot position itself as being environmentally conscious in that country but practising this in another country can attract 'social' investment because it is creating social impact compared to its peers in that country. Hence the need for internationally set standards such as the SDGs that go beyond country-specific standards. The Impact Management Project for instance, permits outcome thresholds to be a nationally or internationally agreed standard.

[21] Cecily Wallman-Stokes, Katherine Hovde, Carol McLaughlin, and Katherina Rosqueta. 2013. *What Are We Talking about When We Talk about Impact?* Center for High Impact Philanthropy.

legal definition for a social enterprise. Rather, it envisions a future where more enterprises incorporate impact into their operating approaches and strategy while enjoying the freedom to structure their legal form in a way that works best for them.

3.2 Measuring social impact

Requiring that a social enterprise create positive social impact goes further than requiring "*responsible corporate behaviour*" or "*good corporate citizenship*". Therefore the measurement of social impact must go beyond monitoring the behaviour of corporates, which frameworks like SEBI's Business Responsibility Reporting Framework (BRRF) aim to do. Such frameworks are inadequate when thinking of social impact in a broader sense since they prioritize profit maximization while treating positive social impact as a by-product. Our approach is to prioritize social impact by adopting a "*beneficiary lens*", and raise the bar for what it means to be a true social enterprise.

Social impact from a beneficiary's perspective is inherently difficult to measure because it cannot be readily expressed in monetary terms. This does not, however, imply that all forms of social impact are equally difficult to measure or that efforts to standardize the measurement of social impact are bound to fail. Professor Alnoor Ebrahim notes, for instance, that "*delivering emergency relief and basic services in sanitation, water, and housing is easier to measure than impact on public policy or on good governance, freedom, and rights. Societal transformation—such as improving human rights or democratic conditions—involve multiple actors and causal mechanisms that are still poorly understood.*" In such cases, he recommends that '*it can still be useful to try to measure what an organization is doing and whether its strategies are working to influence societal change.*[22]"

When thinking about how to measure social impact, we have three decades of international experience to fall back on, and a study of this experience indicates that the standardization of social impact measurement is a process of discovery via iteration and progressive refinement. This process of discovery has both uncovered the challenges of measuring social impact and also sought to overcome these challenges in numerous ways. We describe all of this experience and its many lessons in Annexure 1 of this report.

After taking stock of the myriad frameworks described in Annexure 1 and the various challenges of measuring social impact in a standardized manner, we have concluded that it will take a few more years to evolve a standardised framework that could apply to all FPEs and NPOs in India that seek to raise funds through SSE. Operationalising any framework also requires an ecosystem of players who will implement that framework. Only a fledgling ecosystem exists in India today and there is a long journey ahead to mainstreaming the measurement of social impact.

The minimum reporting standard outlined in our report is a step in that direction. It is mandated from day 1 of the SSE's launching for all social enterprises, FPEs as well as NPOs, that wish to benefit from the SSE.

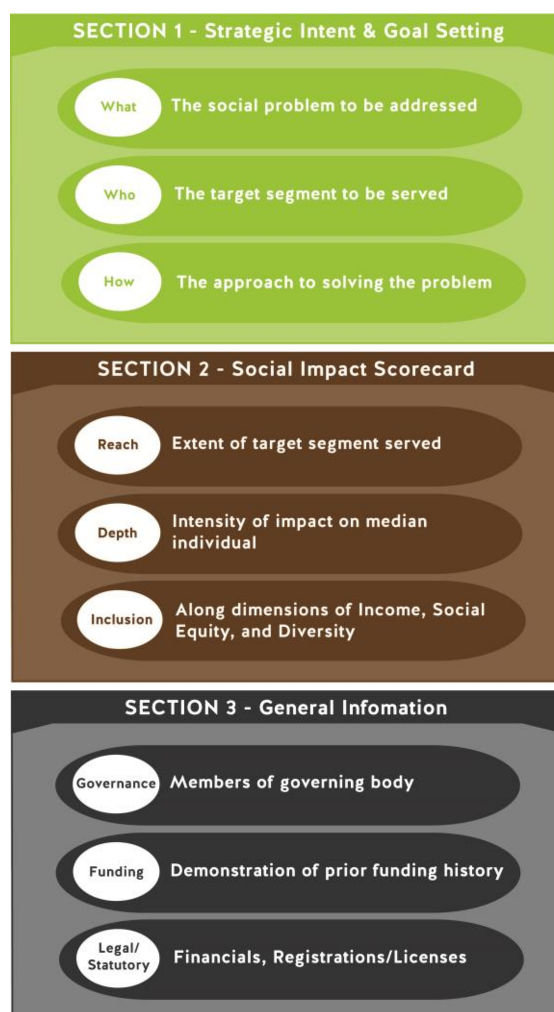
The minimum reporting standard is envisioned to grow in rigour, approaching the desired ideal state of widespread standardized impact measurement and impact reporting.

[22] Julie Hanna. 2010. *The Hard Work of Measuring Social Impact*. Harvard Business School Working Knowledge

3.3 A minimum reporting standard for FPEs and NPOs in India

We present the details of the minimum reporting standard in Annexure 2 to this report. The standard has been created by benchmarking elements from various frameworks of measurement that have been developed and are being deployed (UNDP, Omidyar Network India, Asha Impact, SELCO/IIMA, SRS, IMP – see Annexure 1 for details). The following figure captures the main elements of this reporting standard.

Figure 3.1: The minimum reporting standard for the immediate term



While recognising that creating a uniform framework for reporting across the diverse range of social enterprises in operation is difficult, we believe that the above framework does a fair job of capturing the performance of these diverse organisations in a robust manner, while ensuring that the measurement requirements are practical and implementable for such organisations.

The work of ensuring that the minimum reporting standard is met by all social enterprises that wish to raise funds on the SSE will fall largely on the SSE itself. We make a specific policy recommendation in Chapter 6 for how this could become possible, through the means of a capacity building fund that will create an ecosystem of social auditors and information repositories (IRs). This will help social enterprises do the reporting. We also allow for the possibility that many social enterprises, and especially many of the smaller NPOs, may not have the financial capacity to do the minimum reporting, and we make a specific recommendation in

Chapter 6 that the capacity building fund can pick up some of the costs of reporting for such social enterprises, especially in the immediate term.

It is expected that the above approach to reporting will build confidence/comfort among investors, greatly expand the scope and depth of participation, and bring to the market a kind of convening capacity that is especially needed in the early days for take-off.

3.4 The pathway to comprehensive social impact measurement and reporting

The minimum reporting standard is to be enforced in the immediate term. Over time, the reporting requirements can begin to incorporate more rigour in a graded and deliberate manner. We envision an ideal end-state and a pathway to that end-state over an intermediate term of 4-7 years. Annexure 3 lays out such a pathway. The key aspects are:

(a) Clearer and more refined statements of intent to create social impact (offering more specific details of who the social enterprise is looking to impact, what the intervention is, and how the intervention is expected to create the desired impact)

(b)More rigorous assessments of the social impact that is being created (along the reach, depth and inclusion dimensions) and more graded evaluations arising therefrom

(c) A greater shift towards outcomes-oriented measurement in place of inputs- and outputs-oriented measurement, especially for those NPOs that are looking to create social impact at longer horizons than a year

(d) A gradual shift towards articulating the sector-level or policy-level impact of the social enterprise's activities

(e) More granular disclosures of governance mechanisms and financial operations

While in the immediate term, NPOs need only self-report and FPEs, in addition, will also have to pass through the assessment mechanism to be developed by SEBI; through the intermediate term onwards, social auditors can be required to do independent verification of such reporting. We expect an ecosystem of such firms to develop over time. Many large audit firms already possess some expertise in the sustainability reporting and advisory domains[23]. There are also other entities which specialise in research on ESG topics with a corporate focus[24]. Newer players can also enter this arena, to help social enterprises self-report, and to innovate new grading or rating capabilities with regard to the various components of the reporting framework. Some of the new actors in this arena would also need to possess impact evaluation capabilities.

Given that the social sector is still early in its development, we do not recommend the immediate creation of a regulator for social enterprises, for social reporting or for social auditors. We expect, rather, that the evolving reporting standard will gain more traction with time, and the government can, in 4-7 years, assess the need for a new regulator depending on whether the sector can potentially benefit from more regulatory clarity and supervisory powers. The SSE and

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[23] EY. *ESG Assurance/Reporting & Climate Change/Carbon*.
PWC. *Sustainability Services*.
KPMG. *Sustainability services*.

[24] India Index Services & Products Limited. 2018. *Nifty 100 ESG Indices*. White Paper Series #10. The research for the construction of the NIFTY ESG Index is done by Sustainalytics

the instruments listed directly on the SSE will fall under SEBI's purview but the NPOs and wider ecosystem are outside SEBI's remit and therefore in the immediate term as well as the future, other regulatory bodies will need to pitch in.

IRs are needed because there is a dire lack of robust information on NPOs, unlike in the for-profit sector. Although some intermediaries do provide information on NPOs, this information covers only a small fraction of all NPOs. Nevertheless, these intermediaries can start functioning as IRs for the SSE in the immediate term. For example, GuideStar India is an IR of NPOs with a searchable database on the information collected from them. DARPAN is a platform managed by the NITI Aayog that aggregates self-declared information on over 87,000 different NPOs. Credibility Alliance is a consortium of Voluntary Organizations (VOs) committed towards enhancing the quality of governance in the voluntary sector through disclosures.

The IRs would perform the functions of enumeration (listing of active NPOs and their activities), standardization (articulating a standard reporting format for NPOs and helping them to do information reporting), and verification (due diligence). One aspect of standardization would be to articulate a common set of financial reporting standards for NPOs. Currently such standards do not exist, except for Section 8 companies, and therefore, we recommend that the existing IRs, with the help of SSEs, consult with the Institute of Chartered Accounts of India (ICAI) to come up with a set of common standards for all NPOs by the end of 2020, which may be utilized for revising the overall reporting format and deciding entry norms in the intermediate term Any NPO that lists with an SSE should conform to these standards

We recommend that in the immediate term, the SSE encourage the setting up of a Self-Regulatory Organization (SRO) that will bring together existing IRs such as GuideStar, DARPAN, and Credibility Alliance, for meeting the above ends.

4 Non-Profit Organizations

4.1 Background

NPOs take a variety of legal forms such as societies, trusts and not-for-profit companies[25]. All NPOs must be registered under Section 12A of the Income Tax Act and file income tax returns. Upon assessment of these returns, an entity is granted tax-exempt status for a particular year. An NPO can extend tax deduction to its donors upon approval under Section 80G of the IT Act.

About 70% of funding for these organisations comes from four sources: individual donations, contributions made under the Foreign Contribution (Regulation) Act, 2010 (FCRA), CSR grants, and grants availed from government schemes. However, the beneficiaries of these forms of funding have typically been the large NPOs in different sectors. As of 2018, there were only 1.8 lakh institutions who had registered and claimed tax exemption status. Among them, only about 12% had obtained FCRA funding, and only 11% had obtained CSR funding. The number is even lower for grants from government schemes[26]. While there are eligibility requirements that govern access to these institutional sources of funds, access to capital, even for entities who are eligible, remains a key concern for much of the sector.

Furthermore, donations to NPOs from institutional sources (that are not tax-deductible) are typically permitted to be spent only towards programs, as a safeguard against their misuse. Non-program costs such as rent, utilities, staff training, research, etc. have to be borne by NPOs from internal resources. This has produced the so-called "*starvation cycle*", constraining NPOs' ability to invest in essential organisational infrastructure and impeding their growth[27].

In general, raising funds from tax-exempt donations is an attractive option as this offers a source of funding without stringent restrictions on non-programmatic spends. However, being smaller in size and spread over multiple individual donors, these donations are difficult to source and sustain. Enabling structures with an intermediary to help aggregate donations from multiple individual donors could be an innovative solution that can provide an important source of funding.

The SSE will enable the routing of grants and donations to NPOs in a variety of ways. But it will go further, in also enabling the routing of risk capital to NPOs. This chapter describes the possibilities in terms of a distinction between instruments (Section 2) that do not require pooling, and structures (Section 3) that do require pooling and therefore intermediaries.

4.2 Funding instruments

By law, NPOs face restrictions on their ability to issue debt, equity and units. A notable exception is Section 8 companies that can organize on a share basis but these shares are not residual claims on profits as Section 8 companies cannot pay dividends to shareholders. There are no regulatory hurdles in listing such shares or debt instruments of Section 8 companies and therefore these could be possible avenues for direct listing by select NPOs[28]. However, so far

[25] National Accounts Division Central Statistics Office. 2012. *Final Report on Non Profit Institutions in India A Profile and Satellite Accounts in the framework of System of National Accounts (including State-wise Comparison of Profiles)*. Published by Ministry of Statistics and Programme Implementation.

[26] Centre for Social Impact and Philanthropy. 2018. *Estimating Philanthropic Capital in India.*

[27] Ann Goggins Gregory & Don Howard, 2009. *The non-profit starvation cycle*.

[28] We note that 2 states in the US, Michigan and Pennsylvania, have laws that allow NPOs to organize on a share basis, but shareholders only have voting rights (and no rights to profits), nor are the shares transferrable. In fact,

these avenues have not been utilized by Section 8 companies apparently due to their inherent inability to provide financial return on investments.

Trusts and societies are not body corporates under the Companies Act, and hence, in the present legal framework, any bonds or debentures issued by them cannot qualify as securities under the Securities Contracts (Regulation) Act 1956 (SCRA)[29].

It is noted that, since most NPOs are not revenue-generating, it is not clear how they would issue conventional debt securities or units.It is easier to imagine that they will use funding structures that produce debt securities or units, as exist already in practice, but these structures are typically intermediated.

Despite the above shortcomings, there is a great opportunity to unlock funds from donors, philanthropic foundations and CSR spenders, in the form of zero coupon zero principal bonds. These bonds will be listed on the SSE. They will carry a tenure equal to the duration of the project that is being funded, and at tenure, they will be written off the investee's books. The zero coupon zero principal bond is particularly well suited to investors who are looking to create social impact but do not wish to have their funds returned to them. However, such bonds are not without risk, as there is no guarantee that the social impact that an NPO is promising will in fact be created. Accordingly, investors will be keen to channel funds only to credible and legitimate NPOs, which the SSE will ensure by requiring beneficiary NPOs to report on social impact in a standardized format. NPOs can also signal their credibility and legitimacy to investors/ funders by registering with IRs, although such registration may not be mandated. Furthermore, investors in zero coupon zero principal bonds may also be awarded a tax benefit to incentivize their participation in this instrument.

The feasibility of introduction of such bonds, their exact modalities, entry norms, regulatory framework, reporting/ disclosure norms, compliance requirement/ penalty provisions etc may be worked out by the stock exchanges and SEBI.

SEBI will continue to explore other instruments that shall be feasible for direct listing by NPOs and create enabling regulatory framework incorporating the listing/eligibility conditions for NPOs along with reporting/disclosure norms, compliance requirements/ penalty provisions.

The demonstration of achieved impact will also benefit the NPO for future rounds of fund raising at the SSE, whether through this route or through the funding structures described in the next section.

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very few NPOs use this provision. For Michigan, see: https://hirzellaw.com/the-michigan-nonprofit-corporation-act/, while for Pennsylvania, see: https://law.justia.com/codes/pennsylvania/2014/title-15/chapter-57/section-5752/. Further, a large humanitarian NPO in France, ACTED, has inssued "*charity shares*", also called Associative Titles and Participatory Titles, except that these instruments are tradeable, and could have a component of redemption at the discretion of the issuer. Aside from this, there appears to be little information about these shares. See here: https://www.acted.org/en/french-ngo-acted-undertakes-innovative-fundraising-activities-dedicated-to-humanitarian-actions-and-development/

[29] In the existing regulatory framework for AIFs, Mutual Funds, REITs and InvITs it is noted that these entities are set up as Trusts. However, the assets of such Trusts are securities, bearing financial returns which are marketable instruments. Therefore, units issued by such Trusts to represent the beneficial interest of its members (investors) are also marketable instruments. For a Trust which is set up for purposes other than to manage the funds of its members by investing the same in securities, for e.g. undertake charitable work, the units issued, if any, to represent the beneficial interest not bearing any financial return, will not be marketable, and therefore, would not be equivalent to securities as defined in SCRA.

4.3 Funding structures

The SSE will enable the routing of risk capital to NPOs via funding structures (see Figure 4.1 for a comprehensive list) that can catalyse larger and more efficient deployment of capital for them. While these structures differ in the details, the key idea in all of them is the need for a specialised class of intermediaries to channel capital to NPOs.

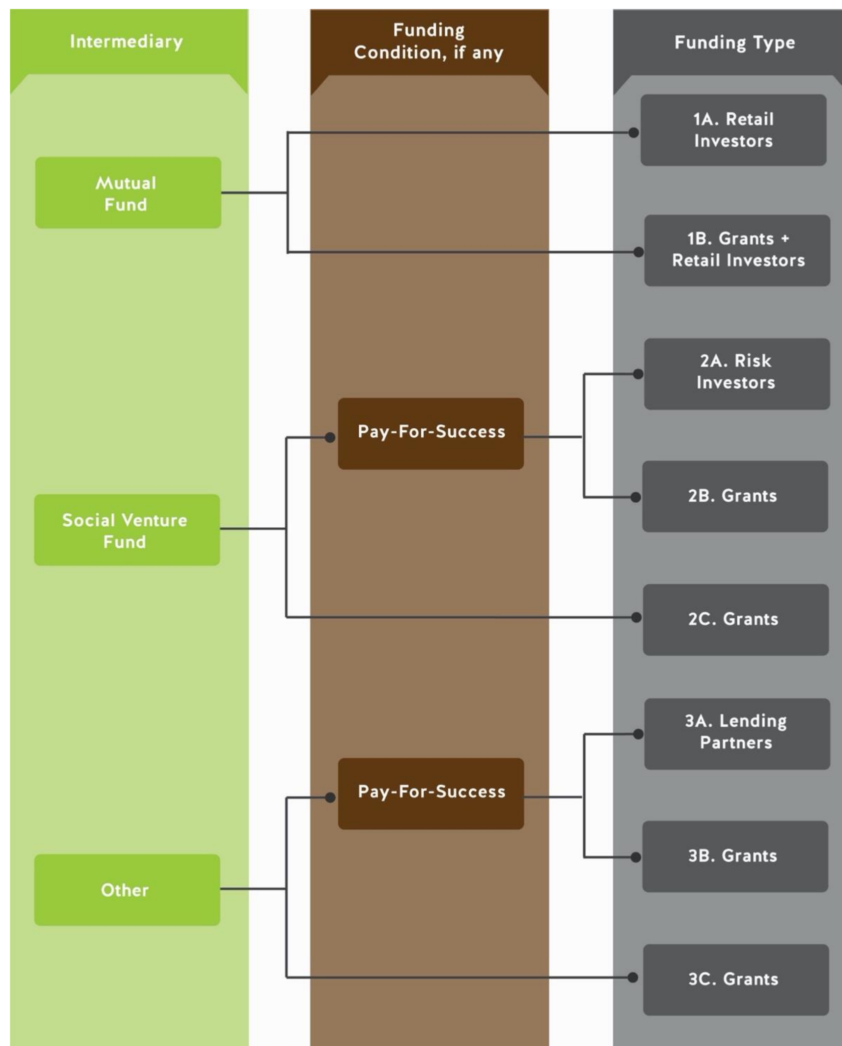
Over 70% of the 240 NPOs surveyed in one study expressed the need for an intermediary to provide guidance on impact reporting, monitoring and evaluation[30]. Intermediaries play a role in reducing the search and transaction costs associated with fund raising for NPOs. This specialised class of entities can play the important role of information agents and delegated monitors for investors while creating capital markets for NPOs. The informational advantage also comes in the form of specialisation in not just identifying worthy and deserving NPOs but also in assessing the nature of their operations and their capacity to create impact[31].

In the Indian context, there is a need to create an appropriate investment structure (that will function as an independent fund) which could take a variety of forms, as seen in Figure 4.1. In some cases, grants and risk capital will participate side by side in the same structure. In other cases, investors will be compensated by a new category of funders called "*outcome funders*" whose presence in the funding structure will incentivize performance on the part of the intermediary as well as the NPOs. Such a pay-for-success model might even work for grants.

In the figure, a Social Venture Fund (SVF) is a category 1 Alternative Investment Fund (AIF) that is allowed by SEBI to issue securities or units of social ventures to investors who may agree to receive restricted or muted returns.

[30] 'Non-Profit' survey Commissioned by A.T.E. Chandra Foundation and Omidyar Network India (240+ responses)
[31] Such a need for intermediaries was also expressed by the Social Investment Task Force (SITF) in the UK. Its first report recommended the creation of "*wholesale intermediaries*" and this recommendation resulted in the formation of Big Society Capital, an independent social investment institution that sources funds from dormant bank accounts via an independent Reclaim Fund and four commercial banks in the UK[31]. See: Press Release Cabinet Office, Government of UK. 2012. *Launch of Big Society Capital- the world's first ever social investment market builder*.

Figure 4.1: Funding structures for NPOs



The above figure is not exhaustive, but it does illustrate one of the key advantages of routing funding through the SSE: the SSE provides a venue for standardizing and rationalizing funding structures. Some of these structures already exist (see Annexure 4 for examples), but there isn't much awareness about them among the NPO community. The hope is that the SSE will bring within its fold the many structures that do exist, and in doing so also expand the range of possibilities. In turn, NPOs (that are able to conform to the minimum reporting standard of Chapter 3) can then be on-boarded to the SSE via one of these types of funding structures, depending on their own needs and those of their funders.

It is to be noted that not all structures create listable securities. In fact, the only ones that do are the Mutual Fund and SVF for risk investors. But even in these cases, it is not necessary that the securities be listed on the SSE. Along with providing avenues for direct listing of NPOs (including Section 8 companies), the SSE has also been envisioned to create a well-defined process embodied in the minimum reporting standard, by which NPOs can identify themselves to investors, and that would "*pull*" investors to the SSE. Therefore, it is recommended that the SSE maintain a directory of all NPOs(directly listed or otherwise) that benefit from one or more of the structures described in the above figure, and also a directory of the structures themselves.

Here, we discuss some of the funding structures described in Figure 4.1 but leave much of the actual details to Annexure 4. In the Annexure, we also review successful use cases of these structures that already exist, making them attractive options for kickstarting activity on the SSE.

4.3.1 Mutual Fund structures

A conventional AMC could offer closed-end mutual fund units to investors. The units could be redeemable in principal terms, but all of the returns could be chanelled towards suitably chosen NPOs. If CSR spends are allowed to participate, the principal amount would have to be returned to the fund during fresh cycles of operation. The HDFC Cancer Fund is a successful example of this kind of funding opportunity.

4.3.2 Pay-for-success structures

In these structures, conventional capital coming from institutional investors or banking institutions, would combine with social capital coming from philanthropic foundations or CSR spends or impact investors, to fund a specific NPO or a group of NPOs. Conventional capital would bear some risk as it would only earn a return if social impact is demonstrably created. That is the pay-for-success part. As a result, the NPO beneficiaries are incentivized to perform and gain credibility, or else risk considerations would prevent them from being able to use such structures to finance themselves. The performance of NPOs is strictly along the social dimension, however, since the financial returns are provided by the social capital participants upon successful creation of impact. These kinds of structures are particularly well-suited for the SVF classification, and are already in vogue in the form of social impact bonds or development impact bonds (SIBs/DIBs) around the world and in India. Many interesting variations exist, and Annexure 4 explores them in greater detail.

4.3.3 Grants-in, grants-out

The SVF classification can also be leveraged to activate grants-in, grants-out mechanisms, which are not as sophisticated as the previous two structures reviewed here, but nevertheless just as powerful. SEBI’s AIF guidelines provides for the harnessing of SVFs towards charitable purposes, as per Regulations 2(1)(v) (which describes a social venture as one that pursues social performance norms), 2(1)(u) (which states that charitable trusts and Section 8 companies conform to these norms since they pursue social welfare, solve social problems and provide social benefits) and 16(4) (which describes the grants-in, grants-out process). In this context, the syndicate financing models of The Power of Nutrition (UK) and Gates Philanthropy Partners (US) offer successful use-cases that the SSE could emulate for Indian NPOs. Pratham, one of India’s largest NPOs, has tied up with Godrej Properties Ltd. to innovate a loan-guarantee scheme for micro-entrepreneurs, that is an interesting variation on the grants-in, grants-out structure.

4.4 Attracting a full spectrum of funders and investors to the SSE

This chapter has presented a number of mechanisms for funding that the SSE can offer to NPOs. Whether or not the mechanism creates a listable security, it becomes a part of the SSE’s offering by virtue of the fact that the SSE mandates a minimum reporting standard for the beneficiaries of the mechanism. That minimum reporting standard will be a key factor in overcoming the information problems that typically come in the way of funders and investors discovering worthy and deserving NPOs.

The funders and investors could be individuals, government organizations, corporations (via CSR contributions), institutional and retail investors, and philanthropic foundations, both foreign and domestic. There are at present some hurdles in allowing the full spectrum of funders

to participate in the fashion envisioned in this chapter, and these hurdles will be discussed in Chapter 6, and recommendations will be offered on overcoming them. There are also various kinds of incentives that the government can offer to attract the full spectrum of funders onto the SSE (aside from the minimum reporting standard and other qualifiers which are already a strong pull factor). These will also be discussed in Chapter 6.

4.5 SSE for Covid19

Our recommendations for NPOs are also motivated by a very urgent concern about the economic damage inflicted by Covid19, especially upon the poorest Indian households and large swathes of the informal sector. India will need a significant amount of patient capital to repair and rebuild those livelihoods, which are the bedrock of her economy. Conventional capital that prioritizes financial returns will not be able to carry such a burden all by itself. Social capital, on the other hand, is more suited for this role. It is not only patient but its goal is precisely to support and fortify social structures that are in danger of collapsing because of Covid19. The SSE is envisioned as one of the possible solutions to this pressing problem. It will unlock large pools of social capital, and encourage blended finance structures so that conventional capital can partner with social capital to address the urgent challenges of Covid19.

As one example, the recommendations to revitalize SVFs by expanding the pools of source capital and innovating new structures will substantially multiply the funding opportunities for the social sector. A Covid19 Aid Fund can be set up by SSE to activate solutions such as pay-for-success bonds with philanthropic foundations, CSR spenders and impact investors as outcome funders and domestic banks, Non Banking Financial Corporations (NBFCs) and impact investors as lenders. Such a solution would be particularly effective in financing the work of NPOs that are reaching help and relief to migrant workers all over the country.

5 For-Profit Enterprises

5.1 Equity listing

FPEs would list equity on the SSE subject to a set of listing requirements, including operating practices (financial reporting and governance) and social impact reporting. That is, FPEs would be subject to the minimum reporting standard. This is similar to how SEBI created the Innovators Growth Platform (IGP) for start-ups as a separate platform with its own listing requirements.

Certain eligibility conditions for equity listings must also apply as per the SEBI's Issue of Capital, Disclosure Requirements (ICDR) SEBI should look into the following aspects of eligibility and recalibrate the existing thresholds in the ICDR: Minimum Net Worth, Average Operating Profit, Prior Holding by QIBs, and Criteria for Accredited Investor (if a role for such investors is envisaged). Listing, compliance and penalty provisions must be aptly stringent to prevent any misuse of SSE platform by FPEs.

5.2 Beyond equity

The funding structures elaborated in Chapter 4 for NPOs could be used for funding FPEs as well. Indeed, AIFs and SVFs already exist for FPEs but do not require social reporting. So the inauguration of the SSE would bring under the fold of the minimum reporting standard all FPEs that receive funding through the AIF/SVF channel. Futher, the reference to "*muted returns*" in the current SVF guidelines needs to be revisited as the term is misleading and a deterrent for investment.

It is to be noted that the reporting standard ensures a prioritization of social returns. It requires a level of descriptive detail that only bona fide FPEs will be able to provide, and that will be too costly for impostors to mimic. Therefore, only the true FPEs that are creating positive social impact will be able to precisely signal their "*social return*" credentials to potential investors. In other words, the reporting standard empowers the investor with a very high degree of discrimination so that he/she is able to single out an FPE that is genuinely creating positive social impact.

Nevertheless, association of FPEs with SSE must not be based only on self-reporting. To ensure that only bonafide FPEs are able to associate with SSE, SEBI, in consultation with the existing specialist entities, should work out a mechanism for assessing credentials of the social impact dimensions self-declared by the FPEs. A mechanism of checks must be developed to assess/ verify the preference of such firms for social returns over financial returns and their track record of delivering positive social impact This is crucial to identify and allow only the true FPEs, that are genuinely creating social impact, to be associated with SSE.

Potential exploitation of unintended opportunities for regulatory arbitrage can, of course, be handled through suitable regulatory interventions such as appropriately incorporating the parameters of sole object/ core services in the listing criteria, bringing in stringent penalty provisions, refining the reporting standard and empowering social auditors to call out such attempts at arbitrage, designing an appropriate mechanism for scrutiny of the transfer cases from main board, if any

That the structured finance route works for FPEs is amply demonstrated by an entity like Northern Arc Capital Limited (NACL), which enables accelerated access to capital markets for

for-profit NBFC-MFIs, and has thereby helped make microfinance a mainstream asset class. Annexure 5 discusses the NACL case in more detail.

5.3 Attracting the full spectrum of funders and investors to the SSE

Chapter 6 lists some of the policy recommendations that are targeted towards attracting investors interested in FPEs, and FPEs themselves, onto the SSE platform.

5.4 SSE for Covid19

Many FPEs are also working to repair the damage inflicted by Covid19. For example, NBFC-MFIs are offering debt moratoriums to their downstream customers who are mostly low-income households. However, the scale of such relief work is limited by the willingness of upstream lenders to grant debt moratoriums to those NBFC-MFIs..

The Covid19 Aid Fund mentioned in Chapter 4 can be used to provide loan guarantees to NBFC-MFIs that wish to extend debt moratoriums to their customers. An ideal offering could be a structured pooled loan with domestic banks and NBFCs as senior lenders, and philanthropic contributions, CSR spenders, and impact investors as junior lenders. By participating as junior lenders, social capital would cushion the downside risk for conventional capital, and the SSE could make this blended finance solution a reality.

6 Policy Recommendations

6.1 Designing appropriate policy interventions

The reader should read this Chapter alongside the executive Summary (Chapter 1, Section 4) for a comprehensive understanding of the report's recommendations.

To sustain and grow the flow of funds through the exchange, a multi-dimensional policy intervention is required that will mitigate the various impediments to the seamless flow of funds towards the social sector, and also route new sources of funding to social enterprises, including those listed in the social stock exchange.

A framework for such a policy intervention could consist of three broad categories: regulations (aimed at reducing non-tax compliance and smoothening wrinkles in the major regulations governing the flows of funds to the social sector), market making (aimed at kickstarting activity on the SSE) and tax policies (aimed at reducing tax compliance costs, increasing donor/investor participation, and rationalizing anomalies in tax incidence)[32].

6.2 Smoothening regulatory wrinkles

Clarifications or tweaks will be needed under the CSR, SCRA, FCRA and the AIF regulations of SEBI. The government may consider the following recommendations in respect of CSR and FCRA.

On CSR regulations:

1. **Allow funding to NPOs on SSE to count towards CSR commitments of companies.** According to the Draft CSR Policy Amendment Rules 2020, recently released by the MCA, only contributions to Section 8 companies that are registered with the MCA can count towards CSR contributions[33]. This appears to be too restrictive, especially in light of the fact that the SSE will mandate a reporting standard for all NPOs and will facilitate fund-raising by them through directly listed instruments or through intermediary funding structures. The association of a particular NPO with SSE, either in form of direct listing or as a beneficiary NPO being placed in the SSE directory,will signal their credibility and legitimacy. Further, the existing IRs and ICAI, would work out a set of financial reporting standards for all NPOs. The SSE may assist and coordinate this process. Given these requirements, it would appear that all NPOs on SSE should qualify to receive CSR funds, and therefore the Draft Amendment Rules 2020 may reflect this provision.
2. **Allow CSR contributions to fund outcomes in the SSE's funding structure 3B (see Figure 4.1 of Chapter 4, and Annexure 4, for details on how this funding structure works).** As argued above, there is a strong case also, for extending CSR contributions to NPOs benefiting from the SSE's structure 3B in the form of outcome funding. To enable this to happen, the SSE must increase awareness about this possibility for using CSR among all corporates. Also, the following changes may be made in section 135 of the Companies Act, and reflected in the Draft Amendment Rules 2020:

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[32] This framework is inspired by the Doing Good Index 2018 Maximising Asia's Potential, Centre for Asian Philanthropy and Society

[33] The Draft Amendment Rules 2020 are available here: http://feedapp.mca.gov.in/csr/

a. **Allow CSR capital to be parked into an escrow account for a period of 3 years[34].** At the end of the 3-year time period, the capital in the CSR escrow account should be liquidated and spent as per the Companies Act schedule VII within the subsequent financial year.
b. **Allow accelerator grant to an NPO up to 10% of the program cost (in case outcomes are exceeded) to be counted as CSR expenditure.** Such a grant would fund non-programmatic expenditure such as research, capacity building, etc.
c. **The board and management of the corporate providing CSR funds should not be related to the NPO to avoid conflict of interest.**

3. **The MCA may authorize the trading of CSR spends between companies with excess CSR-spends and those with deficit CSR-spends, and the SSE can provide a platform for this purpose.** Annexure 6 to this report describes in detail how such a platform might work. This recommendation needs to be checked against the Draft Amendment Rules 2020, as these rules specify that corporates with unspent CSR funds (in other words, corporates with deficit CSR-spends) must deposit them in an Unspent CSR Account, and aim to spend the amount over the next 3 years. A trading platform would offer to such a corporate an alternative possibility. We recommend that the MCA consider offering this alternative possibility, and add this recommendation to the Draft Amendment Rules 2020.
4. **Allow expenditure by corporates on building capacity for the SSE to count towards their CSR commitments.** Such funds can be given to the SSE without any expectation of return, to be utilised towards capacity building (see the recommendations for market making in Section 4 below, for more detail on this point). Implementing this would require suitable amendments to schedule VII of the Companies Act, 2013, and their inclusion in the Draft Amendment Rules 2020.

On Regulatory Framework for SCRA:

- **The zero coupon zero principal bond of NPOs will have to be notified as a security under SCRA**. The appropriate regulatory amendments will have to suitably examined by SEBI.

On FCRA:

- **Clarify rule 4 of the FCR Rules, 2011, to enable foreign entities to invest in SVFs listed on the SSE, as the donors will not be taking decisions/have any discretion on deployment of their funds to specific NPOs[35].** These decisions will be taken by SEBI-regulated Indian fund managers and will therefore be easier for the government to monitor as they will have to conform to the Information Memorandum to be made public.

On AIF regulations:

1. **Lowering of the minimum corpus requirement and minimum ticket size for SVFs to be suitably examined by SEBI.** The current floors of INR 20 crores and INR 1 crore limit the participation of smaller outcome funders in the structures described in

[34] The Draft Amendment Rules 2020 include a provision for this, but it is unclear if the amendment has been accepted, since the deadline for the MCA's call for public comments on these new rules was extended to April 20, 2020, in view of the Covid19 crisis. See: http://feedapp.mca.gov.in/csr/

[35] R. 4 of the FCRR, 2011 prohibits '*any activity or investment that has an element of risk of appreciation or depreciation of the original investment, linked to market forces, including investment in mutual funds or in shares*'. This requires a clarification, as it may prevent foreign entities from participating in SVFs.

Chapter 4. The reference to "*muted returns*" in the current SVF guidelines needs to be revisited.

6.3 Market making

A fledgling exchange like the SSE would find it difficult to ensure liquidity and participation in the initial stages. The SSE could consider the following measures to address this difficulty:

1. **Consider running a widespread and high intensity awareness campaign for social enterprises to list in the SSE.** Further, as recommended by the RBI's Expert Committee on Micro, Small and Medium Enterprises (Chair: U.K. Sinha) SIDBI, being the apex body for the development of SMEs, may collaborate with state governments to get social-minded SME units from the states onto the SSE.
2. **Consider setting up a INR 100 crore "*capacity building fund*" to create a capacity building unit that will foster overall sector development.** The SSE could invite corporates and philanthropic foundations to contribute, with the understanding that corporate contributions would be CSR eligible and philanthropic donations would benefit from the same regulations and fiscal benefits as are available under 80G, etc. Capacity building involves all of the following:
    a. Organizing existing IRs in the immediate term for extending requisite support to SSE (as explained in Chapter 3)
    b. Implementing the reporting standard for all FPEs and NPOs that benefit from the SSE
    c. Enhancing the reporting capabilities of smaller NPOs, and also picking up some of the financial cost of such reporting for them
    d. Creating awareness among and driving adoption of the fund by FPEs, NPOs, investors and donors
    e. Actively raising awareness and promoting the fundraising instruments/structures available on the SSE among FPEs and NPOs

6.4 Tax policy

A 2016 Charities Aid Foundation (CAF) study of tax regimes for philanthropy in various countries demonstrates that the proportion of people donating money to charity is 12 percentage points higher in countries which offer some form of tax incentive to individuals (33 per cent) than those that offer no incentives (21 per cent)[36]. Furthermore, this difference is most pronounced for countries in the Low Income group (27 per cent versus 18 per cent)[37]. Therefore, tax policy can be expected to be critical for the SSE's success.

It is observed from the CAFs annual world giving index report released in October, 2019 that India is ranked at 82 out of the 128 countries. The report also suggests that governments should make it easier for people to give and offer incentives for giving where possible.[38]

SSE provides means for social enterprises (both for profit and non profit organizations) to raise funds through a regulated mechanism. Fund raising through SSE also ensures accountability, transparency and periodic reporting of impact. Thus, in order to provide an impetus for such

[36] See Section 3 Donation States: An international comparison of the tax treatment of donations, May 2016, Charities Aid Foundation (CAF)
[37] Ibid
[38] https://www.cafonline.org/docs/default-source/about-us-publications/cafwgi_10th_edition_report_2712a_web_101019.pdf

fund raising mechanisms and create a vibrant, deep and liquid market for social investments, it will be paramount to provide certain tax incentives.

India appears to be moving towards a more flat and simplified tax structure with low rates and few exemptions[39]. The tax incentives proposed in this report are, for the most part, in alignment with that evolutionary arc, except in the case of 80G exemptions which will be important to retain under the new tax regime so that a crucial conduit of funding to NGOs is not cut off. Against that background, the government may consider the following recommendations:

For investors and philanthropic donors:

1. **Exempt investors from paying Securities Transaction Tax (STT) for trades made on the SSE**. A tax on transactions could reduce traded volume and liquidity on the xchange[40]. There is some evidence of this happening in India post the imposition of the tax in 2004[41].
2. **Exempt investors from paying Capital Gains Tax (CGT) on long term capital gains accruing from sale of securities in the SSE**. This will incentivise investors to stay invested for longer time horizons and thus provide much needed long term capital for the social enterprises.
3. **Allow philanthropic donors to claim 100% tax exemption for their donations to all NPOs that benefit from the SSE**. Countries such as Japan, Germany, China, Australia, UK and the US all offer 100% tax exemptions on donations to NPOs[42]. In India, donations to private NPOs with 80G certification can get only 50% tax deduction, whereas government entities get 100%. This creates an artificial distinction between private and government entities doing similar work[43].
4. **Allow all investments made in securities/ instruments of NPOs listed on SSE to be tax deductible.**
5. **Allow corporates to deduct CSR expenditure that goes to the SSE from their taxable income.** The High Level Committee on Corporate Social Responsibility recommended that all CSR expenditure be made tax deductible[44].
6. **Remove the 10% cap on income eligible for deduction under 80G**. In conversations with stakeholders, this restriction came up as a significant barrier towards greater philanthropic giving[45].
7. **Allow first time retail investors to avail a 100% tax exemption on their investments in the SSE MF structure, subject to an overall limit of Rs. 1 Lakh[46].** There is precedent for this through the 80CCG section of the IT Act.

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[39] Ibid

[40] See "Prioritise GDP, not tax revenues" by Ajay Shah, August 11, 2019, Business Standard

[41] See Agrawal, Deepak.,Subramanyam, K.R.,Tantri, Prasanna., Thirumalai, Ramabhadran S. "Impact of Securities Transactions Tax on Stock Markets and Market Participants: Evidence From India" – ISB Centre for Analytical Finance, working papers

[42] As described here: https://www.cafonline.org/about-us/publications/2016-publications/donation-states-an-international-comparison-of-the-tax-treatment-of-donations

[43] Also, the current Finance Bill (https://www.indiabudget.gov.in/doc/Finance_Bill.pdf) has a proposal to mandate charities to file a return on their donations. With this provision, both the donor and donee would be filing their donations under 80G, thereby giving the tax authorities sufficient information to audit and limit the misuse of donations. Thus, there is a case to extend this benefit in the new tax regime also.

[44] The High Level Committee made the recommendation because current CSR rules appear to create an artificial distinction between types of CSR expenditure, with some (such as those going towards rural development, skill development, etc.) qualifying for tax exemption and others not.

[45] It may be noted that in other jurisdictions, the cap is much higher (100% in Australia, UK, Vietnam, Philippines, Ireland; 75% in Canada; 50% in USA; 40% in Japan; 30% in China)

For social enterprises:

1. **Allow a tax holiday of 5 years to FPEs listed on the SSE, from the time of first listing.** This tax holiday can be made contingent on the social enterprise reinvesting its profits in the business, and any additional criteria deemed necessary. The criteria should be designed in a manner so that these tax concessions reach only the genuine FPEs creating true social impact.
2. **Enable ease of getting certifications for NPOs under 12A, 12AA and 80G** by allowing all NPOs benefiting from the SSE to qualify for these certifications.
3. **Re-evaluate the current budget proposal to revalidate registration of NPOs under section 12A/12AA for NPOs.** The current proposal could significantly increase compliance costs for NPOs.
4. **Re-evaluate the current budget proposal to make renewal of registration for NPOs under 80G periodic.** Any eligibility assessment for 80G may be conducted at the time of registration itself. Renewal doesn't seem to be economically beneficial.[47].
5. **Increase the limits under the IT Act on NPOs raising funds from commercial or semi-commercial activities to 50% from the current 20%[48].** This would help NPOs become more sustainable.

For the SSE:

1. **Allow revenue generated by stock exchanges through SSE to be tax deductible.** Costs attributable to just the SSE would need to be separated out from the larger exchange.

[47] As per estimates of donations u/s 80G are available in Receipt Budget - Finance Bill 2020, the loss of revenue on account of fake donations would be far lesser than the administrative cost of renewal.

[48] Countries such as the US, UK, Brazil and Australia do not appear to have such restrictions, provided the income generated by an NPO through trading or other commercial activities can be attributed to the normal course of operations for which the NPO was established.
US: https://www.irs.gov/charities-non-profits/unrelated-business-income-tax
UK: https://www.cof.org/content/nonprofit-law-england-wales
Brazil: https://www.cof.org/content/nonprofit-law-brazil#Tax
Australia: https://www.cof.org/content/nonprofit-law-australia#Tax_laws

7 The Road Not Taken

The models of SSEs in other jurisdictions may be classified into (1) Matchmaking platforms, and (2) Alternative investment instruments listed on an existing stock exchange. The characteristics and shortcomings of these models are examined below.

7.1 Matchmaking platforms

A matchmaking platform is a dedicated platform, set up separately from the existing exchanges, with the purpose of bringing together investors and investees. Many of the matchmaking platforms observed in other countries cater either only to FPEs or only to NPOs, but there is no comprehensive solution for both categories in any country.

7.1.1 NPOs

Brazil's Socio-Environmental Impact Exchange (BVSA) was the first SSE. It was set up under the BOVESPA Stock Exchange in 2003[49]. The BVSA acts as an information exchange to evaluate NPOs and identify projects which are in need of funding from private investors[50]. The capital raised through the exchange is used to fund specific projects within a fixed time frame[51]. From 2016, BVSA has relied on the SDGs to measure impact on society[52]. Importantly, funders receive no financial returns[53].

South Africa's SASIX: The SASIX was set up by the Greater Good South Africa Trust in 2006[54]. Like the BVSA, the SASIX does not provide financial returns to investors. SASIX allows investors to purchase "shares" of a specified value, that are directed at funding towards specific projects, within a time bound manner[55]. Impact is measured by outcomes in the community.

7.1.2 FPEs

UK Social Stock Exchange: The UK Social Stock Exchange operates as an information platform, but for established FPEs that are also listed on the London Stock Exchange[56]. In order to be listed on the SSE, FPEs must file annual social impact reports indicating their progress on the ground[57]. Dadush (2015) notes that there is little clarity on the nature of "*impact*" that businesses must achieve, nor is there a clear distinction between finance-first and impact-first models. As a result, the SSE does not meet its full regulatory potential[58].

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[49] UN Principles of Responsible Investment. 2018. *Mobilizing capital for impact* UN Sustainable Stock Exchange Initiative. *B3/BOVESPA*.
[50] UN Principles of Responsible Investment. 2018. *Mobilizing capital for impact*.
Brazil Foundation. 2018. *B3 Social Investment Announces 20 Projects Listed on BVSA in 2018*.
[51] UN Sustainable Stock Exchanges Initiative. *2016 Report on Progress*.
[52] UN Sustainable Stock Exchanges Initiative. *B3/BOVESPA*.
[53] UN Principles of Responsible Investment. 2018. *Mobilizing capital for impact*.
[54] Sasix Website. URL: https://www.sasix.co.za/about-us/;
Buckminster Fuller Institute. 2008. Tamzin Ratcliffe. The Global Social Investment Exchange.
[55] Bandini Chhichhia. 2015. *The Rise of Social Stock Exchanges*. Stanford Social Innovation Review.
[56] Sarah Dadush. 2015. *Regulating Social Finance: Can Social Stock Exchanges Meet The Challenge*? University of Pennsylvania Journal Of International Law Vol. 37 No. 1.
Submission by KPMG, IIC, UNDP, Asha Impact. 2019. *Social Stock Exchange Approach*.
[57] Sarah Dadush. 2015. *Regulating Social Finance: Can Social Stock Exchanges Meet The Challenge*? University of Pennsylvania Journal Of International Law Vol. 37 No. 1.
[58] Sarah Dadush. 2015. *Regulating Social Finance: Can Social Stock Exchanges Meet The Challenge*? University of Pennsylvania Journal Of International Law Vol. 37 No. 1.

Canada Social Venture Connexion: The Canada SVX is also intended to be an information exchange. It is operated by the MaRS Centre for Impact Investing[59]. The platform links accredited investors with businesses in need of equity investment[60]. The impact of each entity is determined by the Global Impact Investing Rating System (GIIRS) system, with entities submitting proof of rating in order to be listed [61]. Some commentators have stated that there is a lack of clarity on what would disqualify an entity from being listed on the exchange[62].

7.1.3 Problems with match-making platforms

For NPOs, matchmaking platforms only offer the benefit of discovery but do not innovate any new instruments or funding structures as such. Consequently, these platforms have only been able to attract a very limited set of investors, and do not show much activity. The situation is not that much different for the FPE platforms. The Canadian platform is only for discovery and not for trading while the UK platform allows very limited amounts of trading.

By contrast, the SSE being envisioned for India will allow trading for equities issued by FPEs, although tax incentives will be in place to encourage patient capital. And for NPOs, the SSE will open up avenues for direct listing, will streamline a whole range of funding mechanisms, and will provide a reporting standard and other incentives that will pull investors onto it.

7.2 Alternate investment instruments traded on an existing stock exchange

Another model for an SSE is Singapore's Impact Investment Exchange (operated jointly with the Stock Exchange of Mauritius), which trades impact-related securities, such as the Women's Livelihood Bonds[63]. These impact-related securities are not strictly pay-for-success structures, as they promise a financial return even if social impact is not created. Alternately, investors may use the IIX Growth Fund to make equity investments in start-ups or small companies with a social impact[64]. The social impact is determined with reference to the SDGs.

The limitation with the Singaporean alternative investment instruments is that the funding instruments appear to serve only FPEs, and there is no systematic approach for funding NPOs. By contrast, the SSE being envisioned for India lays out a common minimum reporting standard for all social enterprises, whether they are FPEs or NPOs. Furthermore, the funding structures for NPOs have various forms, with some of them incorporating an explicit pay-for-success mechanism that incentivizes good performance on the part of the NPO.

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[59] SVX Canada, Frequently Asked Questions. URL: https://www.svx.ca/faq.
[60] SVX Canada, Frequently Asked Questions. URL: https://www.svx.ca/faq.
[61] Beth Richardson. 2012. *Sparking Impact Investing through GIIRS*. Stanford Social Innovation Review.
[62] Sarah Dadush. 2015. *Regulating Social Finance: Can Social Stock Exchanges Meet The Challenge*? University of Pennsylvania Journal Of International Law Vol. 37 No. 1.
[63] Submission by KPMG, IIC, UNDP, Asha Impact. 2019. *Social Stock Exchange Approach*.
[64] IIX Growth fund, URL: https://iixglobal.com/iix-growth-fund/

Annexure 1: Measuring Social Impact – Frameworks & Challenges

Currently, there are several frameworks to measure impact. These vary greatly across dimensions such as the degree of intentionality (of the investor and/or the enterprise), the rigour of measurement, the relative weightages given to component parts, whether the measurement framework is conceived for NPOs or for FPEs, and whether the framework is driven by the developmental agenda of any government or of one or more multi-lateral organisations. This is the outcome of an evolutionary process of selection and differentiation as more recent frameworks have sought to overcome the limitations of earlier ones. The tables in this Annexure provide a landscape of the variety of frameworks that exist today.

At the level of least complexity is a set of frameworks laid down by various statutory bodies in a jurisdiction but are not necessarily mandated for all enterprises in the jurisdiction. More than 70 countries already have some form of mandatory or voluntary social reporting for corporates[65]. An example specific to India is the Business Responsibility Reporting Framework (BRRF) that is mandated by SEBI for the top 1000 corporates according to market capitalisation and is voluntary for others[66]. This seeks to operationalize the National Guidelines on Responsible Business Conduct (NGRBC), laid out by the Ministry of Corporate Affairs (MCA) in 2018[67,68,69]. While the NGRBC contains an indicative mapping of each of the principles to existing laws in India, and all enterprises whether 'social' or not must comply with these laws, the BRRF helps enterprises conduct a self-assessment of how well-aligned they are to the NGRBC and identify areas for improvement[70]. The BRRF is therefore designed to serve an objective of '*limiting harm*', i.e., for example, not causing damage to the environment, or not exacerbating historical patterns of social exclusion.[71] Downstream to these government-led policy imperatives are instances where stock exchanges in the country place directives for voluntary reporting by companies listed on them (such as Bombay Stock Exchange's ESG Guidance)[72,73] Internationally, credit rating agencies (like Fitch and Moody's) have developed frameworks to assess ESG compliance, which they provide as a service to those who wish to comply.

The broad standards described above are meant to encourage generic notions of corporate "*responsibility*" through reporting practices as a mode of governance. However, they cannot be said to speak to the specific kinds of impact that social enterprises and socially focussed

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[65] KPMG, GRI, UNEP, Centre for Corporate Governance in Africa. *Carrots & Sticks– Global Trends in Sustainability Reporting Regulation and Policy*.
[66] SEBI *Business Responsibility Reporting Framework (BRRF)*, 2019
https://www.sebi.gov.in/sebi_data/meetingfiles/dec-2019/1576469077048_1.pdf
[67] MCA. 2018. *National Guidelines on the Economic, Social and Environmental Responsibilities of Business*. These were an update to the MCA's National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business (NVGs), 2011.
[68] MCA. 2018. *National Guidelines on Responsible Business Conduct.*
[69] The MCA has also released an updated version of the NGRBC in 2019 that is meant to be more aligned with the SDGs and the UN Guiding Principles Broadly the nine principles covered are derived from the UN Guiding Principles for Business and Human Rights (UNGPs), UN Sustainable Development Goals (SDGs), UN Framework for Climate Change, and the ILO Core Conventions on Child Labour, besides provisions in the Companies Act 2013.
[70] See Annexure 7: Indian Laws Principles (Indicative). *National Guidelines on Responsible Business Conduct*
[71] Reporting, however, is only one aspect of ensuring responsible corporate behaviour. More is needed with regard to supervision by government bodies of industries likely to create most harm, and access to courts by aggrieved parties.
[72] BSE. 2018. *Guidance Document on ESG Disclosures.*
[73] The Sustainable Stock Exchanges Initiative is worth noting. It is a UN Partnership Program aimed at enhancing performance on ESG (environmental, social and corporate governance) issues and encourage sustainable investments through activities of capital market stakeholders

investors seek to create. Here, there are a number of international frameworks which can broadly be divided into two categories. The first category includes frameworks created by multilateral development organisations such as International Finance Corporation (IFC) and the United Nations Development Program (UNDP), and development financial institutions such as the UK's Commonwealth Development Corporation (CDC). The second category includes frameworks created by bodies directly or indirectly constituted by impact investors. Many of these frameworks loosely map to what is popularly known as the IOOI Impact Chain (Input-Output-Outcome-Impact), which is a general approach to study the impact of any innovation. For adopting this approach, an organization interested in creating social impact must articulate a Theory of Change (TOC) or Logic Model.[74]. The Impact Measurement Project's (IMP) framework goes a step further than the IOOI Impact Chain model in that it deconstructs the Output, Outcome and Impact elements of that model into the five dimensions of What, Who, How Much, Contribution, and Risk[75].

The applicability of these frameworks across countries requires a consideration of the local legal and institutional context within each country.[76] In the absence of any oversight, global pools of capital are more likely to gravitate towards lax regimes, resulting in exploitation and/or destruction of the social or natural fabric in those countries. The international impact measurement frameworks that have evolved have each sought to address such problems.

Among the frameworks led by the global investor community in collaboration with other stakeholders, the Evaluation Framework for Inclusive Investments developed by SELCO and Prof. Ankur Sarin and others at IIM Ahmedabad is noteworthy because it introduces the dimension of "*Inclusiveness*" in a very deliberate and specific manner, as compared to many other mainstream frameworks.[77,78] There are also frameworks developed specifically for NPOs and many accounting, quality assurance and quality control standards available for a variety of industries and sectors and applicable across legal jurisdictions.

A. Frameworks of multilateral development agencies and international bodies	
International Finance Corporation's (IFC) Anticipated Impact Measurement and Monitoring (AIMM) framework	The AIMM framework focuses on 'project outcomes' (a project's direct effect on stakeholders such as employees, customers, government and community, its effects on the environment, and its indirect effects on the economy and society) and 'market outcomes' (a project's ability to catalyse systemic changes beyond its immediate ambit).[79] The overarching design principle for the AIMM framework is to link back to the SDGs and the World Bank's twin goals of ending poverty and boosting shared prosperity.

[74] The European Commission report (2014) defines this Logic Model as "*the means (or causal chain) by which activities achieve outcomes, and use resources (inputs) in doing that, taking into account variables in the service delivery and the freedom of service-users to choose. It forms both a plan as to how the outcome is to be achieved, and an explanation of how it has occurred (explained after the event)*"

[75] Impact Management Project Website. URL: https://impactmanagementproject.com/impact-management/what-is-impact/#anchor2

[76] This is because different countries are at different levels of sophistication in the evolution of their laws and in the strength and integrity of their protective mechanisms such as law enforcement. Thus, for instance, a forest protection law may already be in place and well enforced in one country but absent or weakly enforced in another country.

[77] Submission by Jyotsna Sitling, former Joint Secretary, Ministry of Skill Development and Entrepreneurship, Government of India

[78] "*Inclusive investments*", as defined by this framework, are "*those that, while being conscious of their environmental footprint, prioritise the values of dignity, equity and sustainability of impact over other competing values and objectives*".

[79] IFC. 2018. *How IFC Measures the Development Impact of its Interventions.*

United Nations Development Program's (UNDP) SDG Impact Practice Standards for Private Equity Funds	In 2019, UNDP released for comment, via its flagship initiative called SDG Impact, the SDG Impact Practice Standards for Private Equity Funds and an associated certification framework and SDG Impact Seal (assurance standards for bonds and for enterprises is forthcoming) [80]. This is a collection of 18 standards grouped into three headings, namely standards for strategic intent and goal setting, standards for impact measurement and management, and standards for transparency and accountability. The framework seeks to assess whether an enterprise meets the standards against a three-point scale (Does Not Meet, Partially Meets, Meets). The SDG Impact Practice Standards are designed to be interoperable with other existing international practices such of those of the IFC, Global Impact Investing Network (GIIN), Principles of Responsible Investing (PRI), United Nations Environment Program Finance Initiative's (UNEP FI) Principles for Responsible Banking, UNEP FI Positive Impact Finance and the Impact Management Project (IMP) [81].
Task Force on Climate-related Financial Disclosures (TCFD), under the Financial Stability Board (FSB)	TCFD, set up by the FSB, seeks to develop voluntary climate-related financial disclosures for companies.
The Commonwealth Development Corporation's (CDC) ESG Toolkit for Fund Managers	CDC, the development finance institution under the UK government's Department for International Development (DfID), collects ESG and development impact performance data for all its funds' investments. Funds need to provide information on the implementation of the fund's Environmental and Social (E&S) and Governance and Business Integrity (G&BI) Management System, and also need to report on wider development impacts including job creation and job quality[82].

B. Frameworks introduced by the global investing community[83]	
Impact Reporting and Investment Standards (IRIS)	IRIS, managed as a public good by the GIIN, lays out a catalogue of standard environmental- and social-performance metrics that impact investors have been using for some time.
Global Impact Investing Rating System (GIIRS)	The GIIRS is a rating system for assessing the social and environmental impact of enterprises and funds, considered to be analogous to Morningstar investment rankings and Capital IQ financial analytics. It is a hybrid public/private good in that it is provided by an NPO that charges for its ratings services to become sustainable, publishes data for public use, and makes available for free, standards and assessment tools

[80] UNDP. 2019. *SDG Impact Practice Assurance Standards for Private Equity*.
[81] UNDP. 2019. *SDG Impact Practice Standards Mapping to Principles*.
[82] CDC Group. 2010. *ESG Toolkit for Fund Managers*.
[83] Many additional frameworks exist, such as Sustainable Livelihoods (SL), Demonstrating Value (DV), the Social Return on Investment (SROI) framework, and the <IR> Framework of the International Integrated Reporting Council (IIRC). The Conference Board's "*Framing Social Impact Measurement*" Research Report R-1567-14-RR refers to many other existing frameworks and documents a set of 30 quantitative frameworks that attempt to measure impact. It also describes four different types of measurement frameworks, namely outputs frameworks, outcomes frameworks, non-monetised impact frameworks, and monetised impact frameworks. Table 3, Table 4, The Conference Board. 2014. *Framing Social Impact Measurement.*

	that can be used by enterprises for internal purposes. The NPO in question is B-Lab, an organization that certifies B Corporations and promotes the benefit corporation structure.
Sustainability Reporting Framework of the Global Reporting Initiative (GRI)	GRI, based in the Netherlands, provides a Sustainability Reporting Framework and aims to make sustainability reporting standard practice so that all companies and organizations report their impact along the economic, environmental, social and governance dimensions of performance.
Impact Management Project (IMP)	The IMP seeks to build a global consensus on how to measure and manage impact and brings together a coalition of investors, grant-makers, for- and non-profit businesses, wealth managers, evaluators, academicians, and some of the existing standard setting bodies. IMP has defined impact as a change in positive or negative outcome for people or the planet. This framework goes a step further than the IOOI Impact Chain model in that it deconstructs the Output, Outcome and Impact elements of that model into the five dimensions of What, Who, How Much, Contribution, and Risk, and it also classifies an enterprise and its projects according to whether they Act to Avoid Harm, Benefit Stakeholders and Contribute to Solutions[84].
The Evaluation Framework for Inclusive Investments developed by SELCO and Prof. Ankur Sarin and others at IIM Ahmedabad	This framework introduces the dimension of "*Inclusiveness*" in a very deliberate and specific manner, as compared to many other mainstream frameworks[85]. "*Inclusive investments*", as defined by this framework, are *"those that, while being conscious of their environmental footprint, prioritise the values of dignity, equity and sustainability of impact over other competing values and objectives"*. The framework is designed across five dimensions of Serve, Internal Inclusion, Governance, Ecosystem and Ecology.

C. Select Frameworks of impact funders with operations in India	
Omidyar Network	Omidyar Network relies on a measurement along two dimensions, namely Direct Impact (Reach, Significance or Depth and Socioeconomic Status) and Sector Impact (Spurring Imitators, Providing Market Infrastructure, Prompting Policy change, and Capital Crowded In further to Omidyar Network's funding), each of these being assessed on a 3-point scale of High/Medium/Low[86]. This framework is used to assess the contributions made by its investees and grant-receivers and marks out as "*Impact Stars*" those investees that score Medium to High along both dimensions.
Aavishkaar	Aavishkaar, an impact-focussed investment platform, differentiates "*Fund Impact*" from "*Portfolio Impact*", the former referring to how the fund is choosing its investments and its engagement with investees to further the SDGs, and the latter referring to how the investees are themselves acting through their operations and activities to create impact in line with the SDGs[87].

[84] Impact Management Project Website. URL: https://impactmanagementproject.com/impact-management/what-is-impact/#anchor2
[85] Submission by Jyotsna Sitling, former Joint Secretary, Ministry of Skill Development and Entrepreneurship, Government of India
[86] Omidyar Network. 2018. *Omidyar Network's First 10 Years – An Impact Analysis.*
[87] Aavishkaar. 2018. *Impact Report 2018.*

D. Frameworks designed for NPOs	
Social Reporting Standard (SRS) led by University of Hamburg and the Technical University of Munich[88]	Specific to NPOs, the Social Reporting Standard (SRS) guide is an open-source civic society initiative led by the University of Hamburg and the Technical University of Munich[89]. This aims to provide NPOs with a systematic results-based reporting framework for their activities, but without attaching a numerical value or a rating to the reported information. It has as its main components, Performance (to indicate the efficiency of use of resources to achieve the social objectives of the NPO), Risk (to factor additional risk on behalf of the constituents that the NPO serves) and Organisational Capacity.
Certifications by GuideStar India	GuideStar India is currently India's largest information repository for NPOs. Besides hosting a searchable database on information collected from these NPOs, GuideStar also performs certification across three levels (namely Platinum Seal/Champion, Gold Seal/Advanced and Transparency Key/Foundation) for interested NPOs after a detailed due diligence on transparency, public accountability, and legal and financial compliance.

E. Accounting, Quality Assurance or Control Standards	
Sustainability Accounting Standards Board (SASB)	Sustainability Accounting Standards Board (SASB) develops and disseminates industry-specific sustainability accounting standards as a way to help businesses communicate financial material sustainability information to their investors.
AccountAbility (AA)1000	AccountAbility is a global consulting and sustainability standards firm that works with businesses, governments and multilateral organisations to advance responsible business practices and improve long-term performance. Its AA1000 series of standards are founded on the principles of Inclusivity, Materiality, Responsiveness and Impact.
SA8000 of Social Accountability International (SAI)	SAI is a global non-governmental organization advancing human rights at work. SA8000 is a social certification standard for factories and other organisations to demonstrate their dedication to the fair treatment of workers across industries around the globe and incorporates both the Universal Declaration of Human Rights and ILO conventions as well as national labour laws.
International Standards Organization (ISO) 26000	Unlike ISO standards that provide certifications, ISO26000 provides guidance to organisations to help clarify what social responsibility is, to translate principles into effective actions and shares best practices relating to social responsibility, globally.

Notwithstanding the growing sophistication of social reporting standards, it should be acknowledged that impact measurement remains an intrinsically difficult business, fraught with obstacles and challenges. It is worth examining and articulating these challenges before prescribing a way forward for social enterprises in India.

[88] SRS. 2014. *Social Reporting Standard – Guide to Results-based Reporting.*
[89] SRS. 2014. *Social Reporting Standard – Guide to Results-based Reporting.*

In compiling the list of challenges that follow, we have benefited from a consideration of the international experience as well as inputs provided by important stakeholders[90,91].

Lack of a common currency for measurement
The financial performances of different projects can be represented in the same units within and across organizations. However, social goals and their performance are not amenable to measurement in the same way. For instance, neither the development of life-skills nor the empowerment of women can be accorded any definitive currency value. Similarly, there is no objective context-independent sense in which the desirability of eradicating female infanticide may be compared to the desirability of providing nutrition to malnourished children, nor is the social value of a 10% improvement in student learning outcomes in a Mumbai slum equivalent to the social value of a 10% improvement in student learning outcomes in Sukma, Chattisgarh.

The use of proxies can dilute focus on the beneficiary
Where it becomes impossible to tangibly measure impact (or actual beneficiary outcomes), proxies (such as data on inputs and outputs) are used. However, as poverty scholar Jonathan Morduch observes, "*rather than learning about the true impact of an intervention, readers of IRIS reports 'get numbers on scale, outreach, costs, and revenues,' and proxies that are too abstracted from the experience of beneficiaries to be useful*[92]*.*" In reality, beneficiaries are diverse, heterogenous, and can have conflicting interests at play[93].

Measurement can drive enterprise behaviour to the detriment of social impact
When a metric is stated upfront either by the funder or by the board and senior managers of a social enterprise, that metric can become the anchor for all of the enterprise's efforts. This is not necessarily a bad thing, as the proper choice of a metric can indeed drive real impact. The problem arises when the metric is pursued in a myopic and opportunistic way. The metric becomes the focus of the enterprise's efforts instead of the deeper thing that it points to, as for example when the enterprise is motivated by a target-setting mentality to cherry-pick those beneficiaries that will allow it to achieve the target easily and quickly (also referred to as "*creaming off*"). This kind of perverse behaviour ultimately results in underperformance by the enterprise on outcomes, as described in a 2014 European Commission report[94].

Difficulties in attribution, unintended externalities and the dilemma of the measurement timescale
Enterprises struggle to answer the question of whether changes in outcome indicators can be attributed to their particular intervention (versus those outcomes which would have occurred irrespective of the intervention, also referred to as "*deadweight*"[95]). The act of attribution refers to both isolating and estimating accurately the particular contribution of an intervention and ensuring that causality runs from the intervention to the outcome. Attribution may be

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[90] OECD. 2015. *Policy Brief on Social Impact Measurement for Social Enterprises.*; The Conference Board. 2014. *Framing Social Impact Measurement;* EU Publications. 2014. *Proposed Approaches to Social Impact Measurement In European Commission Legislation and in Practice relating to EuSEFs and the EaSI.*
[91] Submission by Sudha Srinivasan, CEO of The/Nudge Centre for Social Innovation.
[92] Sarah Dadush. 2015. *Regulating Social Finance: Can Social Stock Exchanges Meet the Challenges?* University of Pennsylvania Journal Of International Law Vol. 37 No. 1.
referring to, in the context of microfinance, Jonathan Morduch. 2013. *Not So Fast: The Realities of Impact Investing*. AMERICAS Q.
[93] *Ibid.*
[94] European Commission. 2014. *Proposed Approaches to Social Impact Measurement in European Commission legislation and in practice relating to EuSEFs and the EaSI, GECES Sub-group on Impact Measurement.*
[95] HM Treasury. 2011. *The Green Book: Appraisal and Evaluation in Central Government.*

established through intensive impact measurement exercises such as Randomised Control Tests (RCT) but these are expensive to administer. In addition, leakages could result from benefits going to people or geographies outside of the targeted beneficiaries' group. The extent of benefits could also be muted by reductions in positive outcomes elsewhere, also referred to as "*displacement*" and "*substitution*"[96].

In financial performance, often externalities to transactions are not relevant to the assessment. Most of the financial performance metrics do not include a valuation of the externalities engendered by the organization's activities. Yet, for social impact assessments, the externalities are the direct concern, be they positive or negative[97].

Many social and environmental issues are multi-dimensional and vulnerable to unintended consequences. For instance, significant environmental and social issues associated with agricultural production include changes in land and water use; introduction of toxic chemicals, nutrients, and pathogens; reduction and alteration of animal habitats, and introduction of invasive species. Understanding the environmental consequences of agricultural production is critical to minimize unintended environmental consequences. Such understanding could take anywhere from a few crop cycles to many decades. A narrow focus on metrics like yield and farm productivity could result in positive impact in the short term but ignore entirely the economic and environmental costs in the long term.

[96] *Ibid.*

[97] This also implies that organizations that choose to measure social impact choose to become mindful of such externalities they might be introducing, those that choose not to measure their impact do not have to carry this 'additional tax' on their businesses.

Annexure 2: Minimum reporting standards for the IMMEDIATE TERM

<table>
<tr><th>(Coverage)</th><th>Only Self-Reporting by Social Enterprises (SE) interested in listing on the Social Stock Exchange directly or via SVF/AIF/MF/Other route</th></tr>
<tr><td colspan="2">Section 1 - Strategic Intent and Goal Setting</td></tr>
<tr><td>(WHAT)
Vision</td><td>Describe the vision of the SE (The vision is a concrete and ideal business goal that is not currently realisable but is nevertheless being aimed for)</td></tr>
<tr><td>The social or environmental problem</td><td>Frame as a problem statement, the scope, extent, and causes, as well as consequences if the status quo were to continue (can include a hypothesis)</td></tr>
<tr><td>(WHO)
Target segments that the SE seeks to serve</td><td>Who is the target segment (those affected by the problem and how are they affected)?

Include the SE's internal definition of "target segments" it seeks to serve, usually along one or more of the three dimensions namely,
Income (driven by socio-demographic and/or behavioural characteristics)
Geography (ecosystem or geographic characteristics driven by population density (urban/rural), administrative boundaries, terrain etc), and
Thematic issue (gender, caste, community that places the target segment at a disadvantage that has economic and non-economic consequences)

Where the target segment is a specific geographic region in its entirety, state so. Thematic issues could be one or more of the following:
Conservation of Resources
Generation via renewable resources
Reduction in waste
Conservation (say of land, wildlife, historical monuments, etc)
Reduction in toxic substances</td></tr>
</table>

(HOW) SE's approach to solving the problem	SE's approach / offering for the customer / recipient, and the proportion of customer / recipient who belongs to the target group. The nature of the expected result / change for the customer / recipient: Other existing solutions, if any (both government and private sector) and how the SE's approach solves the problem (this can be one or more of the following: Acts to Avoid Harm, Benefit Stakeholders and/or Contribute to Solutions available to the target segments)
Risks, Unintended Consequences and Mitigation	The biggest risks that the SE sees to its work, and how it proposes to mitigate these. The biggest unintended consequences that the SE sees from its work, and how it proposes to mitigate these.
Section 2 - Social Impact Scorecard	
Reach / Lives Touched	**Outreach metrics** for target segment(s) served: Proportion of target segment)s) who have been reached in the reporting period Proportion of target segment(s) who accepted the SE's solution What part of the planned activities have been accomplished in the reporting period Cumulative reach (members of the target segment served since inception) (Other suitable metrics in relation to the solution, usually relate to people, institutions or activities (Ex: monthly active users of MAUs for an app/tech platform). These can be considered as needed, where the target segment is the specific geographic region) This information must also be published in SE's annual report along with a description of the methodology employed
Depth	The depth of impact on the median individual (of the target segment(s)) SE can use customer surveys asking respondents 'Has your quality of life changed', with response options being: Very much improved, slightly improved, no change, got slightly worse, got much worse. Alternatively, SE can compare itself to different 'case studies' of High - Medium - Low depth organizations. To be estimated through a simple short survey with the customers/recipients of the SE, with a minimum sample size of 1% of the customers/recipients, or at least 200 respondents per SE.

Inclusion	The SE must consider for itself how its approach intends to improve Inclusion for its customers / recipients, along one or more of the following themes: **Theme 1:** Net increase in **Income** levels of customers / recipients among target segment(s), as decided by the SE. The SE can self-select 'Low', 'Medium', or 'High'. The Poverty Probability index can be used (consists of a series of asset-based questions to derive the poverty rates of the SE's customers / recipients). Measurement in Theme 1 can be refined further, for instance, Economic Value Add (EVA) experienced by the customers / recipients (where applicable). This is to be estimated through a simple short survey with the customers / recipients of the SE, with a minimum sample size of 1% of the customers / recipients, or at least 200 respondents per SE. **Theme 2: Diversity and Inclusion:** Improved sense of belonging and empowered participation in decision-making by historically, socially, or politically disadvantaged groups or communities. The SE exhibits how it prioritizes the inclusion of these disadvantaged groups or communities (either as owners, partners or customers) and empower them in their relationship with the SE over time. **Theme 3: Social Equity:** Improved access to opportunity, networks, resources, and/or support mechanisms for target segments. The SE exhibits how its approach has resulted in the disadvantaged group or community experiencing increased social equity. This can be through a survey as above, or through qualitative criteria such as details of its strategy, processes and internal accountability/governance processes that have resulted in an internal culture that values and works towards achieving social equity for the disadvantaged group or community.
Sector or Ecosystem level Impact	**Not required if this is not core to the SE's overall approach**
Narratives of impact on target segment(s)	One or more of these can be used: collection of anecdotes, photo and video documentation, case studies, standardised surveys, focus group discussions (A clear caveat to be added to state that this does not indicate actual evidence of social impact)
Section 3 – General Information to be Published	
General information	The SE must have been registered AND in operation for at least 1 year It must have a certificate under Section 12A of IT Act (if not a Section 8 Company) Information on associate and subsidiary entities

Highest Governing Body	Composition of highest governing body: Details of owners, or members, and each of their voting and control rights The SE must maintain a minimum 3-member governing body with at least 1 independent member, at least one woman member (whether she be the independent member or not) The SE must have a minimum of two meetings in a year of its highest governing body None of the members must be under any criminal investigation
Funding	If the SE is an NPO, it must have received donations/contributions of at least INR 10,00,000 in the last financial year If the SE is an FPE, it must have received funding from any one or more of the impact investors who are members of the Impact Investors Council
Legal and Statutory filings/reports	Registrations and licenses held with statutory bodies Tax filings for last two years of operations The SE must publish at least once a year, an annual report that includes: - Audited financial statements in accordance with rules laid out by ICAI, audited by an independent Chartered Accountant - Remuneration of key managerial personnel and remuneration and reimbursements of members of highest governing body - Compensation Ratio of highest-paid and lowest-paid employee - The social impact scorecard in Section 2

Annexure 3: A pathway to comprehensive social impact measurement and reporting

	IMMEDIATE TERM	INTERMEDIATE TERM 4 yr horizon	IDEAL END-STATE 7 yr horizon
(Coverage)	***Only Self-Reporting by Social Enterprises (SE) interested in listing on the Social Stock Exchange directly or via SVF/AIF/MF/Other route***	***Self-reporting + Limited third-party verification by social auditors Covers all Social enterprises interested in listing on the SSE directly or via SVF/AIF/MF/Other route and those social enterprises incorporated under Companies Act***	***Self-reporting + Full third-party verification by social auditors Covers all Social enterprises***
Section 1 - Strategic Intent and Goal Setting			
(WHAT) Vision	Describe the vision of the SE (The vision is a concrete and ideal business goal that is not currently realisable but is nevertheless being aimed for)		
The social or environmental problem	Frame as a problem statement, the scope, extent, and causes, as well as consequences if the status quo were to continue (can include a hypothesis)		
(WHO) Target segments that the SE seeks to serve	Who is the target segment (those affected by the problem and how are they affected)? Include the SE's internal definition of "*target segments*" it seeks to serve, usually along one or more of the three dimensions namely, **Income** (driven by socio-demographic and/or behavioural characteristics) **Geography** (ecosystem or geographic characteristics driven by population density (urban/rural), administrative boundaries, terrain etc), and **Thematic** issue (gender, caste, community that places the target segment at a disadvantage that has economic and non-economic consequences) Where the target segment is a specific geographic region in its entirety, state so. Thematic issues could be one or more of the following: **Conservation of Resources** **Generation via renewable resources** **Reduction in waste**	The SE has an explicit definition of target segments in terms of measurable criteria of vulnerabilities or exploitation with explicitly defined thresholds and the target segments constitute a significant share of customers/recipients served by the SE Reporting of metrics from MIS that has an initial sale or enrolment process explicitly capturing whether the customer / recipient belongs to the target segments	

	Conservation (say of land, wildlife, historical monuments, etc) **Reduction in toxic substances**		
(HOW) SE's approach to solving the problem	SE's approach / offering for the customer / recipient, and the proportion of customer / recipient who belongs to the target group. The nature of the expected result / change for the customer / recipient: Other existing solutions, if any (both government and private sector) and how the SE's approach solves the problem (this can be one or more of the following: Acts to Avoid Harm, Benefit Stakeholders and/or Contribute to Solutions available to the target segments)	The SE's approach is articulated with a Theory of Change or Logic Model, describing exactly where in the causal chain of the problem the SE will implement its solution The SE's solution is customized to suit the needs and affordability of the customer/recipient through a needs assessment before solution design	The SE's solution is customized to suit the needs and affordability of the customer/recipient by: - SE has a range of solutions or ability to customize to cater to the different needs of customers/recipients - the financial payment is structured to suit the cash flow pattern of the customer/recipients
		The SE has a clear statement of its values and norms, and this statement is shared with all internal stakeholders (employees, partners) in writing on a regular basis (at least once a year)	
Risks, Unintended Consequences and Mitigation	The biggest risks that the SE sees to its work, and how it proposes to mitigate these. The biggest unintended consequences that the SE sees from its work, and how it proposes to mitigate these.		
Section 2 - Social Impact Scorecard			
Reach / Lives Touched	**Outreach metrics** for target segment(s) served: Proportion of target segment)s) who have been reached in the reporting period Proportion of target segment(s) who accepted the SE's solution What part of the planned activities have been accomplished in the reporting period Cumulative reach (members of the target segment served since inception) (Other suitable metrics in relation to the solution, usually relate to people, institutions or activities (Ex: monthly active users of MAUs for an app/tech platform). These can be considered as needed, where the target segment is the specific geographic region) This information must also be published in SE's annual report along with a description of the methodology employed		

Depth	The depth of impact on the median individual (of the target segment(s)) SE can use customer surveys asking respondents 'Has your quality of life changed', with response options being: Very much improved, slightly improved, no change, got slightly worse, got much worse. Alternatively, SE can compare itself to different 'case studies' of High - Medium - Low depth organizations. To be estimated through a simple short survey with the customers/recipients of the SE, with a minimum sample size of 1% of the customers/recipients, or at least 200 respondents per SE.	Extent to which changes that were expected to occur in the direct and/or indirect target segment(s) as a result of the SE's solution, actually occurred. SE provides an explanation for the reasons why the SE believes the observed results are related to its performed activities Depth of Impact seen as specific outcomes in target segments articulated in the form of at least one: **Before and After Study** **Outcomes against a pre-agreed framework** Evidence to indicate whether Outcome: - Is positive/negative, intended or unintended - Meets the needs of the target segment(s) - Surpasses a nationally or internationally accepted threshold - Map to the SDGs and associated targets	"*Depth*" and "*Inclusion*" articulated in the form of at least one longitudinal study with a control group, executed by a third party organisation with proven expertise in conducting such studies: **Historical Baseline** **Matched Control Trial** **Randomised Control Trial,** or a series of RCTs Estimations to include **Depth Counterfactuals**[98] and **Duration Counterfactuals**[99] SE measures and discloses 'negative externalities' as a result of SE's activities
Inclusion	The SE must consider for itself how its approach intends to improve Inclusion for its customers / recipients, along one or more of the following themes: **Theme 1:** Net increase in **Income** levels of customers / recipients among target segment(s), as decided by the SE. The SE can self-select 'Low', 'Medium', or 'High'. The Poverty Probability index can be used (consists of a series of asset-based questions to derive the poverty rates of the SE's customers / recipients). Measurement in Theme 1 can be refined further, for instance, Economic Value Add (EVA) experienced by the customers / recipients (where	The SE commits to refine measurement metrics and approaches under its chosen theme.	

[98] "*The estimated degree of change that would have happened anyway - without engaging with, or being affected by, the enterprise. Performance of peer enterprises, industry or local benchmarks, and/or stakeholder feedback are examples of counterfactuals that can be used to estimate the degree of change likely to occur anyway for the stakeholder*", as articulated in the Impact of an Enterprise Template, IMP. Accessible at: https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/191209_IMP_Impact-of-an-enterprise-template-1.xlsx

[99] "*The estimated time period that the outcome would have lasted for anyway - without engaging with, or being affected by, the enterprise. Performance of peer enterprises, industry or local benchmarks, and/or stakeholder feedback are examples of counterfactuals that can be used to estimate the duration likely to occur anyway for the stakeholder*", as articulated in the Impact of an Enterprise Template, IMP. Accessible at: https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/191209_IMP_Impact-of-an-enterprise-template-1.xlsx

	applicable). This is to be estimated through a simple short survey with the customers / recipients of the SE, with a minimum sample size of 1% of the customers / recipients, or at least 200 respondents per SE. **Theme 2: Diversity and Inclusion:** Improved sense of belonging and empowered participation in decision-making by historically, socially, or politically disadvantaged groups or communities. The SE exhibits how it prioritizes the inclusion of these disadvantaged groups or communities (either as owners, partners or customers) and empower them in their relationship with the SE over time. **Theme 3: Social Equity:** Improved access to opportunity, networks, resources, and/or support mechanisms for target segments. The SE exhibits how its approach has resulted in the disadvantaged group or community experiencing increased social equity. This can be through a survey as above, or through qualitative criteria such as details of its strategy, processes and internal accountability/governance processes that have resulted in an internal culture that values and works towards achieving social equity for the disadvantaged group or community.		
Sector or Ecosystem level Impact	**Not required if this is not core to the SE's overall approach**	Sector-level Outcomes seen beyond the target groups such as: **Outcomes on competition** **Outcomes on pricing to target group** **Economic Value added to the target group (where applicable)**	Sector-level Outcomes seen beyond the target groups, such as: **Government/Policy level impact**
Narratives of impact on target segment(s)	One or more of these can be used: collection of anecdotes, photo and video documentation, case studies, standardised surveys, focus group discussions (A clear caveat to be added to state that this does not indicate actual evidence of social impact)		
Section 3 – General Information to be Published			

General information	The SE must have been registered AND in operation for at least 1 year It must have a certificate under Section 12A of IT Act (if not a Section 8 Company) Information on associate and subsidiary entities		
Highest Governing Body	Composition of highest governing body: Details of owners, or members, and each of their voting and control rights The SE must maintain a minimum 3-member governing body with at least 1 independent member, at least one woman member (whether she be the independent member or not) The SE must have a minimum of two meetings in a year of its highest governing body None of the members must be under any criminal investigation	The SE discloses conflicts of interest among members of the highest governing body, if any exists The SE discloses the rotation policy of its highest governing body	The SE's governing body should have an optimum combination of executive and nonexecutive members with not less than 50% of the body comprising non-executive directors Where the chairperson of the body is a non-executive member, at least one-third of the body shall comprise independent members Where the SE does not have a regular non-executive chairperson, at least half of the governing body shall comprise independent members The SE must have a minimum of four meetings in a year of its highest governing body, with a maximum time gap of 120 days between any two meetings.
Funding	If the SE is an NPO, it must have received donations/contributions of at least INR 10,00,000 in the last financial year If the SE is an FPE, it must have received funding from any one or more of the impact investors who are members of the Impact Investors Council		

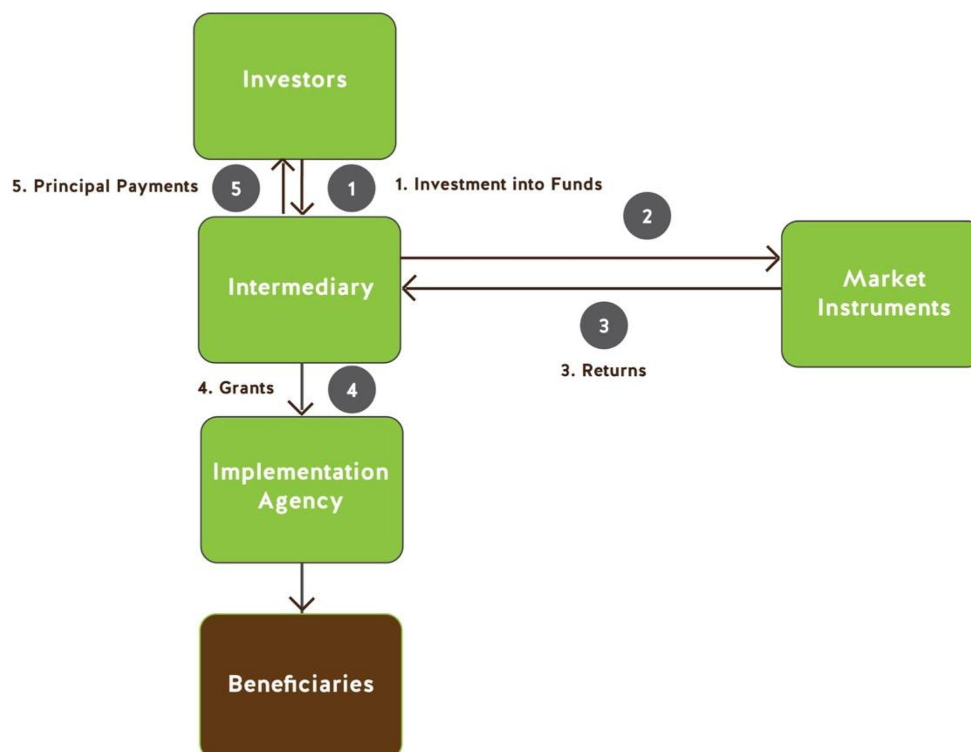
Legal and Statutory filings/reports	Registrations and licenses held with statutory bodies, including 80G certificate and FCRA registration (if applicable) Tax filings for last two years of operations The SE must publish at least once a year, an annual report that includes: - Audited financial statements in accordance with rules laid out by ICAI, audited by an independent Chartered Accountant - Remuneration of key managerial personnel and remuneration and reimbursements of members of highest governing body - Compensation Ratio of highest-paid and lowest-paid employee - The social impact scorecard in Section 2		

Annexure 4: Funding structures for NPOs – A closer look

The Mutual Fund structure (Structures 1A & 1B in Figure 4.1)

A simple yet effective model here could be a conventional closed-ended fund structure as depicted in Figure 1 below. The fund, acting as the intermediary, aggregates capital from various individual and institutional investors to invest in market-based instruments, much like a conventional investment vehicle. The returns generated by these investments are then channeled towards financing the operations of NPOs working towards social outcomes. These returns would be considered as donations made by the investors to NPOs. Upon winding up of the fund, the intermediary can return the principal investment made by the investors while offering to provide tax-exemption certificates in lieu of the dividends generated by the fund. The role of the intermediary in this structure could be played by a financial institution that is already operating an asset management company (AMC).

Figure 1: Donations through a Charity Fund



The Social/Development Impact Bond structure (Structure 2A in Figure 4.1)

A skeletal framework for an impact bond model is presented in Figure 2 below. Here, a structured finance framework involving implementation agencies (or NPOs) working towards similar social outcomes is aggregated by an intermediary. The intermediary attracts outcome funders with a promise of pre-defined outcomes. It attracts risk investors for up-front capital with the incentive of significant returns upon the achievement of desired social outcomes. It is also essential that these structures require the intermediary to invest in these bonds or assume a first loss guarantee position in order to ensure that the incentives of the intermediary and those of the risk investors are aligned. This would involve a fixed term contractual agreement between several stakeholders such as the following:

1. A collection of implementation agencies or NPOs working in the same sector accessing credit for an activity that creates social impact.

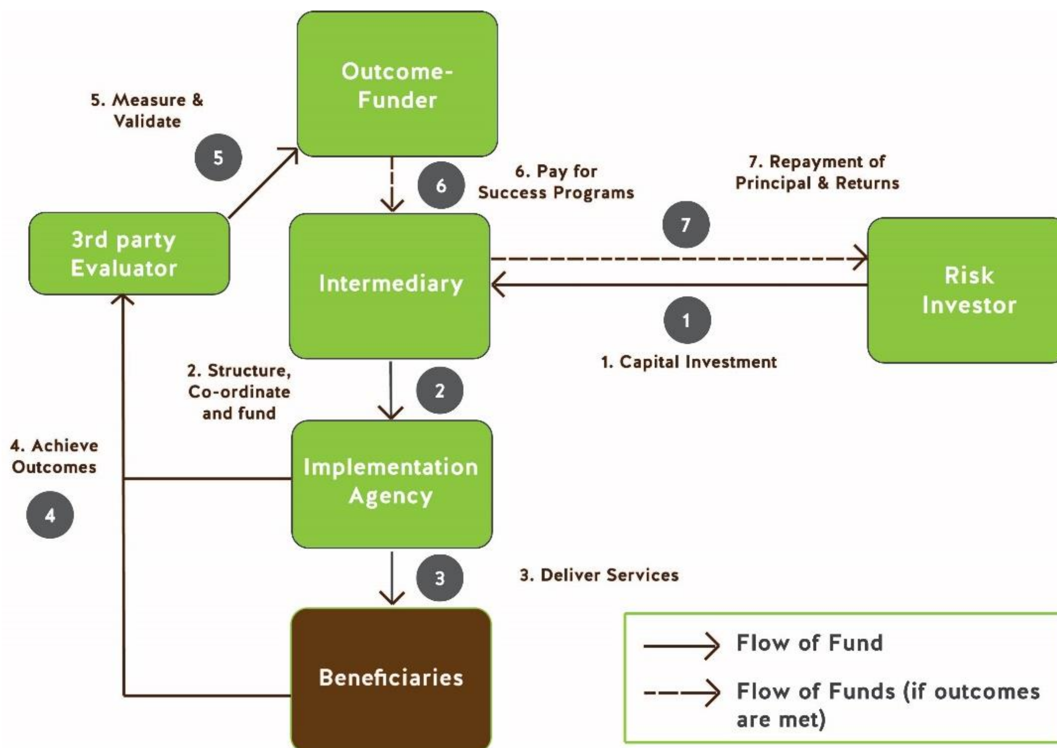
2. Risk investors aggregated by the intermediary to provide up-front capital with the incentive of significant returns upon the achievement of desired social outcomes.

3. Outcome funders who are investors interested in creating social impact in the same sector as the implementation agencies. They will pay out based on the social impact resulting from activities of the implementation agencies.

4. Third-party evaluators who are agencies employed for a fee to provide monitoring and evaluation services to assess the impact of individual implementation agencies.

5. Intermediary or impact fund that would intermediate between the risk investors, performance funders, third party evaluators and implementation agencies. The main function of the intermediary is to identify implementation agencies working towards common impact parameters, to standardize the product offering for performance funders and implementation agencies, and to contractually engage risk investors and third-party evaluators.

Figure 2: Financing through Social Impact Bonds



In a typical DIB pay-for-success model, the outcome funder generally shifts the risk of economic loss from non-performance of the contract to private investors via the intermediaries. In the Indian context, domestic government agencies and/or outcome funders may identify a social issue that they want to focus on, such as primary education, public health, or the prevention of early child marriages. The intermediary organisation raises funds from investors and contractually engages implementation agencies and third-party evaluators. Upon successful achievement and verification of the outcome-metrics, the outcome funders make a payment to the investors through the intermediaries. However, if the desired social outcomes are not achieved, the outcomes funders may choose to not make any payments to the intermediary and the investors may risk losing their investments in part or full, depending on the terms of the DIB

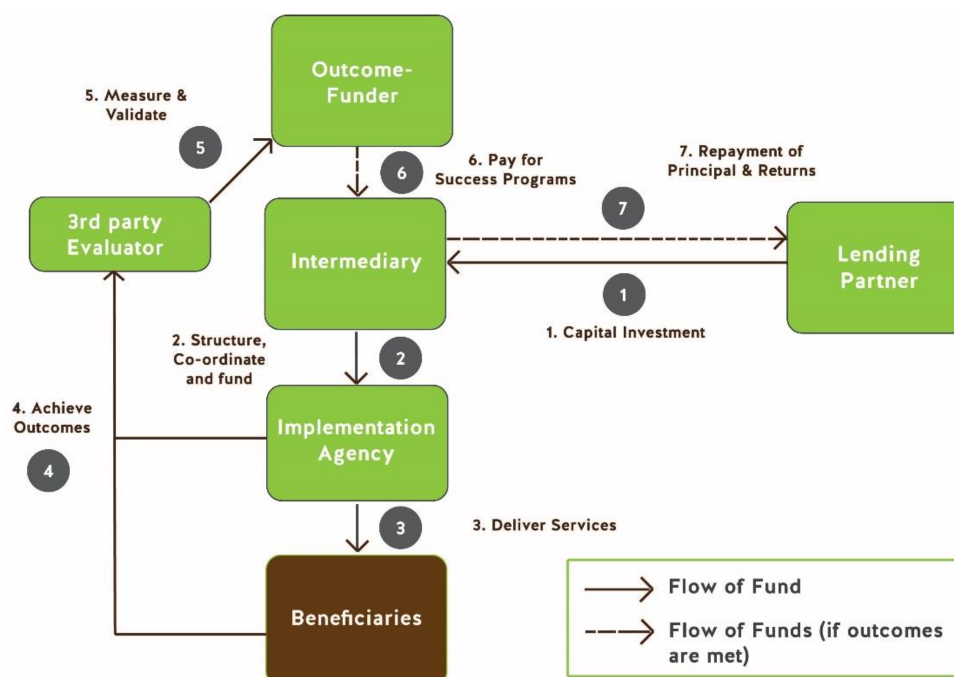
arrangements. There would be a need for standardised impact measurements and licensing structures for 3rd party evaluators.

Pay-for-success through lending partners (Structure 3A in Figure 4.1)

NPOs are subject to legal constraints on what they may do with their profits. For example, to be registered under Section 8 of the Companies Act, an enterprise must be established *"for promoting a set of social activities provided the profits, if any, or other income is applied for promoting only the objects of the company and no dividend is paid to its members"*. Thus, a Section 8 company cannot raise funds in the form of equity. Debt instruments, on the other hand, are not ruled out[100]. Access to sustainable finance in the form of term loans is an attractive option for NPOs to implement innovative programmes that require commercial capital to scale. However, creditors such as banks and finance companies would look to mitigate the risk of default by either asking for evidence of a steady stream of revenue or (more commonly) collateral in the form of assets. This may be a tall ask for many NPOs even if they are revenue-generating. In such cases, the debt offering may have to be structured in a particular way to attract lenders.

A structured finance solution can work for an NPO or a cluster of NPOs working towards a common social outcome across different regions of the country. This would involve a contractual agreement between several stakeholders as discussed in the previous section, with the difference being that here, lending partners such as banks or non-bank financial companies (NBFC) will provide the liquidity instead of risk investors. A skeletal form of a structured finance solution is provided in Figure 3 below.

Figure 3: Pay-for-success through lending partners



In this structure, the intermediary would identify a well-tested intervention employed by an implementation agency (an NPO or a cluster of NPOs) to create social impact. The intermediary would identify lending partners to provide a multi-year unsecured lending facility to the NPO implementation agency to scale its operations. The intermediary would also identify and on-

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[100] Nishith Desai Associates. 2018. *Social Impact Investing in India.*

board one or more outcome funders who would be willing to pay for a predetermined set of outcomes that the program aims to achieve. An initial portion of these funds from the outcome funder can be held in escrow by the intermediary to help make interest payments to the lender while the principal payments would be made only upon the achievement of outcomes. The credit risk in this structure would be determined by the ability of the implementation agency to achieve the outcomes which in turn would release the payments from the outcome funder. Therefore, these funding structures would only work for well-tested programmes that are ready to be scaled up as only these could provide the lending partner enough confidence to originate these assets. In order to mitigate any misalignment of incentives, the intermediary can offer credit enhancements in the form of first-loss default guarantee (where the intermediary agrees to bear first losses on an investment in order to reduce the credit risk and thus motivate other lenders to participate).

It is important to note that such a structure can exist without a lending partner where funding for innovative programmes is aggregated by an intermediary and disbursed to implementation agencies as grants. However, a commercial lender can bring an immediate pool of capital of larger sizes that would be harder to mobilise from philanthropic sources. While this might seem to be a risky investment, the motivation for lenders to participate in these structures may exist given that priority sector lending (PSL) norms, as defined by the Reserve Bank of India (RBI), include loans for the purposes of creating social infrastructure[101].

Pay-for-success through grants (Structure 3B in Figure 4.1)

Using CSR grants for pay-for-success models is an innovative funding mechanism which ensures that CSR funds are deployed effectively as payment is made only when social impact is achieved. A skeletal form of such a structure is presented in Figure 4 below.

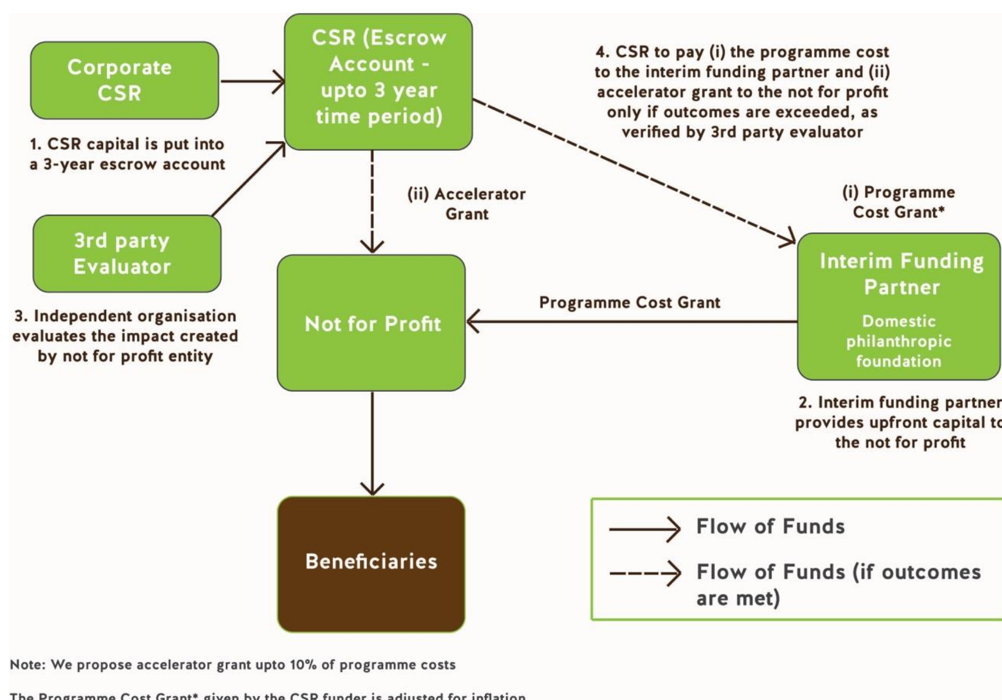
In this structure, the CSR arm of a corporation selects an area where it wishes to create positive social impact and selects an NPO for implementation. CSR capital is put in an escrow account earmarked for pay-for-success, for a pre-defined time period over which the impact is expected to be created (say, 3 years). The CSR funder also appoints and bears the cost of a third-party evaluator distinct from the corporation and the NPO. Based on the intervention, outcomes are jointly identified by the CSR funder, NPO and third-party evaluator, and targets are set up-front for the NPO to achieve. To achieve the outcomes, the NPO requires capital to carry out the intervention, and these come from the fourth entity in the structure, an interim funding partner (typically a domestic philanthropic organization, and distinct from the third-party evaluator).

Upon completion of the intervention, or at the stipulated milestones of the intervention, the third-party evaluator verifies the impact achieved by the NPO and submits its report to the CSR funder. If the CSR funder finds that the NPO has achieved the outcomes, then it pays out the CSR capital from the escrow account partly to the interim funding partner to cover the latter's cost of implementing the program, and partly to the NPO in the form of an accelerator grant up to 10% of the program cost in case the NPO exceeds the pre-defined outcome targets. The grant to the NPO is designed to provide additional support for non-programmatic areas such as research, capacity building, etc. If the CSR funder finds that the NPO has not achieved the outcomes, then it either rolls over the CSR capital in the escrow account (if the pre-defined time period is not yet over), or routes the CSR capital to items provided under Schedule 7 of the Companies Act such as the PM's Relief Fund (if the pre-defined time period is over). If, during

[101] Reserve Bank of India, 2018. *Master Circular-Priority Sector Lending-Targets And Classification.*

the time that the CSR capital is in escrow, it accumulates interest, then this interest remains in the account.

Figure 4: Pay-for-success through grants



We now present concrete examples of some of the structures, where they exist.

Mutual Funds

The HDFC Charity Fund for Cancer Cure was started with the principal objective of providing financial aid for treatment of needy cancer patients. The project provides financial aid up to Rs. 5 lakhs per patient. The project has transformed the lives of over 7,400 underprivileged cancer patients across the country, many of whom completed their treatment and returned to productive life again. The Fund works as follows: HDFC AMC solicits funds from social-minded investors who wish to donate returns made on their money, either partially or fully, to provide financial assistance to cancer patients. The funds are then invested in conventional assets, predominantly debt securities, and the interest income arising from these investments are given to the Indian Cancer Society (ICS). Being closed-ended with a tenure of 3 years, the Fund returns the principal back to the investors every 3 years and raises a fresh round of capital. The shareholders receive a tax benefit under 80G of Income Tax Act to the extent of the dividends foregone by them every year subject to prescribed limits[102].

The project has been implemented at a pan-India level with 20% of the beneficiaries being less than 15 years of age and 43% of the beneficiaries between 16-45 years of age, as per the recent demographic data issued by ICS.

Table 4.1 HDFC Charity Fund for Cancer Cure

	Contribution to ICS (in crores)
Donation of dividends to ICS (till September 2019)	INR 75.39

[102] The dividends donated till September 2019. Dividends are declared at a half yearly frequency. In additions to this, other donors have also contributed directly to the ICS

HDFC AMC Direct Contribution Committed	INR 62.02
Total Donations	INR 137.41

Since its inception, the fund has increased its scope for impact by steadily growing the number of patients it offers help to. It is now in its third cycle of operation. In the first cycle, only retail investors contributed to the fund, whereas from the second cycle on, HDFC AMC began to match investor contributions on an equal basis. Therefore, this fund provides an illustration of both structure 1A and structure 1B. From raising Rs. 0.64 crores for aiding 94 patients in 2012, the fund has grown tremendously to disburse more than Rs. 129 crores to 7469 patients as of 2019.

Quantum Mutual Fund's SMILE facility and HelpYourNPO Foundation's Systematic Giving Plan are other examples of structures that enable retail investors to donate to NPOs through the medium of a Mutual Fund.

Development Impact Bonds

DIBs are a recent financial innovation that allows private investors to finance social services provided by NPOs. The investors are repaid with an additional return by outcome funders if providers achieve expected social outcomes but lose their investment if providers fail to meet those outcomes. Since their introduction in 2010, DIBs have become a popular structure for impact investing. There have been at least 61 impact bonds issued across 16 countries[103].

India's first DIB was launched in 2015 by Educate Girls, along with UBS Optimus Foundation (UBSOF) and Children's Investment Fund Foundation (CIFF). In this structure, CIFF (as an outcome payer) promises to pay back the investor, UBSOF, the original investment amount plus extra returns if the agreed targets are delivered by Educate Girls (the service provider). The expected outcomes of this investment were an increase in the enrolment of marginalized girls and progress in literacy and numeracy outcomes, and these were assessed by an independent evaluator. Instiglio, a financing consultancy firm, designed the bond and IDInsight, a research firm, was the designated impact evaluator. While UBSOF played the role of both the investor and intermediary in this structure, there would be specialised intermediaries required in funding vehicles when multiple implementation agencies are involved across different regions[104]. Having achieved 160% of its learning target, the Educate girls impact bond has motivated the execution of more impact bond structures in India such as the Utkrisht Impact Bond which aims to impact maternal health outcomes in Rajasthan and the Lakhpati Kisan Bond which aims to increase income for small and marginal farmers.

Lending partners

In the pure case of structure 3A, the lending partner bears some risk if the promised social impact is not created. The intermediary's role is to choose implementation agencies (NPOs) in a way that will minimize this risk, and also to bear some risk itself by providing first-loss guarantees. A variation on this structure that leverages CSR contributions to play the role of outcome funding is the Livelihood Impact Fund designed by Social Alpha as part of the Lakhpati Kisan Project.

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103 Michael J. Roy, Neil McHugh, & Stephen Sinclair. 2018. *A Critical Reflection on Social Impact Bonds*. Stanford Social Innovation Review.

104 Educate Girls Website. URL: https://www.educategirls.NPO/dib.aspx

The intermediary here is a wealth manager (the Livelihood Impact Fund) that has raised money from a large Indian bank in the form of a 3-year unsecured loan facility which is to be repaid in 3 instalments. The money is then disbursed to an NPO that has developed a high-impact agri-tech intervention to help small and marginal farmers, and wishes to reach 8500 farmer households across three districts in India (Dahod, Kheonjar and Khunti). The farmers do not bear any liability, and so the repayments are financed on an instalment basis via CSR contributions. The CSR cannot substitute for the initial bank loan because the initial requirement was large enough that aggregating CSR contributions (which are small in size) would have been infeasible, and also CSR expenditures have to be accounted for on an annual basis whereas the initial amount raised would have to be disbursed over 3 years. On the other hand, CSR contributions can be raised in small amounts on an annual basis to make the loan repayments each year.

It is to be noted that the CSR contributions do not work as a loan guarantee, but rather as outcome funding because if the agri-tech intervention fails to deliver impact, the wealth manager would fail to deploy the CSR contributions it has raised, to make the repayments. Therefore, the initial loan is risk capital, even though the risk is mitigated greatly by the fact that the agri-tech intervention is itself well-tested, and the only imperative here is to scale that intervention program.

Grants-in, Grants-out

There are interesting variations on this format that exist in practice.

The first kind of possible variation is a syndicate funding structure allowing governments and large philanthropic foundations to participate alongside other funders. One such example is The Power of Nutrition, a UK-based charitable foundation established by the Children's Investment Fund Foundation, UBS Optimus Foundation, Department for International Development (DFID), UNICEF and World Bank. In this model, the foundation operates as a lead funder and first identifies projects that provide basic nutrition supplements and services, and education through multiple implementation agencies[105]. Then, it invites corporates to co-donate in these projects towards the fulfilment of their CSR requirements. Such a model could be a powerful tool to drive significant funding towards solving fundamental welfare challenges in different parts of the country such as the North-East which is suffering from a lack of adequate social investment. Another example of this syndicate model is Gates Philanthropy Partners (GPP) which allows donors to co-donate in the philanthropic projects that the Bill and Melinda Gates Foundation chooses to fund.

The second kind of possible variation is grants made to large NPOs (which are the intermediaries) that in turn provides grants to smaller groups using innovative mechanisms. As a specialized example of this, Pratham and Godrej Properties Ltd. (GPL) have created an innovative model that boosts micro-entrepreneurship within the construction industry. GPL observed a short and irregular working capital cycle (time taken to turn current net assets and liabilities into cash) and a lack of access to loans for small contractors. Both these factors were deterrents to scale. Pratham, one of the largest NPOs in India, acted as an intermediary to identify micro and small contractors without a formal financial footprint or credit history, and also a financial institution that would advance loans to these contractors. GPL then made a grant to Pratham, which was used as a loan guarantee.

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[105] Anushree Parekh & Sandhya Tenneti. 2018. *New Frontiers in Indian Corporate Social Responsibility*. Stanford Social Innovation Review.

Annexure 5: The case of Northern Arc Capital Limited

Northern Arc Capital's (NACL's) mission is to provide efficient and reliable access to capital for institutions that impact financially excluded households and enterprises. It acts as a bridge between high-quality debt originators and debt capital market investors. It takes care to invest as principal in most transactions / originators it backs. Stringent diligence and continuous monitoring have ensured very low delinquency rates since inception.

NACL provides efficient and reliable access to debt capital for institutions that impact low income households. Since inception, NACL has provided financing of more than Rs. 750 billion to over 175 **institutions that provide financial services to unbanked or underbanked households**. With a balance sheet size of Rs. 42 billion, it derives income from loans, investments and debt capital markets (DCM) arrangement businesses, while maintaining tight control on asset quality. For this NACL relies on internally developed stringent underwriting guidelines based on acquiring deep expertise in each sector and on its internal risk management platform that helps it to maintain a high-quality asset book even in times of stress for the sector.

Pillars of NACL's strategy

Market Development	Evolve and disseminate market standards, underwriting guidelines, pricing frameworks and credit rating methodologies in order to achieve originators' alignment with the requirements of rating agencies and investors
Relationship Management	Nurture strong and deep relationships with originators by (a) facilitating access to capital markets investors, (b) transparent pricing, (c) meeting both on-balance sheet and off-balance sheet financing through a variety of tailored products (d) continuous feedback on systems, processes and operations and (e) understanding and participating in each partner originator's business and strategy
Structuring with incentives	Create debt investments using financial structuring tools such as pooling, tranching, and credit enhancement; aligning incentives to ensure that (a) the originator has incentives to perform its servicing obligations, and (b) the arranger / structure (such as NACL) maintains exposure in the entities represented to ensure continuous monitoring and surveillance of the originator
Investor Relations	Build strong networks with main-stream investors including banks, mutual funds, NBFCs and private wealth managers. Investor relations are developed with the view of understanding each investor's unique requirements and to develop products tailored for them
Robust Risk Management	Have a robust risk management function with capabilities for modelling default probability estimation on retail pools, correlation analysis of default across various originators, developing tools to estimate risks of asset classes linked to specific factors; as well as carry out on-the-ground monitoring visits of every client on the field multiple times a year, to develop a very granular sense of asset performance
Distribution and Placement	Work with large institutional, retail investors and corporates and family offices, to distribute fixed income structured products as well as syndicate loans from banks and other FIs to NBFCs and corporates on-boarded by Northern Arc through its underwriting process

Snapshot of performance	As on September 2019
No. Of financial institution partners that NACL works with	176
No. of investors that NACL works with	141
Total financing enabled (cumulative)	Over INR. 750 billion
No. of districts where NALC's originator partners operate	580
NACL's Investment in PTCs	INR 2329 million
Total loans and investments outstanding to partner entities (excluding PTCs)	INR 30540 million

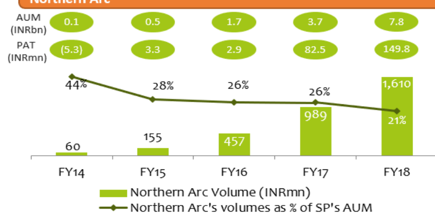
Brief Case Studies on the entities that NACL has supported

Small Business Loans – Education Sector

Sourcing Partner (Bengaluru based)

- Started operations in 2013 and currently operates across 13 states and through 26 branches
- Northern Arc had worked with the promoters in their earlier roles in another NBFC
- Northern Arc's value add:
  - One of the first few lenders to the company when its portfolio was INR 50mn
  - Enabled total funding of INR2.37bn
  - Lowered cost of debt through addition of 8 new lenders to its lender base
  - Enabled 1st private bank loan
  - Enabled 1st securitization transaction with a large NBFC as investor
  - Enabled largest loan sanction from a single lender - during demonetization in 2016

Brief snapshot of the sourcing partner and financing enabled by Northern Arc



Note: SP – Sourcing Partner. Figures have been rounded off

Inputs provided by Northern Arc to the sourcing partner

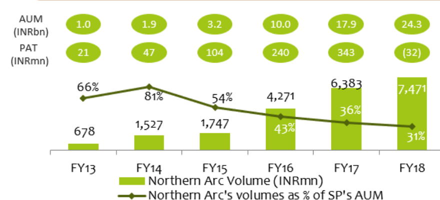
Aspect	Northern Arc's recommendations	Outcome of recommendations
Underwriting & Risk Management	Recommended rationalizing of customer segments in certain select geographies	SP, since then, discontinued lending to those specific customer segments
	Capturing of various income sources of promoter during proposal underwriting	It currently captures detailed income information during underwriting
	Risk management techniques specifically in relation to post disbursement monitoring and collection process	SP has put in place post-disbursement monitoring mechanisms and a separate collection team
Diversification of funding options	Recommended and worked towards diversification in products and sources of funds	Access to 27 lenders including NBFC's, Banks, PSU entities etc
		Northern Arc added diversity in terms of lenders as well as products by enabling funding through term loans, securitization and NCDs
		Northern Arc is exclusively working on opening up of capital markets with the SP

Microfinance

Sourcing Partner (Chennai based)

- Started operations in 2008 and subsidiary of a large listed NBFC in India
- Northern Arc amongst the first few lenders to the SP when its portfolio was < INR 0.5bn
- During the course of its engagement, the SP's AUM rose from INR 0.5bn in 2 states to INR 24.4bn across 20 states/UTs (as of Mar-18)
- Northern Arc's value add :
  - Enabled funding cost reduction by 500-600 bps
  - Enabled many first transactions for the SP including:
    - 1st securitization, 1st DA, 1st NCD, 1st CP, 1st Tier-II capital transaction, 1st transaction with offshore fund, MF and Insurance company
  - Enabled credit rating transition from unrated to CRISIL A+

Brief snapshot of the sourcing partner and financing enabled by Northern Arc



Note: SP – Sourcing Partner, NCD - Non-Convertible Debenture, DA - Direct Assignment, IC – Insurance Companies. Figures have been rounded off

Inputs provided by Northern Arc to the sourcing partner

Aspect	Northern Arc's recommendations	Outcome of recommendations
Second Line of Management	Recommended to have a strong second line of management	Hired senior people from the industry to head Operations, Audit, Risk, Finance, Treasury etc
Liability Management	Recommended and worked towards diversification in sources of funds : – Since early stage companies often rely on a few handful lenders – To reduce funding costs	Access to funds: – From 54 lenders including banks, NBFCs, MFs, ICs and offshore investors – From multiple products by including term loans, pooled issuances and NCDs
Operations	Recommended to capture audit observation done by third party vendors in a proper format	The SP set up an internal Audit team lead by a senior member of their and streamlined the audit process and documentation
	Recommended to avoid scaling too fast post its equity infusion	The SP steadied the growth plans in order to stabilize new geographies and team

Annexure 6: A trading platform for CSR-spends

A trading platform could help alleviate the problem of unspent CSR funds. This is important as CSR funds in many cases remain unutilised. For instance, at the smaller end of the spectrum, a company that has made Rs.25 crore profits for the past 3 years will have to show CSR spends amounting to 2% of those profits or Rs.50 lakh. Given the yearly cadence to making CSR spends by corporates, high impact projects that meet all due diligence criteria could still get under-funded due to the quantum of CSR money the company wants to give in the year (even if it wishes to give more and provide additional support). Smooth implementation of projects could get stalled due to these constraints. Companies also find it difficult to commit to multi-year CSR spends based on projected profits for future years, thus making the CSR route one of uncertain cash flows for non-profit social enterprises.

A trading platform could help solve this problem by creating "*CSR certificates*" for the excess CSR spends of a company. Such certificates would have a validity of 3-5 years but may be used only once. Allowing for multiyear validity of the certificates overcomes issues like a company being unable to find buyer(s) in a particular year. Such a platform will help companies with excess and deficit CSR spends discover each other and can enable smooth transactions across different ticket sizes. While such a bilateral trade essentially amounts to company A paying company B their CSR money to reimburse company B's excess CSR expenditure and this in indeed theoretically possible, the problem of company A discovering company B remains unsolved, and further, it may not be possible to effect smooth transactions across different ticket sizes as this would require deal-making across multiple companies. Hence, there appears to be a need for a third-party platform that can facilitate such trades. A relevant example of such a platform is the RBI's E-Kuber platform which is an auction platform for trading of Priority Sector Lending Certificates (PSLC) between banks with excess PSL-eligible assets and banks that have fallen short of meeting their PSL targets. It is to be noted that the PSLC does not need to be defined as a security under the SCRA nor does it need to be a negotiable instrument. The nominal value of PSLC would represent the equivalent of the PSL that would get deducted from the PSL portfolio of the seller and added to the PSL portfolio of the buyer[106]. The buyer would pay a fee to the seller which will be market determined. The pricing of a PSLC is driven by the auction mechanism and so the price that a bank pays is in fact an "*expense*" that it incurs to meet its annual PSL target. There is no credit risk transfer, and the certificate expires on 31st March of each year.

However, the CSR-spend trading platform would differ from the E-Kuber platform in significant respects. Firstly, unlike with PSLCs where only the eligibility for PSL gets traded, a transfer of CSR certificate must entail actual transfer of funds allocated for CSR from one company to the other. Secondly, an auction mechanism might not be appropriate in the nascent stages of such a platform as it could drive pricing towards certain types of projects or certain sectors (under schedule VII of Companies Act 2013) to the detriment of others. Rather, these transactions must involve only a flat transaction fee that gets charged to the platform. This also avoids the situation where a profit can be made from the sale of "*excess CSR*" certificates by companies without taking away the incentive from companies to spend more than their annual limit on CSR on projects that they wish to fund. And finally, unlike PSLCs that expire at the end of each financial year, the CSR certificates will be valid for a time period that extends beyond the financial year in which the spend occurred, usually between 3-5 years since the occurrence of the spend. If the platform as described above succeeds in facilitating the trading of CSR certificates,

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[106] RBI. 2016. Priority Sector Lending Certificates.

the government might then consider licensing private platforms that provide an auction mechanism for the trading of CSR certificates (similar to the RBI's licenses for Trade Receivables Discounting Systems or TReDS). However, this would require additional clarifications on whether CSR certificates must have the status of negotiable instruments or not and on how companies are to treat any profits from the sale of such certificates.

Annexure 7: NPO comments on the minimum reporting standard[107]

Representative, NPO	*Comments*	*Working Group's response*
Dr. R. Balasubramaniam, Graam	"It is difficult to comment on the reporting standards alone, and it would be preferable if the Committee were to convene a consultation on the full report with NPOs."	The request will be considered by SEBI.
Safeena Husain, EducateGirls	"I thought your structure was brilliant. I doubt I would have anything major to add. It looked simple, inclusive and effective to me." Specifics: The reporting standard • should not become an occasion for the bureaucracy/regulatory authority to harass NPOs • should not be line item checking and compliance funding • needs to be simple, yet flexible to accomodate orgs of all shapes and sizes • needs to allow for flexible uses of money and course correction if necessary • should show impact clearly	The SSE being envisioned will be largely self-governing, as the minimum reporting standard will make it possible for investors to identify the truly deserving social enterprises. No new or separate regulator is being proposed. The minimum reporting standard is sufficiently flexible to accommodate a very wide variety of NPOs. The social impact metrics are organized along broad dimensions of measurement, but leave sufficient room for the NPO to describe the specific activity that it is engaged in, while signalling its core mission adequately and faithfully to investors and capturing the nature of impact it is creating.
Azeez Gupta, Pratham	"The document is very comprehensive and well thought out" Specifics:	There is no specific bias towards less measurement in early years. Rather, there is room for more flexibility in defining the kind of social

[107] An FGD was convened by Dvara Research in collaboration with The/Nudge Foundation to receive comments and feedback on the minimum reporting standard.

	• a possible bias in the reporting standard towards less measurement in the initial years • 3rd party verification could come in earlier, say in 1-3 years • scale (of organization) should be an important consideration in reporting, as scale and impact could be correlated • NPOs should be helped in reporting • Impact metrics could include at least one measure of long term systematic change (e.g. impact on government policies/institutions, national and international collaborations, etc.)	impact that a particular NPO is creating. This does not mean less measurement, but rather, more thoughtful measurement that is not necessarily driven by a strict quantitative logic. There is also adequate room for defining social impact in such a way that the scale of the organization is not a hindrance to such definition, and yet, the relation between scale and impact can still be captured in the reporting, should the NPO choose such an approach. We are agnostic about what the right time for introducing 3rd party verification is. We have suggested a 5-10 year time frame to be conservative rather than aggressive, and to allow for the ecosystem to develop organically rather than by strict design. Nothing prevents those NPOs who wish to incorporate 3rd party verification into their reporting protocols from doing so, even as early as day 1 of the SSE's functioning. The IRs and social auditors will assist the NPOs in reporting, while the financial costs will be picked up a capacity building fund in the early years of the SSE. In the intermediate term and ideal end state, NPOs will be required to report on the sector-level and policy-level impact that they are creating, and this will adequately capture the dimension of long term systematic change that an NPO is able to effect.

Ashok Kamath, Akshara	"I am very familiar with the way the government primary school system works and all my comments should be looked at in that context - other domains will definitely require different approaches." Specifics: • new challenges brought forth by Covid19 should be taken into consideration • for example, eliminating digital divide is important since more and more learning is relying on e-properties, whereas 2/3rds of our population does not have access to smartphones • one access metric could involve the offering of content on societal platforms like Diksha (e.g., how many textbooks have linked their content to Diksha, usage and impact on that content, etc.) • scalability in the design of the product/service should be an important metric in evaluating the chances of success of a social enterprise • funders should pay attention not only to outputs/outcomes but also inputs/processes, thus for e.g. not only learning outcomes but also whether teachers are equipped with adequate teaching/learning materials and training, etc. and this is especially important because not all outcomes are achievable in a year (sustainable improvements in learning outcomes can take 4-5 years)	Aspects of reach/scale (direct and indirect) of impact, sector-level impact, a recording of inputs and outputs, are all already incorporated in the minimum reporting standard. As such, the standard is sufficiently inclusive and flexible to accommodate all the levels of differentiation desired by Akshara.

Amitav Virmani, The Education Alliance	Specifics:
	
	• the reporting standard will be a regulatory burden for the smaller players, and the SSE may end up exclusively benefiting the already established NPOs like Akshay Patra, Pratham, CRY, Unicef, etc.
	• self-reporting could compromise trust, but even with third-party verifiers
	    o are there enough of them?
	    o is the government willing to accredit them quickly?
	    o who would pay for such verification?
	• impact metrics should include indirect outreach (for e.g. TEA works with state governments that support 30 million children)
	• the ideal end state of using RCTs to attribute impact is problematic insofar as RCTs are very expensive, and furthermore even an RCT will fail if the intended beneficiaries have received interventions from multiple agencies at once
	• outcomes in our case are particularly long-term since TEA works in the area of early childhood education, whose benefits accrue over decades, so will the impact reporting standard cause organizations like ours to be crowded out?
	• disclosing payroll information may draw unnecessary scrutiny from IT authorities
	• disclosing the compensation ratio of highest paid to lowest paid employee may discourage crossover talent, whom one may be willing to pay more
		The recommendations of the report make adequate provision for assistance to smaller NPOs on reporting, both operationally and financially. Please see the WG's responses to comments earlier in this table.
		
		"Self-reporting" does not mean that NPOs will not be accountable for the reporting that they do. Registration with IRs will help to generate credibility as well as competence with reporting, and NPOs could lose their registered status if they are found to be violating trust in any way. This is happening already via the guidelines and procedures by which IRs such as GuideStar perform registration.
		
		We expect that proper third-party verification protocols will organically emerge as the SSE evolves, and that the actors in this space (doing the verification, i.e.) can self-regulate via an SRO, thus not requiring the government to intervene in their processes and operations. The report charts out just such a course for the existing IRs, and recommends that the SSE support and enable this emergence.
		
		The use of RCTs is only envisioned over a 10-year horizon. We feel confident that the state of impact evaluation via RCTs will become more sophisticated in that time, and other, simpler, less expensive methods of impact evaluation will also emerge, that do not compromise on rigor, yet are able to capture causal impact to a reasonable

		extent. The intent for long-term outcomes can be incorporated into the reporting standard without much difficulty. The standard is sufficiently flexible that NPOs such as TEA might be able to innovate input and output metrics that speak to the long term impact that their activities are creating. This will certainly enthuse investors that care about such impact but are not necessarily able to measure it precisely in the short term. The reporting standard incorporates some room for disclosure on payroll information. The specific metrics are indicative only. What the actual set of metrics will be, is left to be discovered as part of a wider set of financial reporting standards, by the IRs in consultation with ICAI, as recommended in the report.