Grant Thornton

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NPO Speak

Biannual newsletter – January 2015

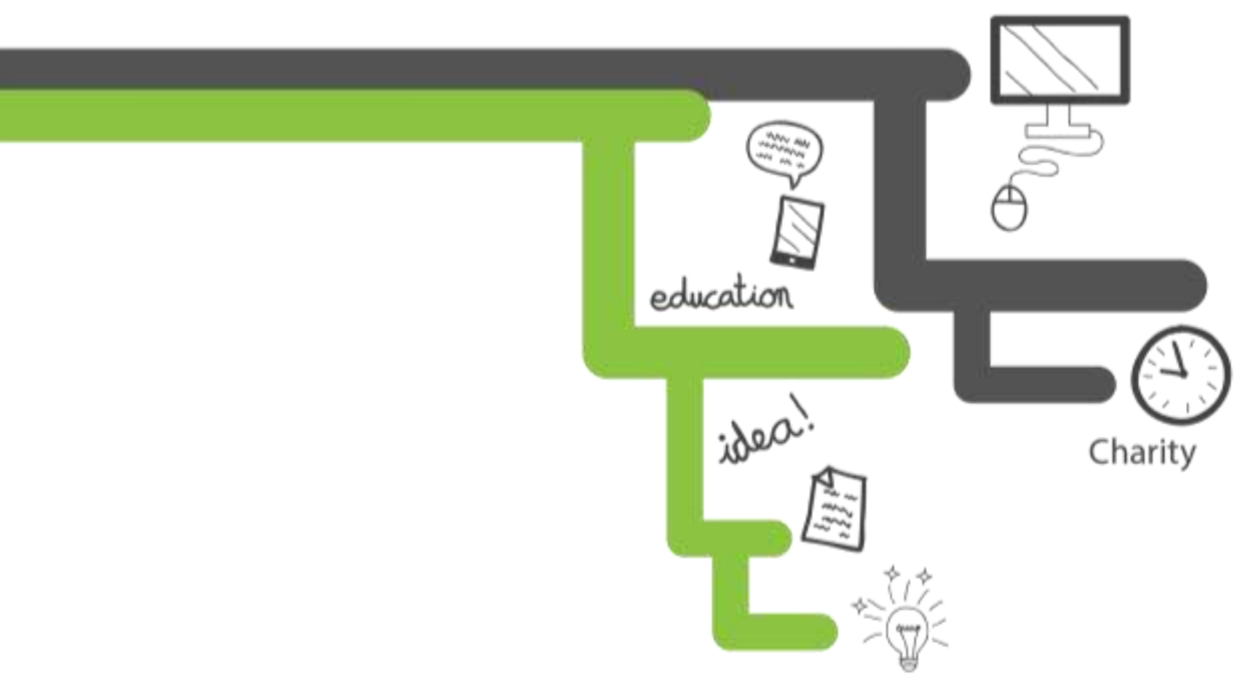
Non-profit sector

Foreword

The newly enacted Companies Act, 2013 (2013 Act), which mandates certain classes of companies to spend 2% of their average net profits of the last three years on corporate social responsibility (CSR) activities, is getting India Inc to incorporate philanthropy and CSR as important strategies for their businesses. Corporates now need to find innovative ways to effectively utilise their CSR funds by undertaking initiatives aimed at promoting environmental sustainability, supporting community-based development, nurturing vocational skills, gender equity and women empowerment, etc.

This has brought to the fore the potential role that non-profit organisations (NPOs) can jointly play along with corporates in order to achieve a "**collective impact**". Corporates can implement the CSR activities either on their own, through their own non-profit subsidiary, or partner with a local, independent non-profit organisation.

In the first edition of our biannual newsletter, we focus on how the mandatory CSR clause of the 2013 Act can reshape the NPO landscape in India. We also present the findings of the **Charity Governance Review 2014**, a study conducted by Grant Thornton UK's Not for Profit practice, and an interview with **Sandip Mookerjee, Deputy CEO, Hand in Hand India.**



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While there may be no single universally accepted definition of CSR, each description of the term that currently exists outlines the responsibility on businesses towards the community and the environment.

The CSR Rules part of the 2013 Act, notified on 27 February 2014, define CSR as activities including but not limited to:

- Projects or programs relating to activities undertaken by the Board of directors of a company ("Board") in pursuance of **recommendations of the CSR Committee** of the Board as per declared CSR Policy of the company, subject to the condition that such policy **will cover subjects enumerated in Schedule VII of the Act**

Corporates are required to constitute a CSR Committee comprising three or more directors, out of which at least one director should be an independent director. CSR Rules outline certain exceptions to this clause for unlisted public, private and foreign companies.

The role of the CSR Committee comprises formulation of strategies and activities, finalisation of the budget to execute the approved strategy, and regularly monitor the company's CSR policy. Hence, NPOs should endeavour to have their patrons as part of the CSR Committees of certain targeted companies whose CSR-focus is aligned with or could be aligned with the capability of the NPO. This long-term strategy could provide mutual benefits to the business and the NPO over the course of time.

As per the clarifications issued by the Ministry of Corporate Affairs (MCA) on 18 June 2014, the statutory provision and provisions of the CSR Rules, 2014 is to ensure that while activities undertaken in pursuance of the CSR policy must be applicable to Schedule VII of the Companies Act 2013, the entries in the said Schedule VII must be interpreted liberally, in order to efficiently capture the essence of the subjects enumerated in the said Schedule **(broad-based and intended to cover a wide range of activities).**

Summary of Schedule VII which can be used by NPOs to match their thematic focus with the eligible spend by the companies:

- **Environmental sustainability**
- **Gender equity and women empowerment**
- **Promotion of education**
- **Employment enhancing vocational skills**
- **Eradication of extreme hunger and poverty**
- **Promoting healthcare including preventive healthcare and sanitation**
- **Contribution to Prime Minister's Relief Fund and other such central and state funds**
- **Measures for the benefit of armed forces veterans, war widows and dependents**
- **Promotion of Art and restoration of heritage buildings**
- **Sports training**
- **Reducing child mortality and improving maternal health**
- **Rural development projects**

CSR clause of the 2013 Act: Impact on NPOs

Examples of suitable and eligible activities detailed in the clarification are:

Donations to IIM (A) for renovation of classrooms	Covered under promotion of education
Promotion of road safety awareness	Covered under promotion of education
Drivers' training	Covered under employment enhancing vocational skills
Provision of appliances to differently-abled individuals	Covered under promoting healthcare including preventive healthcare and sanitation

"The 2013 Act and CSR rules have given a window of opportunity to NPOs in India for tapping an additional source of funding. However, long-term strategic planning including placing their patrons on CSR committees of targeted companies, communicating effectively with and educating new CSR entrant companies on project planning, execution and monitoring will be required to capitalise on this opportunity."

Rohit Bahadur
Partner
Grant Thornton India LLP

It should be noted that CSR expenditure does not include:

- Programs or activities that benefit only the employees of the company
- Activities undertaken in pursuance of the normal course of business of the company
- Contributing any amount directly or indirectly to a political party
- Expenses incurred by companies for the fulfillment of any Act/ Statute or Regulation (like labour laws, Land acquisition Act, etc.)

Section 135 of the 2013 Act specifically talks about **giving preference to the local area and areas around which the company operates**, for spending the amount earmarked for CSR activities.

Grassroots NPOs help corporates in the economic growth of the less privileged in the regions where such corporates establish their manufacturing divisions. NPOs play a crucial role in supporting corporates in such cases to adhere with the CSR Rules and work towards sustainable development of the bottom of the social and economic pyramid in such regions.

CSR clause of the 2013 Act: Impact on NPOs

The CSR Rules also state that the Board of a company may decide to undertake its CSR activities through an implementing agency, provided that

i. If such trust, society or company is not established by the company or its holding or subsidiary or associate company, it shall have an **established track record of three years in undertaking similar programmes or projects**
ii. The company has specified the project or programmes to be undertaken through these entities, the **modalities of utilisation of funds on such projects and programmes and the monitoring and reporting mechanism**

NPOs, which have a track record of working in compliance with the stringent guidelines of foreign donors, are in a good position to educate some of the Indian companies on implementing programmes with adequate monitoring and reporting. This would go a long way in fulfilling the objective of the CSR clause of the new law, which encourages corporates to allocate the CSR budget on programmes and projects (one-off events such as marathons, awards, charitable contributions, sponsorships, etc. would not qualify as activities eligible for CSR).

NPOs must remember that companies can also undertake their CSR activities under the 2013 Act directly on their own, through its own non-profit initiative, or in collaboration with other companies.

As per the notification dated 12 September 2014, the Ministry of Corporate Affairs (MCA) has amended the CSR Rules. The amended Rules now allow companies to spend upto 5% of the annual CSR expenditure to build the capacities of their own CSR personnel as well as those of their implementing agencies.

Companies are now also permitted to include expenditure on administrative overheads as part of this 5% annual CSR expenditure.

NPOs should negotiate some amount of capacity building expenditure in their budgets for projects they undertake in partnership with corporates. However, with the clarification and inclusion of administrative overheads clubbed with capacity development, the quantum that can be included in this budget line item is expected to go down. Amounts spent by corporates on training the NPO to manage money, and towards measuring impact and reporting effectively can be viewed as an investment to ensure proficient management. NPOs need to proactively seek support in addressing capacity gaps rather than risk failure of the partnership.

It is time for NPOs to focus on their internal governance mechanisms and fine-tune their communication strategy to become capable of reaching out to the corporates. NPOs need to create well-defined and clearly articulated models for their interventions. Since the CSR clause of the 2013 Act is likely, in most cases, to push companies to take up larger engagements and will require them to sustain (and likely grow) spending on a year-on-year basis, they would be looking for such organisations which can become their long-term strategic partners. Showcasing well-defined intervention models and sharing the organisation's vision and long-term growth plans will help companies build strategic partnerships with NPOs.

Findings: Charity Governance Review 2014

The Charity Governance Review 2014 is an analysis based on a desktop review of the latest financial statements filed with the Charity Commission by the top 100 charities (by income) in England and Wales, conducted by Grant Thornton UK's Not for Profit practice.

The analysis gives an interesting insight into the practices of the top charities in the UK. NPOs in India may find these findings useful to improve their performance and understand industry best practices.

Following are the key findings:

58 pages

The average length of an annual report.

This is longer than that in 2013 by nine pages. In many organisations, the annual report is considered a tick-box compliance exercise that is part of the finance team's job. The annual report is prepared basis some inputs from the fundraising and strategy teams. However, it is noted that the annual report is a chance to showcase what the charity has achieved during the year and its plans for the future. More importantly, it can also set the tone of the organisation and give a transparent account of its activities and ways of working.

86%

Percentage of charities that have audit committees.

A majority (59%) of those disclosing the use of such a committee did not discuss its work during the period, or give further details.

Conclusion:
Most Boards deploy committees to review certain aspects of their roles in more detail.

75%

Percentage of the top 100 charities in the UK that include their latest annual report on their websites.

Approximately the same number i.e. 74% of charities have presence on all three of the main social media platforms: Twitter, Facebook and LinkedIn.

Conclusion:
Social media and their own websites are used by charities to showcase their annual reports.

35%

Percentage of charities that include an environmental policy in their annual reports.

Conclusion:
Since the impact of a charity's activities on the environment may influence donors and fundraisers as well as grant-making bodies, it is suggested that a brief environmental policy be included in their annual reports to demonstrate the charity's commitment to the environment.

Findings: Charity Governance Review 2014

49%

Percentage of charities that did not disclose a diversity policy.

However, 29% of the trustees were women, which is far greater than the related figures in the corporate sector.

Conclusion:
Gender diversity on Boards continues to be a major issue.

41%

Percentage of charities that considered dependence on key contracts and, consequently, on contract financing as one of the top risks to their operation, which was 9% last year.

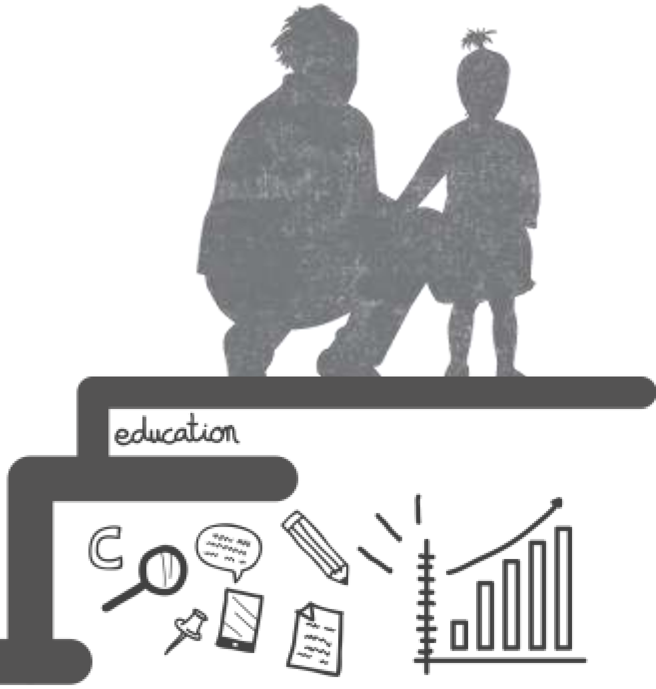
Conclusion:
A reason for this is the continued pressure on government funding in the UK. This is also because many top charities in the UK have significant local and central government contracts.

15%

Percentage of charities that provide a short biography of the trustees serving on their Board.

Many charity websites do give details including photographs of their Board of Trustees. Further, many charities are able to attract high-calibre Board members who carry out their role on an entirely voluntary basis.

Conclusion:
Providing trustee biographies in the annual report allows readers to gain an understanding of what value-add these individuals bring to the Board.



Interview: Hand in Hand India

We interviewed **Sandip Mookerjee, Deputy CEO, Hand in Hand India,** to seek his views on the NPO sector and the new CSR Rules. Below are the excerpts from the interview.

What are your views on the new CSR Rules and the provision of mandatory CSR under the Companies Act, 2013?

This is a much awaited progressive legislation. Quite a lot of positive sentiment, excitement and expectations have been generated, following its enactment. However, there are certain areas where more clarity is required.

How will these Rules impact the NPO sector in India?

The NPO sector would obviously expect more opportunities, in the specified activities listed in the CSR provisions under the 2013 Act. However, from another perspective, these Rules would act as a game changer in the manner in which NPOs would upgrade and upskill themselves. The bar would be raised in terms of responsibilities to be discharged, which would necessitate NPOs becoming more professional, accountable and transparent. Corporates would emphasise on deliveries as well as on effective and measurable impact.

How do you think Hand in Hand India is positioned to take advantage of the mandatory spend on CSR under the 2013 Act?

Hand in Hand India has been serving communities across diverse geographies spread around the globe. We have been serving diverse communities covering a huge gamut of interventions, and partnering with various stakeholders including MNCs. Our integrated approach towards poverty alleviation has been accepted as a mature methodology by professional bodies and forums, as well as by funding agencies, donors, corporates, multilaterals, etc.

The institution is a vibrant resource centre and conducts major knowledge-based programs in partnership with Harvard Business School, RBI-CAB, UN agencies and various banks, across disciplines such as social entrepreneurship, microfinance. We have gathered sufficient experience over the past decade in all of the above areas, particularly while handling CSR projects of major corporates.

Interview: Hand in Hand India

What are some of the unique projects/ associations/ partnerships that Hand in Hand India has been associated with? Please highlight a few.

- **Ford Motor Co., USA:** SUMURR Maternal and Child Health Project
- **Sutherland Global Services :** Creating child friendly villages through education and health interventions
- **BNP Paribas GSO :** Financial literacy for rural women entrepreneurs; Support for transit schools in rural areas
- **Turbo Energy (TVS Group):** Environment project
- **Camfill Farr Air Filtration Pvt Ltd:** Integrated Village Uplift Program
- **Asian Development Bank:** Skill training for women in MP
- **Social Venture Partners:** Skill building for women in rural Karnataka; Technical consultancy on Solid Waste Management in Bengaluru city
- **Water.org:** Water, health and sanitation

What are some of the biggest challenges facing the NPO sector in India? How can these challenges be overcome?

Challenges	How to overcome
Lack of trained, committed and passionate personnel to join and serve the sector	Continuous capacity building of staff to keep them motivated and to equip them to face challenges
Dwindling funding opportunities especially from abroad	Diversifying the sources of funding and increasing local funding by targeting well-settled youth and HNIs
Lack of clarity in CSR regulations. It is preventing corporates from contributing to the CSR space as per the expectations	Organising more CSR workshops to bring in more clarity
Poor governance	Inducting professionals and independent persons on the Board to ensure transparency and ethical conduct

Interview: Hand in Hand India

What is your outlook for the social sector in India over the next five years?

We visualise that a fresh impetus by the government, coupled with thrust by the youth, growing judicial activism as well as social media will create the necessary environment for the social sector to deliver as per expectations.

Demographics, migrant labour, health, sanitation, hygiene, cleanliness and climate change will emerge as major challenges as a corollary to the economic growth being projected, which would need to be addressed effectively.

As inclusive growth is the focus of governments across the globe, financial inclusion will be given thrust and NPOs will have a greater role to play in mobilising people at the bottom of the pyramid and creating an enabling environment for such growth and development.

The clamour for transparency, accountability and responsibility will go a long way in developing an enabling environment for the existing as well as emerging NPOs and also other social sector entities. At the end, the teeming millions who struggle against poverty for mere existence will benefit.

“We, at Hand in Hand India, are proud to have created a unique integrated community development program devoted to poverty alleviation. Our experience across several areas like child labour elimination and education, self-help group creation and microfinance, creation of citizens' centre enterprises, affordable healthcare and solid waste management including the numerous projects conducted with corporate partners in these areas makes us uniquely placed to tap the opportunity provided by the mandatory spend under the Act 2013.”

Sandip Mookerjee
Deputy CEO
Hand in Hand India

Profile: Hand in Hand India

Hand in Hand India (HiH India) is a public charitable trust, committed to alleviating poverty through an integrated community development approach. HiH India was registered in 2002 when it started its operations on a humble scale from Kancheepuram district of Tamil Nadu. In 2013, the organisation achieved its target of creating 1.3 million jobs, 13 months ahead of its five-year goal.

HiH India operates in seven Indian states, with a dedicated team of over 2,000 employees and 54,000 volunteers. Its working model has been adopted in 10 countries outside India. As a best practice in the NPO space, HiH India also forms part of a Harvard Business School case study.

HiH India's integrated community development programme has five pillars dedicated to poverty alleviation:

Pillar	Intervention example	Key impact
Eliminating child labour and providing education to them	Through education – By bridge school inputs	239,882 children mainstreamed. Enrolled in government schools
Self Help Group and Microfinance	Access to credit, training and capacity building	Formation of 71,434 women self-help groups
Citizens' Centre Enterprises	Rural technology inclusion	Creation of 3,359 E-centres
Health	Access to affordable healthcare	326,661 health camp beneficiaries
Environment	Solid waste management	Benefits to 385,489 households

Highlights of key Flagship Village Upliftment Programme:

The two year Village Upliftment Programme is designed to create and build self-reliant communities that support holistic development of villages. HiH India partners with local stakeholders, including Panchayat heads, villagers and other government and non-government organisations in implementing development initiatives in the areas of job creation, education, health, environment, and IT & governance.

To know more **about Hand in Hand India,** please visit **www.hihindia.org.**

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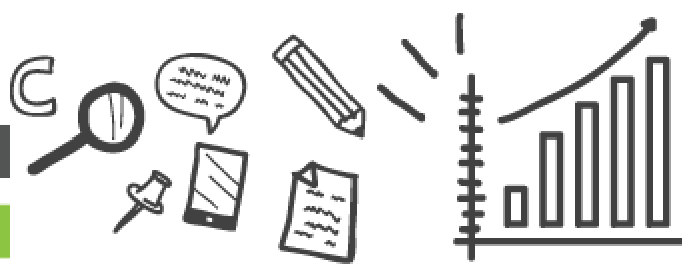
Grant Thornton in India is one of the largest assurance, tax, and advisory firms in India. With over 2,000 professional staff across 13 offices, the firm provides robust compliance services and growth navigation solutions on complex business and financial matters through focused practice groups. The firm has extensive experience across a range of industries, market segments, and geographical corridors. It is on a fast-track to becoming the best growth advisor to dynamic Indian businesses with global ambitions. With shorter decision-making chains, more senior personnel involvement, and empowered client service teams, the firm is able to operate in a coordinated way and respond with agility.

Over the years, Grant Thornton in India has added lateral talent across service lines and has developed a host of specialist services such as Corporate Finance, Governance, Risk & Operations, and Forensic & Investigation. The firm's strong Subject Matter Expertise (SME) focus not only enhances the reach but also helps deliver bespoke solutions tailored to the needs of its clients.



Contact us

To know more about Grant Thornton India LLP, please visit **www.grantthornton.in** or contact any of our offices as mentioned below:

NEW DELHI
National Office
Outer Circle
L 41 Connaught Circus
New Delhi 110 001

AHMEDABAD
BSQUARE Managed Offices
7th Floor, Shree Krishna Centre
Above Crossword, Nr. Mithakali Six Roads, Navrangpura
Ahmedabad 380009

BENGALURU
"Wings", 1st floor
16/1 Cambridge Road
Ulsoor
Bengaluru 560 00

CHANDIGARH
B-406A, 4th floor
L&T Elante Office Building
(adjacent to Elante Mall)
Industrial Area Phase I
Chandigarh 160002

CHENNAI
Arihant Nitco Park, 6th loor
No.90, Dr. Radhakrishnan Salai
Mylapore
Chennai 600 004

GURGAON
21st floor, DLF Square
Jacaranda Marg
DLF Phase II
Gurgaon 122 002

HYDERABAD
7th floor, Block III
White House
Kundan Bagh, Begumpet
Hyderabad 500 016

KOCHI
7th Floor, Modayil Centre point
Warriam road junction
M.G.Road
Kochi 682016

KOLKATA
10C Hungerford Street
5th floor
Kolkata 700 017

MUMBAI
16th floor, Tower II
Indiabulls Finance Centre
SB Marg, Elphinstone (W)
Mumbai 400 013

MUMBAI
9th Floor, Classic Pentagon,
Nr Bisleri, Western Express Highway
Andheri (E)
Mumbai 400 099

NOIDA
Plot No. 19A, 7th Floor
Sector – 16A
Noida – 201301

PUNE
401 Century Arcade
Narangi Baug Road
Off Boat Club Road
Pune 411 001

Editorial and design team: Rohit Bahadur, Vikas Gambhir, Neeti Khurana, Vimarsh Bajpai, Misbah Hussain, Rakshit Dubey