

Working Group Report on SSE

Kolkata Consultation: 13-Aug-2020

Hosted by: Azad Foundation

CAUTION

DevelopAid believes in socially responsible and accountable philanthropy. It supports compliance with both, the letter and the spirit of the law. This presentation is meant to help improve understanding of the law. Please do not use this understanding to bypass the law.

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Budget Jul-19

“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.”

For Whom?

- **Social Enterprises**
- **Not for Profit Social Enterprises (termed NPOs - we'll use NPEs to avoid confusion)**
- **For Profit Social Enterprises (termed FPEs)**

Who?

- **Individuals**
- **Donor Agencies**
- **CSR Companies**
- **Banks / Institutional Investors**
- **Government Agencies**

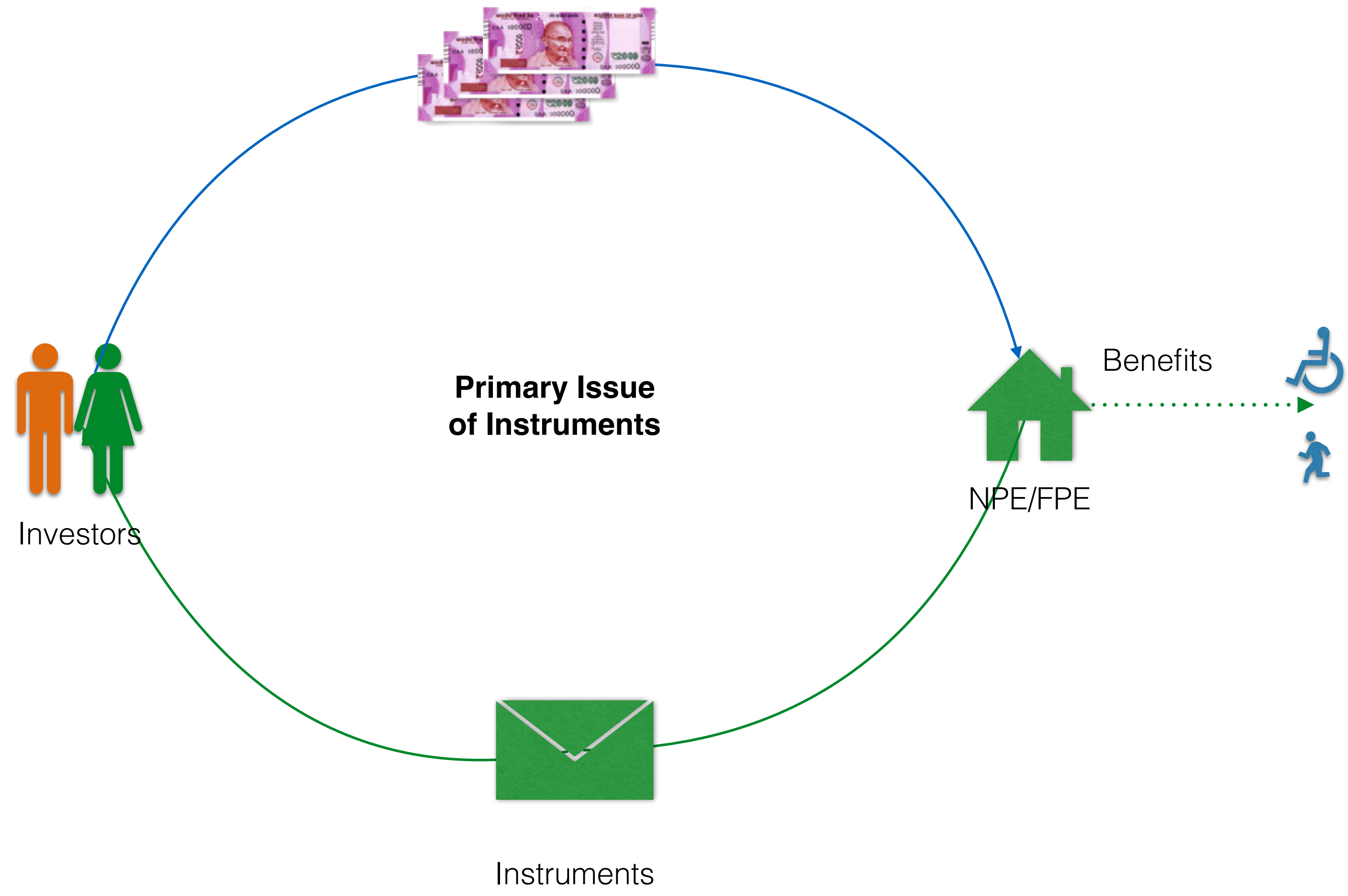
Why do People Invest?

	Financial only	Responsible	Sustainable	Impact			Impact only
	Delivering competitive financial returns						
	Mitigating environmental, social and governance risks						
	Pursuing environmental, social and governance opportunities						
	Focusing on measurable high-impact solutions						
Grade	1	2	3	4	5	6	7
Focus	Limited or no regard for environmental, social or governance practices	Mitigate risky environmental, social or governance practices in order to protect value	Adopt progressive environmental, social or governance practices that may enhance value	Address societal challenges that generate competitive financial returns for investors	Address societal challenges where returns are as yet unproven	Address societal challenges that require a below-market financial return for investors	Address societal challenges that cannot generate a financial return for investors

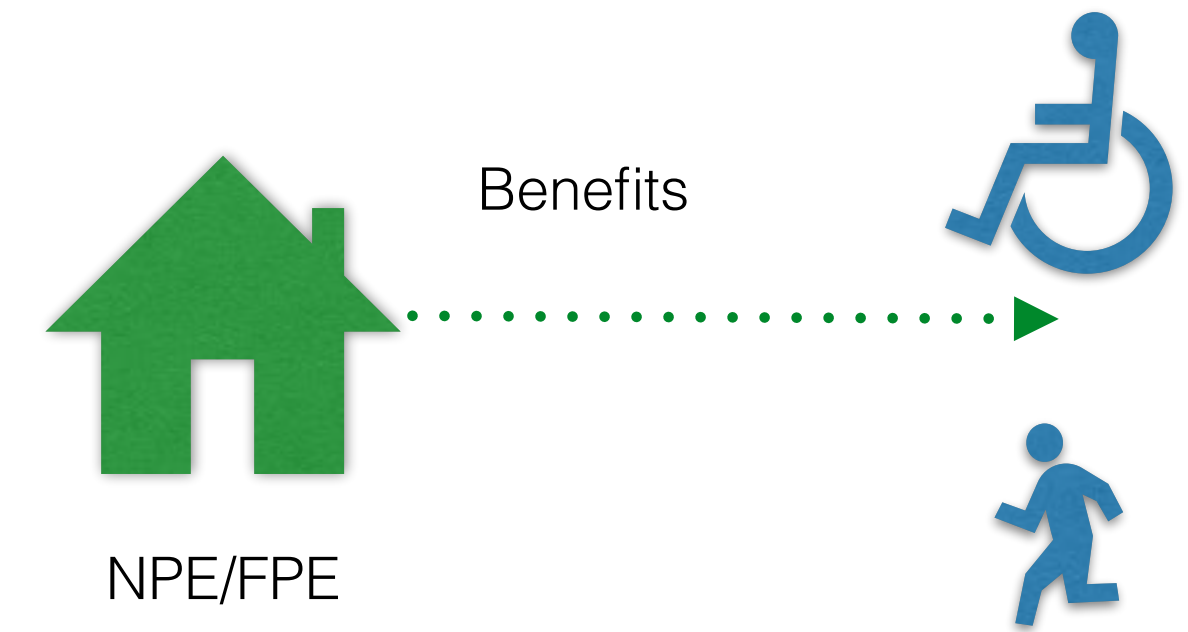
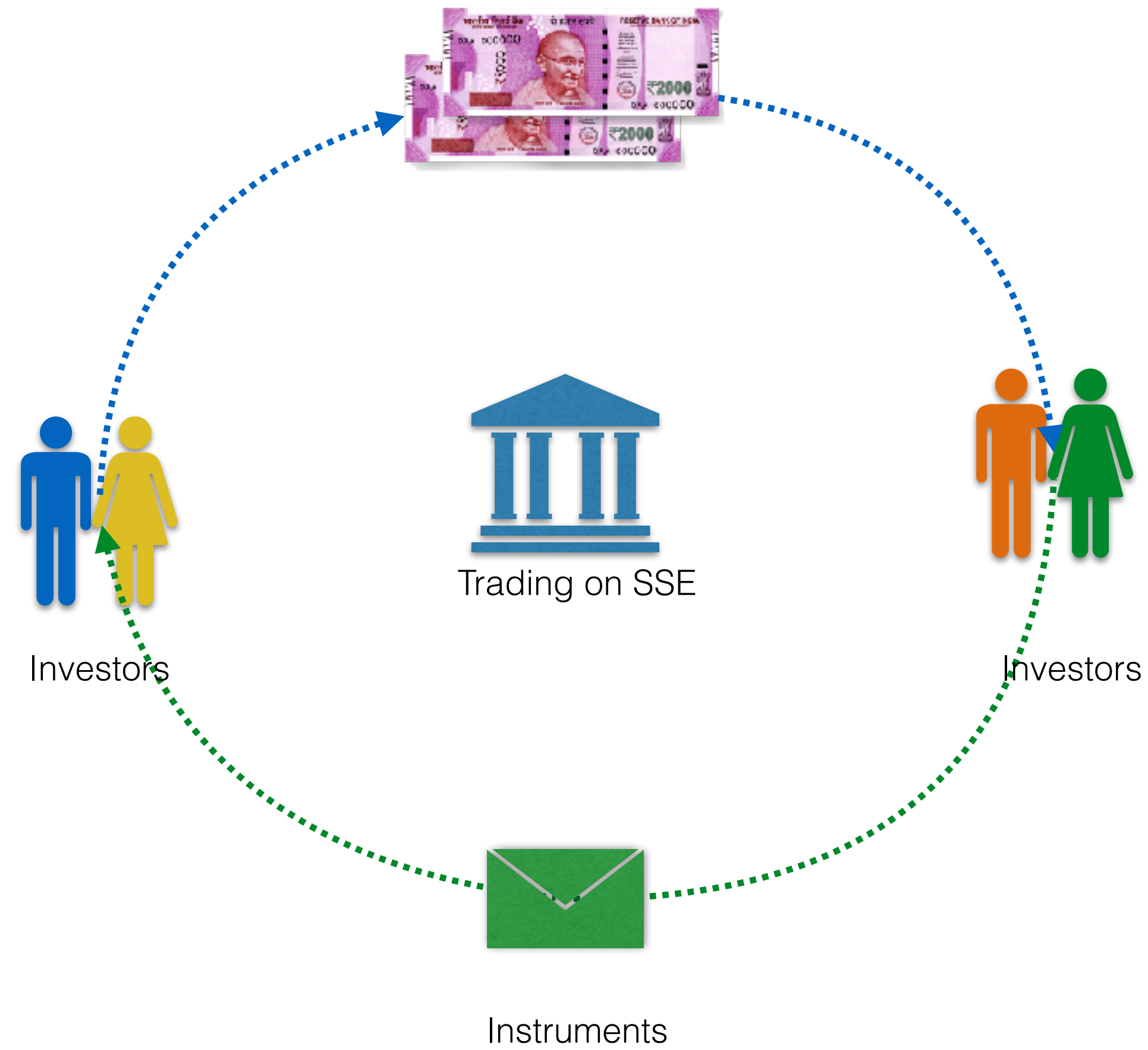
Source: Adapted from OECD's Paper on Tackling Social Issues: Social Impact Investment in Emerging and Developing Economies (DCD/DAC/AGID(2016)4, October 2016 and Bridges Ventures (2015), "The Bridges spectrum of capital: How we define the sustainable and impact investment market", Bridges Ventures, London, <http://bridgesventures.com/wp-content/uploads/2015/11/Spectrum-of-Capital-online-version.pdf>.

How?

Primary Issue



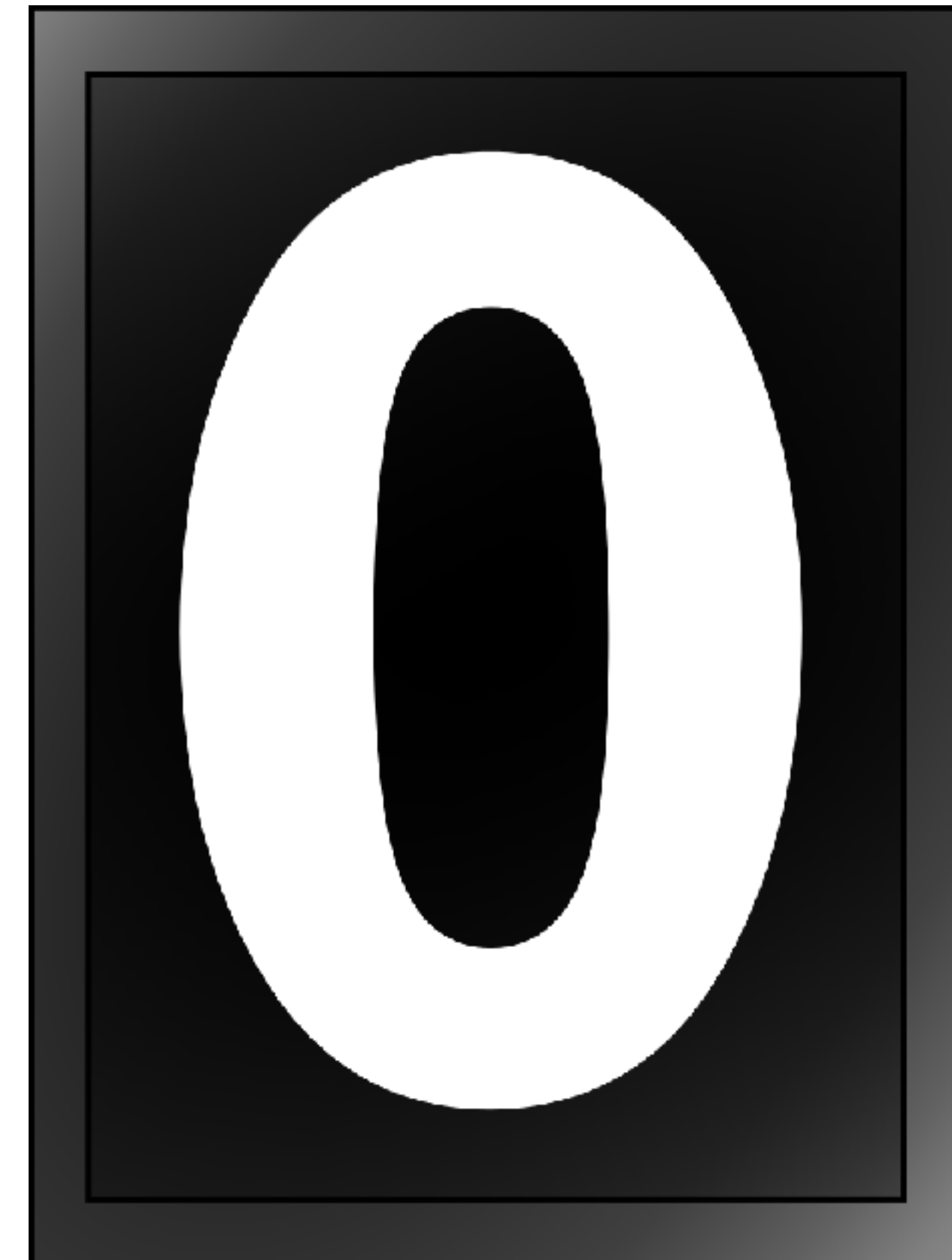
Secondary Market



Warning Jargon Ahead!

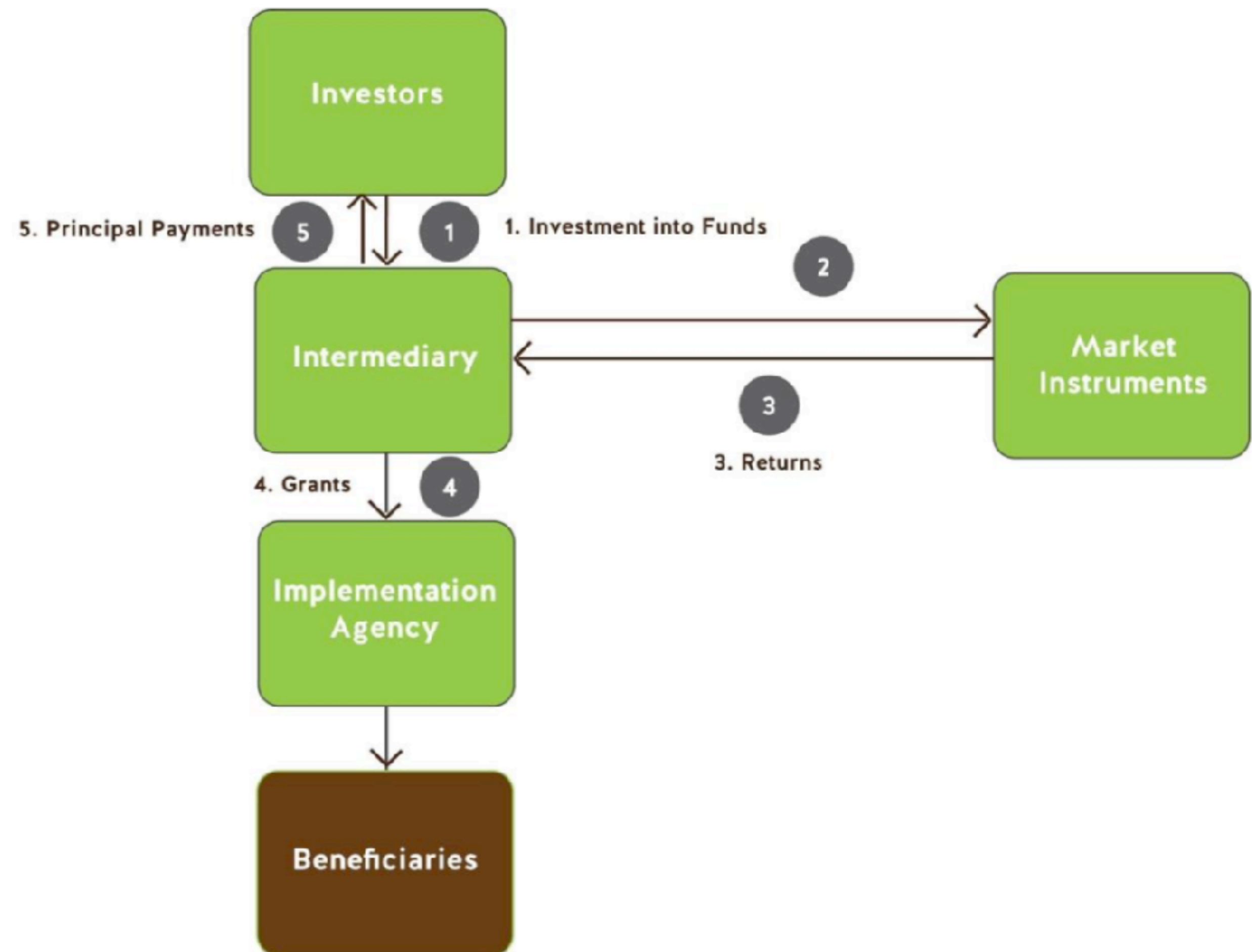
Zero Coupon Zero Principal Bonds

- **Like project grants**
- **Carried as liability till project completed**
- **No money or interest paid to investors**
- **Tax benefit recommended**



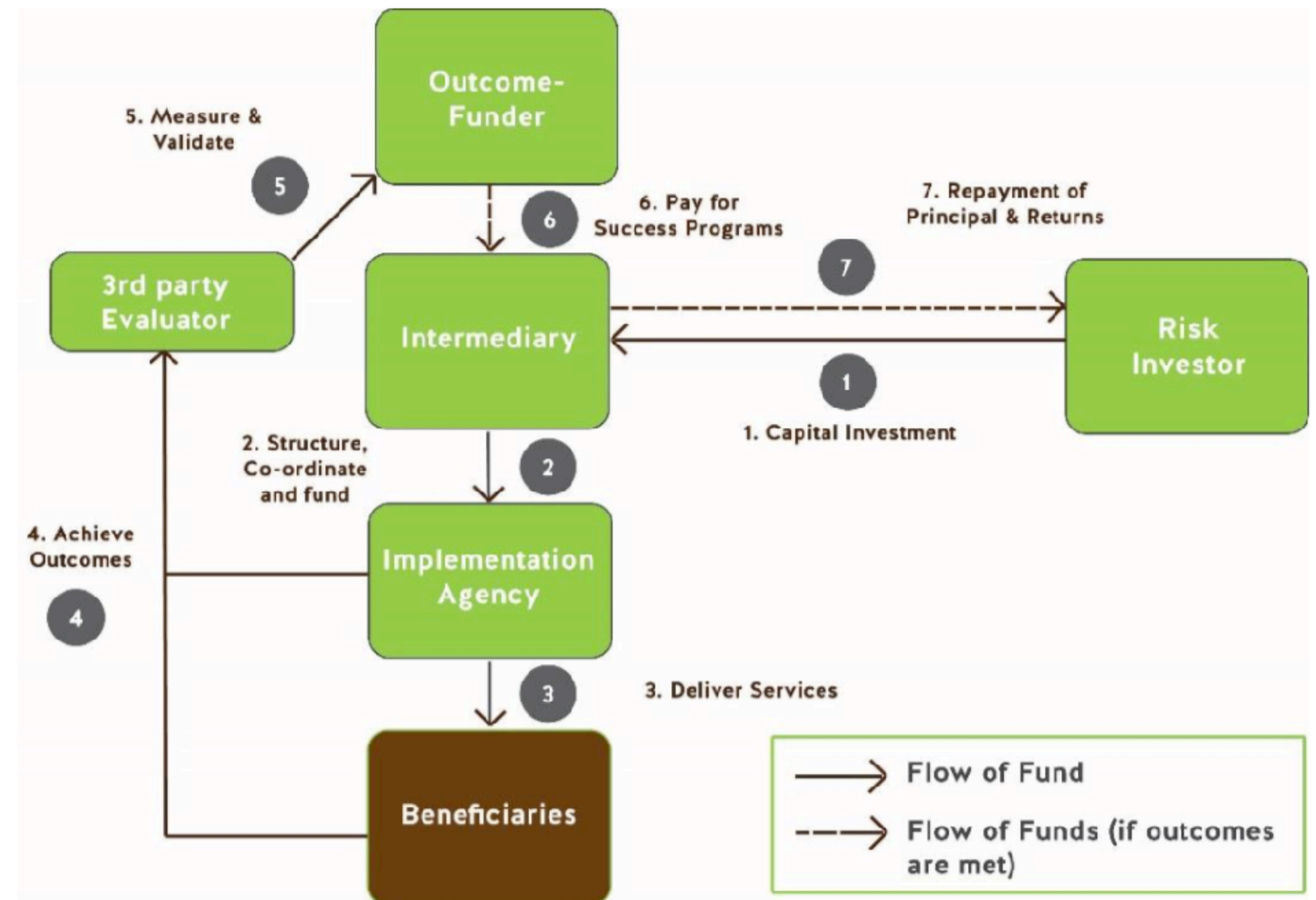
Mutual Funds

- **Raise funds for projects**
- **Money given by retail investors**
- **Funds invested in commercial securities**
- **Income used to make grants to NGOs**



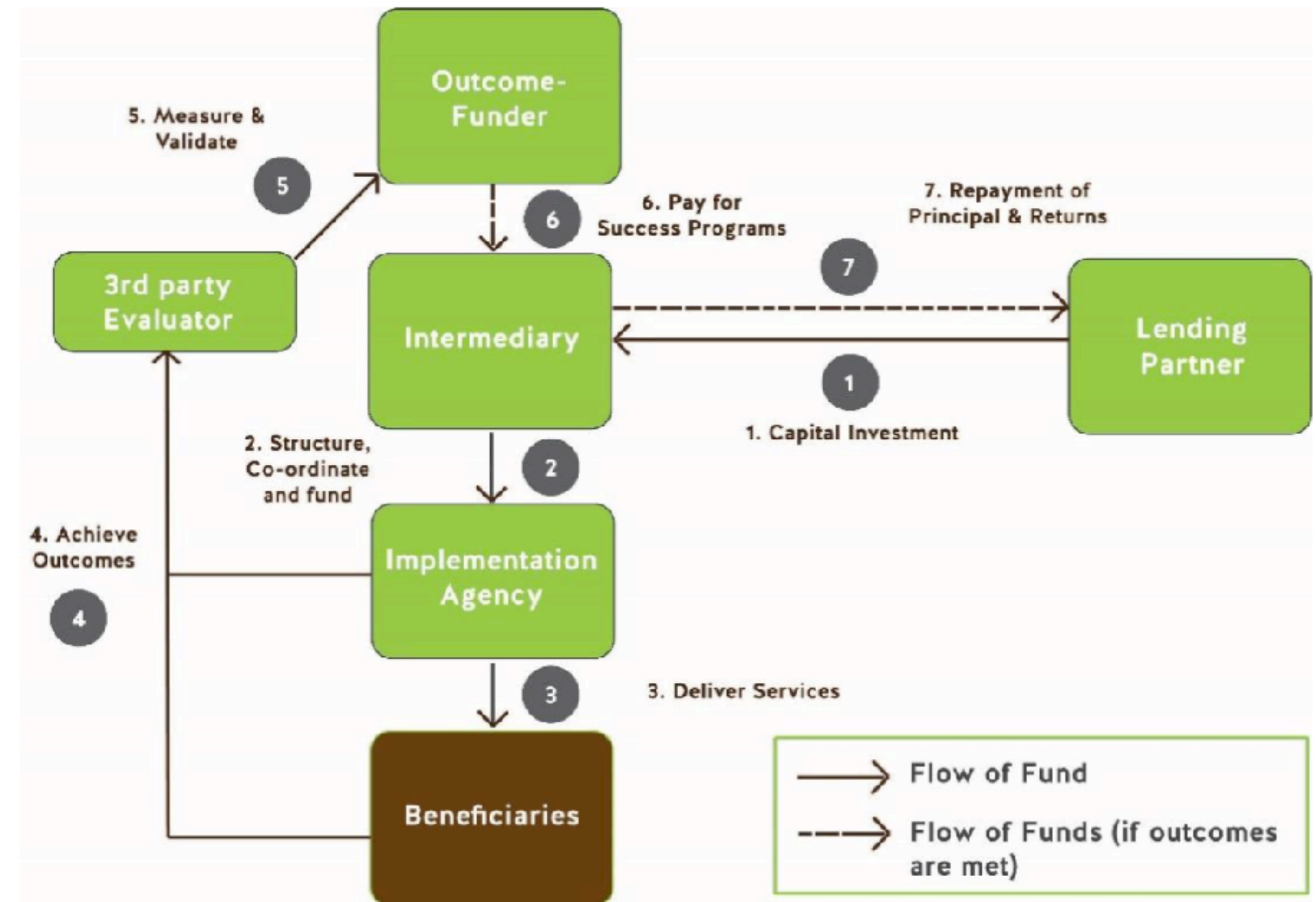
Social Impact Bonds

- Intermediary issues social impact bonds to risk investor
- Gives grant to NGO
- Impact certified by 3rd party
- Outcome Funder pays intermediary for bonds
- Intermediary repays principal and returns to risk investor



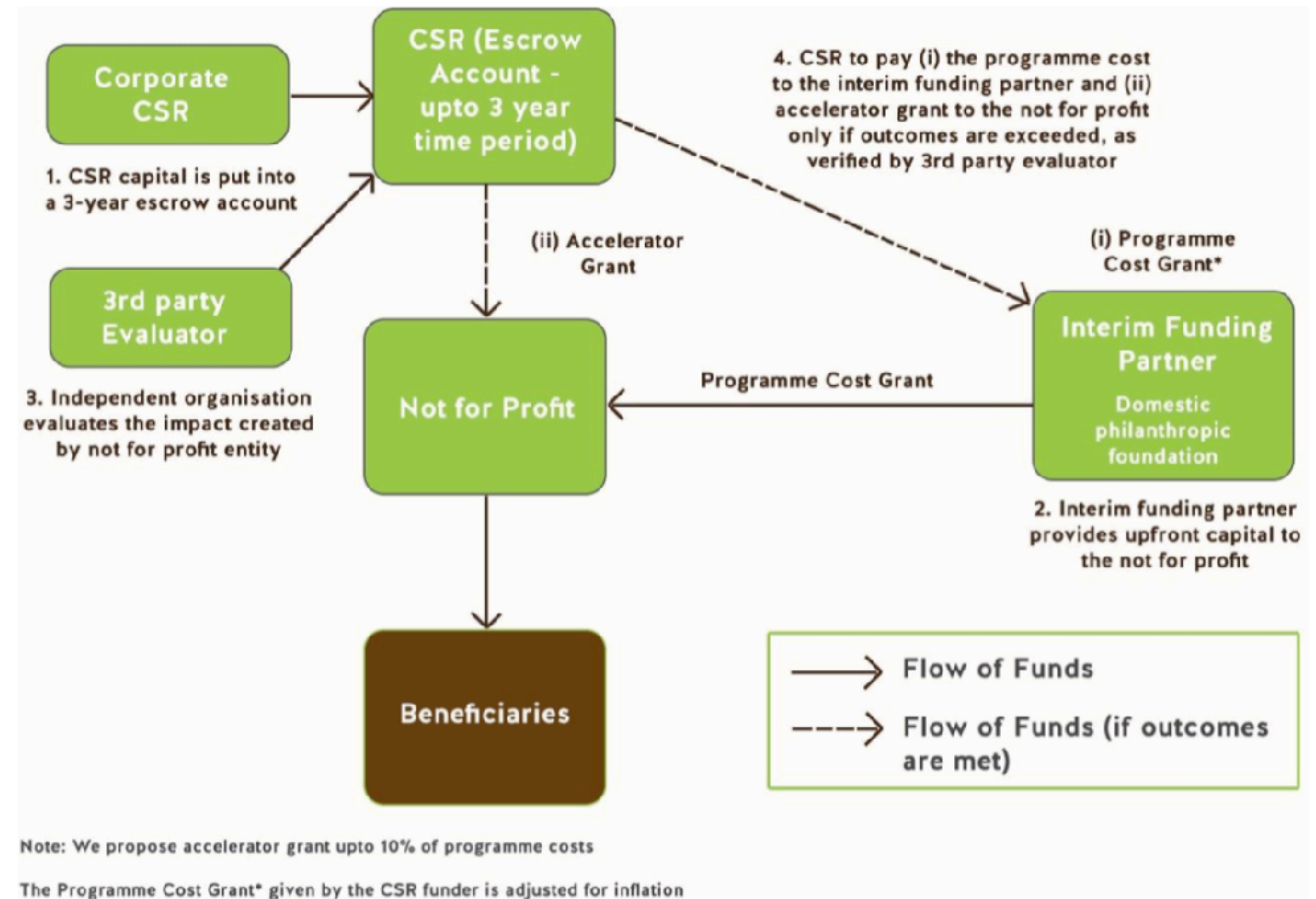
Outcome Funding

- Same as previous
- Risk Investor replaced by bank which gives loan at fixed interest



CSR Escrows

- Interim donor gives grant to NGO
- Impact certified by 3rd party
- Funds released to donor from escrow
- NGO gets another 10% as incentive



What Else?

Tax Benefits Recommended

- **Increase tax deduction u/s 80G to 100% for SSE listed entities and remove the 10% cap**
- **Offer tax benefits to SSE investors in NPEs and FPEs**
- **Make 12A/80G registration easier for SSE NPEs**
- **Drop the 12A/80G renewal requirement**
- **Increase limit on commercial revenue to 50% (from 20%)**

CSR/FCRA Recommendations

- **Make CSR expenditure tax deductible**
- **Include SSE investments and SSE Capacity Building in sch. VII**
- **Allow trading of CSR spending**
- **Allow escrow accounts and acclerator grants under CSR**
- **Allow SVFs to accept FCRA funds**

Comments by 14-Aug to SEBI

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About DevelopAid

DevelopAid Foundation is a sec. 8 not-for-profit company, with a mission of enhancing public trust, accountability, financial literacy, governance, and understanding of relevant laws and regulations among philanthropic organisations and social enterprises in India.

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