



# Social Auditors



**NiSM** NATIONAL INSTITUTE OF  
SECURITIES MARKETS  
An Educational Initiative of SEBI

This workbook has been developed to assist candidates in preparing for the National Institute of Securities Markets (NISM) Social Auditors Certification Examination.

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**Dr. C.K.G. Nair**  
**Director**

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## **Acknowledgement**

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Certification creates quality market professionals and catalyzes greater investor participation in the markets. Certification also provides structured career paths to students and job aspirants in the securities markets.

## **About the NISM-Series-XXIII: Social Auditors Certification Examination (SACE)**

In order to create a common minimum knowledge benchmark for the persons to become Social Auditors, the examination aims to create a pool of social auditors who would assess the impact of social interventions of various social enterprises who raise funds through the Social Stock Exchange platform.

### Examination Objectives

On successful completion of the examination the candidate should:

- Know the basics of social auditing, Code of conduct of Social Auditors.
- Understand the general concepts related to social stock exchange, social audit and social impact assessment.
- Know the Social Impact Reporting disclosures and regulations.

### Assessment Structure

The examination consists of 85 multiple choice questions and 3 case-based questions (each case having 5 sub-questions) adding upto 100 marks. The assessment structure is as follows:

<b>Multiple Choice Questions</b> [85 questions of 1 mark each]	$85*1 = 85$
<b>Case-based Questions</b> [3 cases (each case with 5 questions of 1 mark each)]	$3*5*1 = 15$

### How to register and take the examination

To find out more and register for the examination please visit [www.nism.ac.in](http://www.nism.ac.in)

### Important

- Please note that the Test Centre workstations are equipped with either Microsoft Excel or OpenOffice Calc. Therefore, candidates are advised to be well versed with both of these softwares for computation of numericals.
- The sample caselets and multiple choice questions illustrated in the book are for reference purposes only. The level of difficulty may vary in the actual examination.

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### Syllabus Outline and Weightages

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## CHAPTER 1: INTRODUCTION TO SOCIAL SECTOR AND INDIAN FINANCIAL MARKETS

### Learning Objectives

After studying the chapter, you should know about:

- Various aspects and taxonomies of social sector in India
- Various segments of financial markets in India

### Section – I Social Sector in India

#### 1.1 Overview of Social Sector in Indian Economy

The term 'social sector' refers to all those sets of activities which contribute to human capital formation and human development such as education, health, medical care, water supply and sanitation, housing etc.<sup>1</sup>

The social sector is also called the third sector comprising myriad development organizations, voluntary organizations, NGOs, non-state, non-market organizations working on issues of development, Section 8 Companies, social enterprises and entrepreneurs, individuals working on fellowships, collaborative and collectives.

The approaches of social sector aim at;

- addressing the gap in sectors like education, health, sanitation, housing, energy, environment and so on, focusing on the disadvantaged and vulnerable sections of the population.
- conducting research based advocacy and feeding into better informed programs across the sectoral spectrum of the social sector.
- forming think tank organizations with a rights based approach to address social issues.

Furthermore, the social sector has been identified as an important partner towards addressing the Sustainable Development Goals (SDGs) 2030 Agenda.

#### 1.2 Sustainable Development Goals (SDGs)

Member states of the United Nations adopted the 2030 Agenda for Sustainable Development in the year 2015<sup>2</sup>. It is pegged as the blueprint for peace and prosperity for the people and the planet, now and into the future. The said Agenda has identified 17 Goals for the developed as well as developing countries. It urges all the nations to respond to this on an urgent basis and “recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education,

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<sup>1</sup>Panchmukhi,2000;. [https://niti.gov.in/planningcommission.gov.in/docs/reports/sereport/ser/stgpnt/stgpnt\\_ch1.pdf](https://niti.gov.in/planningcommission.gov.in/docs/reports/sereport/ser/stgpnt/stgpnt_ch1.pdf)

<sup>2</sup>Source: <https://www.un.org/sustainabledevelopment/news/communications-material/>

reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.”<sup>3</sup>.

The Sustainable Development Goals Report 2021 describes **17 Sustainable Development Goals** as listed below.<sup>4</sup>

The List of Sustainable Development Goals:

1. No Poverty
2. Zero Hunger
3. Good Health and well being
4. Quality Education
5. Gender Equality
6. Clean Water and sanitation
7. Affordable and Clean Energy
8. Decent work and economic growth
9. Industry Innovation and Infrastructure
10. Reduced Inequalities
11. Sustainable cities and communities
12. Responsible Consumption and Production
13. Climate Action
14. Life below water
15. Life on land
16. Peace, justice, and strong institutions
17. Partnerships for the goals

### **1.3 Concept of Social Enterprises (SE)**

Social Enterprises have gained importance in late 1990s in India, where their contribution towards social change has been recognised by different sectors. Social Enterprises have been developing innovative models to address complex social problems. This term was formally introduced in India in 1981 with the establishment of Ashoka. After which various other models emerged like SELCO Solar, Basix, Barefoot College, Arvind Eye Care and so on. Funding agencies and venture capital firms also started focusing on social enterprises after recognising their role in the social sector. Grass root Innovations Augmentation Network, Acumen Fund, Intellectap, Villgro and other funding organisations started their investments in social enterprises.

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<sup>3</sup>Sustainable Development Goals; <https://sdgs.un.org/goals>

<sup>4</sup>Status of the SDG goals can be read: The Sustainable Development Goals Report 2021  
<https://unstats.un.org/sdgs/report/2021/The-Sustainable-Development-Goals-Report-2021.pdf>

Social Enterprises can access not just grants and donations but also have access to social venture capital funds. A social enterprise is a type of organisation which aligns nonprofit's social mission with financial sustainability through commercial viability.

With a legal mandate on CSR spending of 2% from a company's net profit, many nonprofit social enterprises are getting funding support. Today multilateral agencies like companies, impact investors, incubators and accelerators, academic institutions, research agencies are contributing to social enterprises through funding and advisory support, research studies and capacity building workshops etc.

Key features of social enterprises include:

- Main aim of social enterprise is a social or environment cause
- It has a revenue generating model where profits are earned through sale of products or services.
- Revenue generated is invested back for a social cause.
- These enterprises operate like companies and have enterprise orientations.

According to SEBI ICDR Regulations, a social enterprise means either a Not for Profit Organisation or a For Profit Social Enterprise that meets the eligibility criteria specified in the SEBI ICDR Regulations.

Eligibility Conditions for being identified as a Social Enterprise as per SEBI ICDR Regulations:

- A. To be identified as a social enterprise, a Not for Profit Organisation (NPO) or a For Profit Social Enterprise (FPSE), shall establish primacy of social intent.
- B. In order to establish the primacy of its social intent, such Social Enterprise shall meet the following **eligibility criteria**: -
  1. eradicating hunger, poverty, malnutrition and inequality;
  2. promoting health care including mental healthcare, sanitation and making available safe drinking water;
  3. promoting education, employability and livelihoods;
  4. promoting gender equality, empowerment of women and LGBTQIA+ communities;
  5. ensuring environmental sustainability, addressing climate change including mitigation and adaptation, forest and wildlife conservation;
  6. protection of national heritage, art and culture;
  7. training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports;
  8. supporting incubators of Social Enterprises;

9. supporting other platforms that strengthen the non-profit ecosystem in fundraising and capacity building;
10. promoting livelihoods for rural and urban poor including enhancing income of small and marginal farmers and workers in the non-farm sector;
11. slum area development, affordable housing and other interventions to build sustainable and resilient cities;
12. disaster management, including relief, rehabilitation and reconstruction activities;
13. promotion of financial inclusion;
14. facilitating access to land and property assets for disadvantaged communities;
15. bridging the digital divide in internet and mobile phone access, addressing issues of misinformation and data protection;
16. promoting welfare of migrants and displaced persons;
17. any other area as identified by the Board or Government of India from time to time

The social enterprise shall target underserved or less privileged population segments or regions recording lower performance in the development priorities of central or state governments.

There are different forms of social sector organizations in India like Trust, Society and Section 8 companies. There is no single regulatory body for these organisations as they are governed under the Act as per their registration which is described in Table 1.1 below. This implies that their accounting and reporting requirements also vary.

**Table 1.1: Difference Between Trust, Society and Section 8 Company<sup>5</sup>**

Particulars	Trust	Society	Section 8 Company
Meaning	It is considered to be the oldest form of charitable organisations. It is, in essence, an arrangement between parties whereby one party holds ownership over property on behalf of another person	It is formed when a collection of people come together for a common charitable purpose. But it is not limited to charitable purposes but may extend to multiple other fields.	It is a company established with the purpose has in its objects the promotion of commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object

<sup>5</sup>Source: <https://cleartax.in/s/society-trust-section-8-company-comparison>

			and whereby they apply any profits into furthering the objective.
Governing Legislation	A trust is established under and governed by the Indian Trust Act, 1882 for private trusts. General law is applied for public trusts except in a few states such as Gujarat and Maharashtra, which have their own state laws.	Societies Registration Act, 1860.	Companies Act, 2013
Registered as	NGO/NPO	NGO/NPO	NGO/NPO. But they enjoy all the privileges of a limited company without the need for them needing to add Pvt. Ltd. to the name.
Document of constitution	Trust Deed	MOA (Memorandum of Association) and rules and regulations	MOA and AOA (Articles of Association)
Registration Authority	Deputy Registrar of the state	Registrar or Deputy Registrar of the particular state in which it is to be registered.	Registrar of Companies (RoC) or Regional Director
Minimum members required	2 trustees minimum	7 members minimum (5 for Jammu and Kashmir and Telangana)	2 directors and 2 shareholders. It should be noted that the directors may also be the shareholders.
Annual compliance	Audited financial statements required to be submitted	The society must file the list of names, occupations and address of the managing	The company must file the annual returns and accounts with the ROC.

		committee members of the society to the Registrar annually.	
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With these legal structures, NGOs can get tax benefits as well as get access to foreign donations by registering under the Foreign Contribution (Regulation) Act. With evolution of the concept of social entrepreneurship, for profit social enterprises as well as hybrid models combining revenue generating models addressing a social cause have emerged.

## 1.4 Taxonomy related to Social Enterprises

### 1.4.1 Primacy of Social Intent/Impact

In India, entities working for social causes can opt for legal forms from among a variety that is available such as Company (for-profit or section 8 company), Society, Trust, Partnership etc.

Social intent and impact are the primary goals of the SE which is demonstrated through its focus on social objectives for the underserved or less privileged populations or regions. The social objective is centered on creating products and services relevant to the target beneficiary to accelerate human welfare. The activities, interventions and programs adopted by the enterprise are in line to address the target beneficiaries in the target geography. An organisation has a social intent when it serves social good, has a social mission, creates social value through social change, building social capital and has a social bottom line. Funds are raised and plans are made to make a difference to society. Making profits and redistributing it amongst its board/ staff / other stakeholders is not the intention of such an enterprise. Additional resources if generated are re invested in the enterprise towards its stated objectives.

In simplistic terms, “Social impact can be defined as the effect on people and communities that happens as a result of an action or inaction, an activity, project, programme or policy”.<sup>6</sup>

A social enterprise will have a positive change on the primary and secondary stakeholders and society at large which is called its social impact. For example, it can be seen through the delta change in education levels and rising rates of graduation in an underserved community, a reduction in child malnutrition, increased biodiversity through a wasteland conservation program.

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<sup>6</sup><https://www.goodfinance.org.uk/>



### **1.4.2 Social Objective**

A Social Objective of an organization will denote that it is created / incorporated to serve a social good and has a social mission. Such an organization might be any of the legal entities viz. a society, a trust or a section 8 company. Such an organization creates social value through social change, building social capital and has a social bottom line. Thus an enterprise having a financial bottom line as its objective (generating profits as its mandate) cannot pose a social objective.

The social objective is centered around creating products and services relevant to the target beneficiary to accelerate human welfare. The target beneficiaries are those populations who are vulnerable and have special needs or problems. The social objectives will guide the formulation of activities, interventions and programs in line to address the target beneficiaries in the target geography.

Annexure 1 provides an illustrative list of areas and sub-areas for taxonomic classification of social objectives.

### **1.5 Social Intervention**

Social interventions are programs designed to deliver social benefits and develop human capital of specific target groups. Social interventions can be any of the following; social welfare, safety net, and social protection. Social interventions can cover programmes in the areas such as poverty alleviation, access to public healthcare, maternal/ neonatal child-care, access to financial services, access insurance, and pension, job creation, technical and vocational skills development, and refugee protection, and so on. Purpose of social interventions can be reducing symptoms, resolving problems, enhancing adaptive capabilities, and improving the overall psychosocial well-being of the beneficiaries.

#### **1.5.1 Concepts and Terms in Social Sector Interventions**

##### **i. Poverty**

Poverty is a multidimensional concept focusing on aspects more than lack of income. The United Nations (UN) elaborates definitions of poverty as, “Fundamentally, poverty is a denial of choices and opportunities, a violation of human dignity. It means a lack of basic capacity to participate effectively in society. It means not having enough to feed and cloth[e] a family, not having a school or clinic to go to, not having the land on which to grow one’s food or a job to earn one’s living, not having access to credit...”

**ii. Social Development**

Social development is a process of achieving desired social change. Some of the common social development initiatives are in the areas of housing, health and nutrition, education and training, livelihood opportunities, social security, social equality, social stability and social welfare.

**iii. Social Capital**

The Organisation for Economic Co-operation and Development (OECD) defines Social Capital as “networks together with shared norms, values and understandings that facilitate cooperation within or among groups”. Complementing this definition, the World Bank has defined this concept as, “social capital refers to the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions.” There are numerous definitions of social capital where the common factor has been the emphasis on social relations formed for productive benefits.

**iv. Stakeholders**

Stakeholders are defined as “any group or individual who can affect or is affected by the achievement of the organization's objectives.”<sup>7</sup> The common groups which are considered as stakeholders are customers, employees, shareholders, board members, local communities, government, media and so on.

**v. Sustainability**

Sustainability is a multidisciplinary concept encompassing social, environmental and economic aspects. In 1987, the United Nations Brundtland Commission defined sustainability as “meeting the needs of the present without compromising the ability of future generations to meet their own needs.” The environmental efforts emphasize on optimum use of natural resources, pollution prevention, biodiversity, and ecological health. The social welfare initiatives include standards of living, availability of education and jobs, and equal opportunities for all members of society. The economic factors cover economic growth, per capita income, national income, reducing costs, and investments into research and development, and so on.

**vi. Inputs**

Inputs are the resources that go into the project or programme to carry out the activities which include human, financial and material resources such as money, raw material, training material, technology and so on.

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<sup>7</sup> Freeman, 1984.

**vii. Activities**

The initiatives that an organisation or project undertakes to achieve the desired goal; for instance, providing vocational training to women to achieve financial empowerment of women, providing financial aid to poor patients to improve their health and productivity and so on.

**viii. Output**

Outputs are products, services or facilities that immediately result from an organisation or project's activities. These are often expressed quantitatively; for example, number of women who attended vocational training, number of vocational training sessions conducted, number of patients who received financial aid for critical treatment etc.

**ix. Outcome**

The short-term changes, benefits, learning or other effects that result from what a project or organisation does which are qualitative in nature and are an anticipated effect of the intervention. To take forward the previous example, an outcome of the women empowerment project could be an increase in the savings in banks of the women, or greater confidence to access credit from financial institutions.

**x. Impact**

Impact is a long term or ultimate goal which is achieved. It includes positive, negative, intended and unintended long-term effects commonly capturing changes in social behaviours, social norms etc. For example, development of self confidence and self-esteem amongst women, improved productivity of patients after improved health conditions.

**1.5.2 Methodologies for Social Interventions**

Social sector interventions are based on various factors such as beliefs, values and theoretical preferences of social sector organisations; transparency and trust amongst social/community workers and beneficiaries; and beliefs, culture and values of service users and so on. The five top methods used by social workers are illustrated in Figure 1.1 below:

**Figure 1.1: Social Intervention Methods<sup>8</sup>**



- i. Care Management – It is linked mainly with community care or specific beneficiary community care initiatives like health care interventions, interventions for disability community.
- ii. Strength Based & Solution Based Approaches – This method looks at collaborative practice, understanding strengths of the beneficiaries or resources available in that region and focuses on specific social problems that need to be resolved. These interventions include projects like watershed management projects, entrepreneurship development programmes etc.
- iii. Narrative Social Work – This approach helps beneficiaries to discuss their problems and view it as external to themselves. It helps them to see its positive and negative effects. It can guide beneficiaries into discerning the causality of the problem and find solutions themselves. This method is used in the areas of personality development projects, mental health initiatives etc.
- iv. Group work – In this methodology an individual’s social development is influenced by the way of group effort. Members of the group look forward to achieving the same objective with collective endeavour. It helps individuals to enhance their social functioning. Some of the common initiatives with this methodology are formation of self-help groups, health and sanitation awareness programmes, educational programmes and so on.

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<sup>8</sup>Source: Sutton, J, (2021), 13 Social Work Methods & Interventions for Helping Others

- v. Task Centered Social Work –The task centered method emphasizes problem solving and evidence based practical approach.<sup>9</sup> This method starts with defining the problem, establishing goals and achieving the same. It gives measurable results and effectiveness of the initiatives can be evaluated. This methodology can be used across all the areas of social development initiatives if the problem is clearly identified by the social organization.

### 1.5.3 Inherent risks and errors faced during social interventions

- a. Social systems are complex and shaped by interaction amongst diverse and continuously changing stakeholders. Society keeps changing rapidly leading to changes in human behavior, availability of resources, changes in economy, changes in government policies & interventions and so on. Social sector organisations find it difficult to keep up with the change and introduce innovative approaches.
- b. Social sector organisations work in a wide range of areas like environmental sustainability, education, health, poverty, equality, child development, mental health, elderly and disability care etc. These different sectors include a wide spectrum of stakeholders. Some of the risks faced by social sector organisations are:
  - i. Strategic Risk – Many a times social interventions are funder driven and lack proper vision and strategies to make it long term and sustainable.
  - ii. Financial Risk – If social intervention is funder driven, organisations cannot continue with the intervention in the absence of funding. Many times small social organizations do not have expertise and resources for proper budgeting and financial management which affects the funding of the organisation.
  - iii. Operational Risk – Social organisations with limited resources and their remuneration offered cannot employ highly qualified staff which can result in inefficient management of the operations. At times organisations face issues like changes in policies, disasters, lack of acceptance by beneficiaries which hinders in the operations of the organisation.
  - iv. Technology Related Risk – With increasing use of digital tools, it is crucial for even social organisation to adapt to digital practices. Social organisations with limited financial resources find it difficult to invest in digital tools. In many organisations staff is not trained to use these digital tools and do not upgrade them with changing scenarios. Organizations working in remote areas, do not have infrastructure facilities like continuous electricity supply, internet and mobile networks cannot adopt digital practices.

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<sup>9</sup>Edmondson (2020),

- v. Regulatory Risk – Changes in CSR policy, provisions of schedule VII of Companies Act, FCRA regulations may affect the existing funding, interventions of social enterprises.
- vi. Environmental Risk – Lot of environmental interventions like solar projects, watershed management projects, activities to enhance agriculture productivity and so on depend on environmental and climatic conditions. Issues like climate change and global warming are affecting the outcomes and impact of these projects.

## **1.6 International standards applicable for social development**

In recent years, corporate social responsibility (CSR) has gained importance on the international stage as an emerging form in business. Companies report their efforts towards sustainability through various international standards such as OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights, UN Global Compact, The Universal Declaration of Human Rights and Global Reporting Initiative etc. These international standards are voluntary guidelines and are subject to regulatory compliance.

## **1.7 Challenges of comparability faced by social sector organisations**

Social sector organisations in India vary in terms of registration and regulation. With changes in registration their objective, sources of funding, utilization of funds, and activities vary. Hence it is difficult to compare the outcomes and impact created by social sector organisation. Outcome and impact of social initiatives also depend on the service users. Social interventions often look at changes in behaviour, attitude, habits, and value which cannot be measured with quantitative indicators. There can be certain benchmarks which the organisation can set but most of the times these benchmarks are customized to specific social intervention. These cannot be applied across different social interventions to compare the outcomes. For instance, outcomes like improved self-esteem or enhanced social status are linked to the specific culture, social system and attitudes of those beneficiaries. The changes or improvements are captured in terms of situation prior to implementation of social intervention and post social intervention. It cannot be compared with other groups of beneficiaries coming from completely different social systems and cultures.

## **1.8 Social Sector Landscape in India**

### **1.8.1 Spectrum of Development interventions**

Economic development is not enough until it is accompanied with social justice and investment in infrastructure for social development. Towards this, there is active participation from academicians, planners, technocrats, philanthropists, and impact investors in the development sector. The development interventions are not unidisciplinary nor unidirectional - which they may appear to be at first sight. These

interventions are interdisciplinary in approach and have a combination of methods used. Adopted methods of intervention are guided by the social organisations value base, belief systems, and approach towards the issue to be addressed. An organization's mission and vision statement along with the Theory of Change document is usually a good reflection of the same.

### **1.8.2 Need of different types of development interventions**

Annexure 2 is an illustrative list of different development interventions by various social organizations. It is important to note that though they are categorized as a specific type of intervention all would use a combination of intervention methods.

### **1.8.3 Spectrum of stakeholders and their role in the development landscape**

In order to implement social interventions various stakeholders are involved in the process. These stakeholders are either affecting the intervention through provision of resources, implementing the interventions, acquiring required registrations or licenses or they get affected by the social intervention. Some of the stakeholders of an intervention may be: Board Members, Employees, Volunteers, Local community, Funders, Government and Beneficiaries.

These stakeholders can be further categorized as internal and external stakeholders or direct and indirect stakeholders.

- Internal and External Stakeholders - Internal stakeholders include individual/s and groups which are part of the organization such as employees, board members, contract / part time employees etc. However, the external stakeholders are not part of internal management of the organization but they can affect or get affected by the actions of the organization such as funders, Government, consultants, volunteers, beneficiaries/ customers etc.
- Direct and Indirect Stakeholders - Direct stakeholders are directly involved in the social interventions or get directly affected by social intervention whereas the indirect stakeholders are not directly involved in the social intervention but get affected by social intervention such as indirect beneficiaries, local community, local political leaders etc.

In order to bring social change, it is crucial that all stakeholders contribute to the social intervention. The achievement of the implementation is not only determined by the form of activities but also by the implementation of the organisation and cooperation made by various concerned parties. These stakeholders have different interests in activities of the organisation. Table 1.2 below explains few stakeholders and their interests with an example of social intervention in a vocational training programme.

**Table 1.2: Stakeholders & Their Interests****Social Intervention: Vocational Training Programme for Youth**

Sr. No	Stakeholder	Interest in the Programme
1	Youth	Employment Opportunities, Developing interest in advanced skill development
2	Funder	Achievement of Goals
3	Government	Achievement of Developmental Goal
4	Teachers	Satisfaction, Upgradation of Skills
5	Companies	Trained Future Workforce
6	Parents of Youth	Feel secure that the children are engaged meaningfully and not "loitering" around

Social Impact Assessment of Corporate Social Responsibility in India explains the stakeholders in the CSR Ecosystem in India. (Table 1.3)<sup>10</sup>

**Table 1.3: Stakeholders of CSR Ecosystem in India**

Sr. No	Stakeholder	Role in CSR
1	Donor Companies/ Organisations	Expect return in terms of social impact from donations and investments made to achieve social objectives
2	Implementing Agencies	Use CSR funds effectively to create social impact
3	Beneficiaries/ End Users	Impacted by social interventions and are expected to have positive intended social change
4	Regulatory and Monitoring Authority	Offer various instruments to ensure effective and efficient CSR practices like tax exemptions, award schemes, certifications, issue of CSR compliances as well as voluntary guidelines, Standard-setting and information dissemination in guiding, training and implementing best practices and promoting partnerships
5	Local Administration	Developing partnerships with companies and implementing agencies to achieve common sustainable development agenda
6	CSR Professionals	Ensuring that companies remain socially responsible and maximizing effectiveness of CSR expenditures.

<sup>10</sup>Report on Social Impact Assessment of Corporate Social Responsibility in India published by Niti Ayog in 2021.



## 1.9 Social Sector Inequities

### 1.9.1 Sectoral Thrust

In the social sector, there are a lot of challenges across SDGs. Each organisation operates within its own area of expertise or a specific geography. These areas are the thrust areas – which can be demarcated by the themes viz. education, women empowerment and development, financial inclusion etc. Within these themes it can be hyper localized sectoral thrust e.g. learning amongst primary grade students in tribal pocket of “XYZ” taluka of “ABC” district.

The performance of India is lowest in the areas of No Poverty, Zero Hunger and Gender Equality as shown in Table 1.4<sup>11</sup>

**Table 1.4: Development Priorities in India**

<b>Top Priority Development Needs (SDGs in which India’s performance is the lowest)</b>	<b>Other Strong Development Needs (SDGs in which India’s performance is relatively low)</b>
1. No poverty 2. Zero hunger 5. Gender equality	3. Good health and well being 4. Quality education 8. Decent work and economic growth 10. Reduced inequalities 11. Sustainable cities and communities 12. Sustainable consumption and production 13. Climate action 16. Peace, justice and strong institutions

NITI Aayog has strategized 41 policy priorities to assess the progress of SDGs and impact of pandemic Covid 19 on developmental initiatives. (Table 1.5)

**Table 1.5: Policy areas with High Development needs and Policy Momentum<sup>12</sup>**

	<b>Sr. No.</b>	<b>Shortlisted Policy Area with private investment momentum</b>	<b>Related SDGs</b>
<b>OVER-ARCHING POLICY AREAS</b>	1	Growth	SDGs 1,8,17
	2	Balanced Regional Development: Aspirational Districts	SDGs 1,2,3,4,5,6,7,9,10
	3	Gender	SDGs 1,2,3,4,5
	4	Modernizing City Governance for Urban Transformation	SDGs 1,3,5,6,8,10,11,12

<sup>11</sup>Source: SDG INDIA Index & Dashboard 2020-21

<sup>12</sup>Source: SDG Investor Map Report for India 2020

	5	Sustainable Environment	SDGs 1,2,6,7,11,12,13,14,15
	6	Optimizing Use of Land Resources	SDGs 1,2,15
	7	Employment and Labour Reforms	SDGs 5,8,10
<b>SECTOR SPECIFIC POLICY AREAS</b>	8	Nutrition	SDGs 1,2,3,5,10
	9	Smart Cities for Urban Transformation	SDGs 1,5,6,8,9,10,11,12
	10	Doubling Farmer's income	SDGs 1,2,8,9,10,12,13
	11	Digital Connectivity	SDGs 1,4,5,9
	12	Housing for All	SDGs 1,5,6,11
	13	School Education	SDGs 3,4,5,8,16
	14	Skill Development	SDGs 4,5,8,10
	15	Financial inclusion	SDGs 1,8,10,16
	16	Human Resource for Health	SDGs 3,5,8
	17	Water Resources	SDGs 6,11,12,14
	18	Public Health Management and Action	SDGs 2,3,6
	19	Comprehensive Primary Healthcare	SDGs 1,3
	20	Universal Health Coverage	SDGs 1,3
	21	Swachh Bharat Mission	SDGs 1,6,11

The Government of India allocated a significant amount of funds towards developmental initiatives giving more focus on health, education, infrastructure development and environmental initiatives. The Ministry of Corporate Affairs have reported CSR spending in various sectors which highlights that maximum CSR funds have been spent on Health and Sanitation which is 8,706 Crores followed by Education, Differently Aabled and Livelihood (EDL) 8,020.82 Crores.<sup>13</sup> The areas like Gender Equality, Women Empowerment, Old Age Homes, Reducing Inequalities (GWOR), Slum Development need more funding support.

\*AOF - Any Other Fund (Central Government Funds); PMNRF - Prime Ministers National Relief Fund; GWOR - Gender Equality, Women Empowerment, Old Age Homes, Reducing Inequalities; EAC - Environment, Animal Welfare, Conservation of Resources; EDL - Education, Differently Aabled, Livelihood; Other Sectors-Technology Incubator and benefits to Armed Forces and Admin Overheads; HA&C - Heritage Art and Culture.

<sup>13</sup> Source: Ministry of Corporate Affairs, National CSR Portal

### **1.9.2 Geographical Thrust**

India is rightly called a country of contrasts - these pertain to not only the diversity in culture and landscapes but more importantly the development indices of our states and regions. In India, some states indicate good performance through their development indicators across SDGs, while some are poor performers. The performance of states<sup>14</sup> based on the SDG index is formulated using composite score for each State/UT computed by aggregating their performance across the SDGs.

Of the Indian States, 112 districts have been identified as the aspirational districts by NITI Aayog. The intra-regional and inter regional disparities are seen in the poverty index, agricultural and industrial development, infrastructure development index, infant mortality index etc. Social enterprises are focused to mitigate these development disparities through their programs, projects and activities.<sup>15</sup>

### **1.9.3 Technological Thrust**

Technology is described as the application of scientific knowledge to realms of human life. India has witnessed a boom in technology being available on the supply side in the areas of agriculture, health, financial services, livelihood opportunities, education technology and production. STEM (Science, Technology, Engineering and Medicine) sectors are growing both as a part of our economy as well as a differentiator within social sector funding. However, the gap / divide is seen favoring the male v/s females, urban v/s rural, rich v/s poor and the youth amongst the working population. This is creating imbalances and is rightly being called the new face of inequality.

The Indian Government has launched e governance, health ID, JAM (JanDhan, Aadhar and Mobile), e kranti, e shram portal and so on with the aim to have a deep, direct and positive impact on the health, livelihood prospects, access to financial products and market accessibility.

For instance, within the agricultural sector, remote sensing, unmanned aerial surveys, e-choupals represent how technology can enhance agriculture and provide value added services. Digital Agriculture includes inclusion of artificial intelligence/ machine learning, block chain technology to benefit the farmers. While this technology is available, the challenge is the “reverse embrace” - adoption of technology by the beneficiary group that remains a challenge in India. This is exacerbated by the sectoral and geographical inequities.

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<sup>14</sup>Source: SDG INDIA Index & Dashboard 2020-21

<sup>15</sup>[https://dmeo.gov.in/sites/default/files/2021-11/Report\\_on\\_Social\\_Impact\\_Assessment\\_of\\_Corporate.pdf](https://dmeo.gov.in/sites/default/files/2021-11/Report_on_Social_Impact_Assessment_of_Corporate.pdf)

The OECD defines the digital divide as the “gap between individuals, households, businesses, and geographic areas at different socio-economic levels about both their opportunities to access information and communication technologies (ICTs) and to their use of the Internet for a wide variety of activities.”<sup>16</sup>

## **Section – II Indian Financial Markets**

### **1.1 Indian Financial Markets**

#### **1.1.1 Introduction**

The financial markets enable efficient transfer and allocation of resources for productive activities in the economy. Users of funds include governments, businesses and households who seek funds to run their activities. Governments, businesses and households also act as providers of surplus funds. Intermediaries such as banks, financial institutions, mutual funds and insurance companies, among others, channelize the available surplus funds from lenders to the users.

Financial market consists of various types of markets (money market and securities market); investors (buyers of securities), issuers of securities (users of funds), intermediaries and regulatory bodies (SEBI, RBI etc.).

#### **1.1.2 Types of Financial Markets in India**

##### **i. Money Market**

Money market is an integral part of the financial system and includes instruments that provide short-term funds with maturity ranging from overnight to one year. The purpose of the money market is to enable institutions and companies to meet short-term funding needs by borrowing and lending from each other. Money market securities consist of repos/reverse repos, certificates of deposits, treasury bills, and commercial papers.

##### **ii. Securities Market**

The market in which securities are issued, purchased by investors and subsequently transferred among investors is called the securities market or capital market. The securities market has two interdependent and inseparable segments, viz., the primary market and the secondary market. The primary market, also called the new issue market, is where issuers raise capital by issuing securities to investors. The secondary market, also called the stock exchange, facilitates trade in already-issued securities, thereby enabling investors to exit from an investment or to accumulate more, if it meets their expectations.

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<sup>16</sup>Basu Chandola ; Exploring India’s Digital Divide <https://www.orfonline.org/expert-speak/exploring-indias-digital-divide>

### 1.1.3 Intermediaries in Financial Markets in India

#### i. **Market Infrastructure Institutions**

Stock exchanges, depositories and clearing corporations are collectively referred to as Market Infrastructure Institutions (MIIs).

The **stock exchanges** provide a trading platform where the buyers and sellers (investors) can meet to transact in securities.

A **clearing corporation** performs three main functions, namely: clearing and settlement of all transactions executed in the stock market and carrying out risk management activities. (discussed in detail in Chapter 2).

A **depository** is an entity facilitating holding securities in electronic form and enables transfer of securities by book entry. The main objective of depository is to provide maintenance of ownership or transfer records of securities in an electronic book entry form. There are two Depositories in India, Central Depository Services Limited (CDSL) and National Securities Depository Limited (NSDL). The Depository provides its services to investors through its agents called depository participants (DPs).

#### ii. **Custodians**

**Custodians** hold securities and manage bank accounts on behalf of the institutional investors. They manage the transactions pertaining to delivery of securities and funds after a trade is made through the broker, and also maintain the accounts of securities and funds. Custodians are usually large banks.

#### iii. **Stock Brokers /Authorized Persons**

**Stock Brokers** are members of a Stock Exchange who acts as an agent for clients and buys and sells shares on their behalf in the market. All secondary market transactions on stock exchanges have to be conducted through registered brokers.

**Authorized persons (AP)** are agents of the brokers (previously referred to as sub-brokers) and are registered with the respective stock exchanges. APs help in reaching the services of brokers to a larger number of investors.

#### iv. **Investment Banks**

**Investment Banks** are financial entities that provide strategic advice to companies, governments and others on their capital requirements and investment decisions and arrange raising such funds on terms that are most suitable to the company. Their activities include advisory services for business expansions, project financing, mergers and acquisition, investment valuation, among others. They charge a fee for their services.

- v. **Insurance Companies**

**Insurance companies** are intermediaries that pool-in surplus funds from corporates & households and invest in financial markets. The large pool of funds mobilised by the insurance companies act as a source of long-term funding for government and corporates.
- vi. **Pension Funds**

**Pension Funds** are intermediaries who are authorized to take contributions from eligible individuals and invest these funds according to the directions of the contributors to create a retirement corpus. These funds provide different options for investment of the contribution, such as debt, equity or a combination. Investors select the type of fund depending upon their ability to take risk and their requirement for returns.
- vii. **Asset Management Companies and Portfolio Managers**

**Asset Management Companies** and **Portfolio Managers** are investment specialists who offer their services in selecting and managing a portfolio of securities. Asset management companies are permitted to offer securities (called 'units') that represent participation in a pool of money, which is used to create the portfolio of a mutual fund. Portfolio managers do not offer any security and are not permitted to pool the money collected from investors. They act on behalf of the investor in creating and managing a portfolio. Both asset managers and portfolio managers charge the investor a fee for their services, and may engage other security market intermediaries such as brokers, registrars, and custodians in conducting their functions.
- viii. **Investment Advisers**

**Investment Advisers** work with investors to help them make a choice of securities that they can buy, based on an assessment of their needs, time horizon returns expectation and ability to bear risk. They may also be involved in creating financial plans for investors, where they define the goals for which investors need to save money and propose appropriate investment strategies to meet the defined goals.
- ix. **Credit Rating Agencies**

**Credit rating agencies** look at the financial situation of the issuing entities and then rank their various instruments in terms of their ability to safely repay the debt and interest. They act as an information bridge between the investors who might not understand the financial details of the issues or might not have access to the required information. The credit ratings provided by these agencies is a

simple way to have an idea about the financial position of an entity and how this would affect an investment into it.

- x. **KYC Registration Agencies**  
**KYC registration agencies (KRA)** perform a significant task in the securities market. The need to ensure a proper verification of the investors who are putting their money into the various investments. is done through the KYC process. These KYC details are maintained by the KYC registration agency. Every time that an investor goes to transact they would not need to submit the same documents and this can be verified through the details maintained by the KYC registration agency. The records of the investors are maintained in a central database on behalf of the various intermediaries which can be fetched when required.
  
- xi. **Registrar and Transfer Agents**  
**Registrar and Transfer Agents** are the custodians of the investor data, both for fund houses or corporates. RTAs are responsible to record and maintain data, both financial and non-financial, either in physical or in electronic form. RTAs also ensure smooth processing of investor service requests, both financial and non-financial such as mutual fund transaction requests, KYC updation, processing corporate actions on behalf of issuers etc.
  
- xii. **Non-bank finance companies and housing finance companies**  
Non-banking finance companies (NBFCs) and housing finance companies are a route for investors to access funds for their needs. The housing finance companies provide housing loans that are long term loans for purchasing property and this ensures that the individual is able to finance their asset building activity. NBFC also provide finance for a wide variety of areas ranging from personal loans to consumer durable loans. They ensure that those who need money for such purchases are able to have access to it.
  
- xiii. **Credit Bureaus**  
Credit bureaus or Credit Information Companies keep the record of the loan servicing behaviour of the borrowers and then assign them a credit score to reflect their overall position. A higher credit score means a better situation for the borrower i.e. they are more likely to get a loan as compared to someone with a low credit score. They form a crucial part of the entire system because they highlight the risk faced by lenders and help them to make the right lending decisions.

#### 1.1.4 Type of investors

Investors are individuals or organisations with surplus funds that are used to purchase securities. The chief objective of investors is to convert their surplus and savings into financial assets that earn a return.

##### i. Retail Investors

**Retail Individual Investors** means an individual investor who applies or bids for specified securities for a value of not more than INR 2 lakhs.

##### ii. Institutional Investors

**Institutional investors** are organizations that invest large sum of money and employ specialised knowledge and investment skills. Institutional Investors comprises domestic financial **institutions** (DFIs), banks, **insurance** companies, mutual funds, and Foreign Portfolio Investors (an FPI is an entity established or incorporated outside India that proposes to make investments in India) and any other entity specified by SEBI as an Institutional investor.

Any **investor** other than retail individual investor and institutional investor is called Non-Institutional investor.

##### iii. Accredited Investors

The concept of a class of investors who have an understanding of various financial products and the risks-returns associated with them and therefore, are able to take informed decisions regarding their investments, is recognized by many securities and financial market regulators around the globe. These investors are typically termed as Accredited Investors or Qualified **Investors** or Professional Investors.

##### iv. Role of Issuers

Issuers are organizations that raise money by issuing securities. They may have short-term and/or long-term need for capital **and** they issue securities based on their need, their ability to meet the **obligations** to the investors, and the cost they are willing to pay for the use of funds. Issuers of securities have to be authorised by appropriate regulatory authorities to raise money in the securities markets.

Issue of securities in the primary market is made by different stakeholders such as central, state and local Governments, **Public** Sector Units, Private Sector Companies, Banks, Financial Institutions and Non-Banking Finance Companies and Mutual Funds.



## v. **Financial Market Regulators**

- **Ministry of Finance**

The Ministry of Finance through its Department of Financial Services regulates and oversees the activities of the banking **system**, insurance and pension sectors. The Department of Economic Affairs regulates the capital markets and its participants. The ministry initiates discussions on reforms and oversees the implementation of law.

- **Ministry of Corporate Affairs**

The Ministry of **Corporate** Affairs regulates the functioning of the corporate sector. The Companies Act is the primary regulation which defines the setting up of companies, their functioning and audit and control. The issuance of securities by companies is also subject to provisions of the Companies Act.

- **Reserve Bank of India**

The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as: "to regulate the issue of Bank notes and keeping of reserves with a view to securing monetary stability in India and generally to **operate** the currency and credit system of the country to its advantage; to have a modern monetary policy framework to meet the challenge of an increasingly complex economy, to maintain price stability while keeping in mind the objective of growth."

- **Securities and Exchange Board of India**

The Securities and Exchange Board of India (SEBI), a statutory body appointed by an Act of Parliament (SEBI Act, 1992), is the **primary** regulator of securities markets in India. The Preamble of the Securities and Exchange Board of India describes the basic functions of the Securities and Exchange Board of India as "...to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto".

- **Insurance Regulatory and Development Authority of India**

Insurance Regulatory and Development Authority of India (IRDAI) is the licensing authority for insurance companies and defines the **capital** and net worth requirements for insurance companies. It ensures the adherence of insurance products to the rules laid down and defines the rules for the terms and conditions of insurance contracts such as sum assured, surrender value, settlement of claims, nomination and assignment, insurable interest and others. It regulates the distribution of insurance products by laying down the

qualification and training requirements of intermediaries and the payment of commission to distributors.

- **Pension Fund Regulatory and Development Authority**

Pension Fund Regulatory and Development Authority (PFRDA) is the authority entrusted to act as a regulator of the pension sector in India under the PFRDA Act, 2013. PFRDA regulates the National Pension System (NPS) and any other pension scheme specified under its ambit. It is responsible for registering the various **constituents** such as the fund managers, custodians, central record keeping agency and trustee banks and to define the parameters of their roles and responsibilities.

## **1.2 Type of Securities**

### **1.2.1 Equity**

Equity shares represent ownership in a company that entitles its holders share in profits and the right to vote on the company's affairs. Equity shareholders are residual owners of the firm's profit after other contractual claims on the firm are satisfied and have ultimate control over how the firm is operated. Investments in equity shares reward investors in two ways: dividend and capital appreciation.

### **1.2.2 Derivatives**

Derivatives are financial instruments whose value depend upon or are derived from the value of other, more basic underlying variables. These are traded both in the over-the-counter (OTC) market and on exchanges.

The exchange-traded derivatives in India are futures and options. Futures contracts are agreements between a buyer and seller to buy or sell the underlying asset at a predetermined price and quantity on a predetermined date. Options are contracts that give the holder of the option the right (but not the obligation) to buy or sell the underlying asset at a predetermined price and in a specified quantity at or before a predetermined date.

### **1.2.3 Fixed Income**

Debt instruments, also called fixed income instruments, are contracts containing a promise to pay a stream of cash flows during the term of the contract to the investors. The debt contract can be transferable, a feature specified in the contract that permits its sale to another investor, or non-transferable, which prohibits sale to another party. A debt contract also establishes the financial requirements and restrictions that the borrower must meet and the rights of the holder of the debt instruments if the borrower defaults. Debt securities are issued by companies, municipalities, states and sovereign governments to raise money to finance a variety of projects and activities.

#### **1.2.4 Commodities**

These are investments in real assets such as gold, silver, copper, agricultural produce etc. as opposed to financial assets like stocks and bonds. Commodity investment can be in the physical form but is generally in the form of financial products such as commodity mutual funds, exchange-traded funds (ETFs) and commodity derivatives. Commodity ETFs and mutual funds are suitable for retail investors.

#### **1.2.5 Real Estate**

Real estate is the largest asset class in the world. It offers significant diversification opportunities. Investors can invest into real estate with capital appreciation as an investment objective as well as to generate regular income by way of rents. It is usually a long-term investment. Real estate is classified into two sub-classes: commercial real estate or residential real estate. Real estate investments often involve large commitments. Real estate funds and Real Estate Investment Trusts (REIT) have emerged as good options to enable investors to take exposure to this asset class with smaller outflow commitments.

#### **1.2.6 Mutual Funds**

These are investment vehicles that pool together the funds collected from a large number of investors and invest these funds in debt, equity or other asset classes according to a specific mandate. Mutual funds are best suited for retail investors.

**Annexure 1 : List of areas and subareas for taxonomic classification of social objectives<sup>17</sup>**

#	Area	Sub-area
1	Eradicating hunger, poverty, malnutrition and inequality; promoting health care (including mental health) and sanitation; and making available safe drinking water	<p>End hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round</p> <p>End all forms of malnutrition and address the nutritional needs of adolescent girls, pregnant and lactating women and older persons</p> <p>Eradicating extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day</p> <p>Implement appropriate social protection systems and measures for all</p> <p>Build resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters</p> <p>Empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status</p> <p>Facilitate orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed migration policies</p> <p>Reduction of Maternal Mortality Ratio End preventable deaths of new born and children under 5 years of age</p>

<sup>17</sup> Source: SEBI Technical Group Report

		<p>End the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, water-borne diseases and other communicable diseases</p> <p>Reduction in premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being</p> <p>Strengthen the prevention and treatment of substance abuse, including narcotic drug abuse and harmful use of alcohol</p> <p>Reduction in deaths and injuries from road traffic accidents</p> <p>Ensure universal access to sexual and reproductive health-care services, including for family planning, information and education, and the integration of reproductive health into national strategies and programmes</p>
2	Promoting education, employability and livelihoods	<p>Ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes</p> <p>Ensure that all girls and boys have access to quality early childhood development, care and pre-primary education so that they are ready for primary education</p> <p>Ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university</p> <p>Increase in number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship</p> <p>Ensure that all youth and a substantial proportion of adults, both men and women, achieve literacy and numeracy</p>

		<p>Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, non-violent, inclusive and effective learning environments for all</p> <p>Increasing workforce of qualified teachers Encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services</p> <p>Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation</p> <p>Provide access for small-scale artisanal fishers to marine resources and markets</p> <p>Reduce the proportion of youth not in employment, education, or training</p> <p>Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers</p> <p>Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment</p> <p>Devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products</p>
3	Promoting gender equality, empowerment of women and LGBTQIA+ Communities	<p>Ending all forms of discrimination against all women, girls and LGBTQIA+ communities everywhere</p> <p>Eliminate all forms of violence against all women, girls and LGBTQIA+ communities in the public and private spheres, including trafficking and sexual and other types of exploitation</p>

		<p>Eliminate all harmful practices, such as child, early and forced marriage and female genital mutilation</p> <p>Recognize and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family</p> <p>Ensure women’s full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life</p> <p>Ensure universal access to sexual and reproductive health and reproductive rights</p>
4	Ensuring sustainability, addressing climate change (mitigation and adaptation), forest and wildlife conservation	<p>Substantially reduce waste generation through prevention, reduction, recycling and reuse</p> <p>Ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature</p> <p>Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning</p> <p>Ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands</p> <p>Prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution</p> <p>Promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally</p>

		<p>Combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world</p> <p>Ensure the conservation of mountain ecosystems, including their biodiversity, in order to enhance their capacity to provide benefits that are essential for sustainable development</p> <p>Reduce the degradation of natural habitats, halt the loss of biodiversity and protect and prevent the extinction of threatened species</p>
5	Protection of national heritage, art and culture	<p>Supporting initiatives in the fields of performing arts and cultural heritage. By encouraging and promoting young talent in pursuing the traditional arts and crafts, the Foundation aims to create a pool of artistic resources for the future.</p> <p>Supporting restoration of buildings and sites of historical importance and works of art</p> <p>Setting up public libraries</p> <p>Promotion and development of traditional and handicrafts</p>
6	Training to promote rural sports, nationally recognised sports, Paralympic sports, and Olympic sports	<p>Contribution to activities promoting sports, trainings, academy institutionalization and other forms that promote rural sports, nationally recognised sports, Paralympic sports, and Olympic sport</p>
7	Supporting incubators of social enterprises	<p>Contribution to incubators or research and development projects in the field of science, technology, engineering, and medicine, funded by the Central Government or State Government or Public Sector Undertaking or any agency of the Central Government or State Government</p> <p>Contributions to public funded Universities; Indian Institute of Technology (IITs); National Laboratories</p>



		and autonomous bodies established under Department of Atomic Energy (DAE); Department of Biotechnology (DBT); Department of Science and Technology (DST); Department of Pharmaceuticals; Ministry of Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homoeopathy (AYUSH); Ministry of Electronics and Information Technology and other bodies, namely Defense Research and Development Organisation (DRDO); Indian Council of Agricultural Research (ICAR); Indian Council of Medical Research (ICMR) and Council of Scientific and Industrial Research (CSIR), engaged in conducting research in science, technology, engineering and medicine aimed at promoting Sustainable Development Goals (SDGs)
8	Supporting other platforms that strengthen the non-profit ecosystem in fundraising and capacity building	Provisioning of support to platforms that help non-profits mitigate institutional risks, adapt existing programmes and pivot their focus towards developmental works. The support shall include (but not limited to) designing strategy, strengthen the institutional resilience of organisation, capacity building (through trainings, workshops, mentorship, advisory support), exploring fund-raising strategies, and related activities
9	Promoting rural livelihoods including enhancing income of small and marginal farmers and workers in the non-farm sector	<p>Double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers</p> <p>Ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality</p> <p>Maintain the genetic diversity of seeds, cultivated plants and farmed and domesticated animals and their related wild species, including through soundly managed and diversified seed and plant banks at the national, regional and international levels, and</p>

		<p>promote access to and fair and equitable sharing of benefits arising from the utilization of genetic resources and associated traditional knowledge</p> <p>Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers</p> <p>Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment</p>
10	Slum area development, affordable housing, and other interventions to build sustainable and resilient cities	<p>Ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums</p> <p>Provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons</p> <p>Promote solid and liquid waste management, by involving communities</p> <p>Support positive economic, social and environmental links between urban, peri-urban and rural areas by strengthening national and regional development planning</p> <p>Ensure universal access to affordable, reliable and modern energy services</p>
11	Disaster management, including relief, rehabilitation and reconstruction activities	<p>Relief activities including but not limited to medical aid, food supply and provisioning of clean drinking water during disasters</p> <p>Rehabilitation works including but not limited to programmes to assist resettlement and reintegration of refugees, internally displaced persons and ex-combatants</p>

		Reconstruction activities including but not limited to infrastructure works (renovating as well as new construction), agricultural resource base, supply systems, capacity building of institutions/agencies, and related activities
12	Promotion of financial inclusion	Undertake reforms to give disadvantaged communities/sections (including but not limited to SCs, STs, OBCs, special needs, women, elderly, children, and at-risk adolescents)/regions equitable access to/ awareness and availability of affordable financial services.
13	Promotion of financial inclusion. Facilitating access to land and property assets for disadvantaged communities	Undertake reforms to ensure access and timely availability of financial services, and affordable and adequate credit facilities to disadvantaged communities/sections (including but not limited to SCs, STs, OBCs, special needs, women, elderly, children, and at-risk adolescents)
14	Bridging the digital divide in internet and mobile phone access, addressing issues of misinformation and data protection	Undertake reforms to reduce inequalities with regard to access to, use of, or impact of information and communication technologies (ICT) between individuals, households, businesses, or geographic areas, usually at different socioeconomic levels or other demographic categories  Undertake activities that advocate or promote promises of neutrality and equality in data protections and privacy (data protection as right rather than a paid/luxury good) for disadvantaged communities
15	Promoting welfare of migrants and displaced persons	Undertake welfare activities for local migrants by providing opportunities and in turn reduce the economic inequalities.

## Annexure 2: Developmental Initiatives

	Type of Intervention	Example	Outputs/ Benefits	Key Stakeholders
<b>A</b>	<b>Service Delivery</b>			
1.	Health Camps: Vaccination Drives  Specialized Surgeries	Pulse Polio Campaign  Smile Train India	Reduction in polio cases.  Cleft Palate surgeries	Rotary- Government Hospitals - NGOs- CBOs  Children with cleft palate
2	Schools/ educational projects For Underserved populations	Seasonal schools / centers for nomadic/ migrant children	SakharShala for sugarcane laborers, Learning Companions, Eklavya.	Sugar factories, farmers, parents , Government primary schools
3.	Skilling and Training Centers	Tata Strive, private ITI's in aspirational districts	Skilling , upskilling , livelihood enhancement and increased employability .	NGO, NSDC, youth, local self-governments.
<b>B</b>	<b>Ecosystem Advocacy</b>			
1.	Confederation of Organizations	Sa- Dhan is a SRO	Community Development Finance, policy advocacy	MFI, NGO,CBO's , RBI
2.	Environmental Group	Watavaran	Entitlement of dwellers to forest rights	Local Government, Forest Department, Local Community
<b>C</b>	<b>Research and Advocacy</b>			
1.	Maternal Child Health	SEARCH	Improved health status, reduction in Infant mortality rate etc.	NGO, Government , tribal welfare ,local communities
2	Good Governance	National Centre for Advocacy Studies (NCAS)	People centered rights based advocacy	NGO, Local governments, civil society,

				Academicians
3.	Environment	Centre for Environment Education	Environmental awareness and education for sustainable development	Environmentalists , civil society , local , state and national government
<b>D</b>	<b>Innovations in social , scientific , technological solutions</b>			
1	Business Incubators, startups in science and technology	Venture Center of NCL	Commercialization of technology	Ecosystem of investors, scientists , entrepreneurs, society at large
2	Continuing Education	Barefoot College	Lifelong education , skilling rural artisan, technology for development	Rural artisans, rural populations , government , CBOs etc.
3	Large Volume high quality Affordable Health Care: Eye surgeries	Arvind Eye care	Outreach, education, training , hospitals	Healthcare industry and government , patients , families etc.
<b>E</b>	<b>Think Tanks</b>			
1.	Poverty and Human Development	Poverty Action lab -J PAL	Global Research Centre	Government, social enterprises, multilateral agencies etc.
2	Sustainable Environment	Inter-Governmental Climate Change		Policy makers , UN , environmentalists , politicians
<b>F</b>	<b>Whistle Blower</b>			
1	Environment	Greenpeace India Society	Research, advocacy , “watchdog “	General public, government, Corporates , public enterprises
<b>G</b>	<b>Capacity Building</b>			
1	Legal Advice to Social Sector organizations	Centre for Advancement of Philanthropy	Legal Consulting, advisory , training for Social sector organisations	NGO, Foundations , Philanthropists , section 8 etc.

## Chapter 1: Sample Questions

1. Social Enterprises have access to which of the following?
  - a. social venture capital funds
  - b. donations
  - c. both a and b**
  - d. none of a and b
  
2. To be identified as a social enterprise, a Not for Profit Organisation or a For Profit Social Enterprise, shall establish primacy of \_\_\_\_\_.
  - a. social intent**
  - b. social outcome
  - c. social impact
  - d. social activity
  
3. With reference to the accounting and reporting requirements of social sector organizations such as Trusts, Societies and Section 8 Companies which of the following statements hold true:
  - I. They are governed under the Companies Act
  - II. They are governed under an Act as per their registration
  - III. They are governed under the SEBI Act
  - IV. There is no single regulatory body for these organisations
  - a. Only I and III
  - b. Only II and IV**
  - c. Only I and IV
  - d. Only II and III
  
4. Stock exchanges, depositories and clearing corporations are collectively referred to as \_\_\_\_\_.
  - a. Market Infrastructure Institutions (MIIs)**
  - b. Custodians
  - c. KYC Registration Agencies
  - d. Asset Management companies

## CHAPTER 2: INTRODUCTION TO TRADING, CLEARING, SETTLEMENT AND RISK MANAGEMENT ON STOCK EXCHANGES

### Learning Objectives

After studying the chapter, you should know about:

- Trade Life Cycle Process
- Order Management
- Different types of orders
- Order Routing Process through exchanges
- Order Modification and Cancellation
- Clearing and Settlement Process
- Clearing banks and their functions
- Role of custodians
- Settlement Obligations
- Risk management framework
- Role of Clearing Corporation
- Auction of securities

### 2.1 Trading Mechanism

#### 2.1.1 Trade Life Cycle Process

A securities trade life cycle starts with the placing of order on the Exchange, its conversion into a trade and finally the trade being settled after securities/funds pay-in and pay-out. The pictorial representation of the securities trade life cycle from the broker's point of view is given in the figure 2.1.

**Figure 2.1: Securities Trade Life Cycle**



It can be seen that the flow starts from placing orders by the client. The order entered into the system is matched with a specified order type (Order types have been

explained in later sections), and the trade is supposed to be executed. The stock market systems are such that once the trade is confirmed, intimation is automatically sent to the depository participant and the clearing banks for pay-in/pay-out of funds and securities. When the investor who has sold securities has received the funds against it and the investor who has bought and vice versa, we say that the particular trade is cleared and settled. The Indian securities market currently follows a T+2 rolling settlement in the equity market, however, T+1 rolling settlement is also being introduced in a phased manner (starting with a select few securities). There is a separate settlement cycle for government securities.

In the below section, we elaborate on how a client's order moves in the exchange system and gets converted into a trade:

- **Placing of the Order**

*When a client places a buy order with the broker:*

When the broker receives a buy order from a client either by phone or through internet banking, the broker's system first checks whether there are sufficient funds in the client's account. The order will only be sent to the exchange for execution, if there are sufficient funds in the client's account. Otherwise, the order will be rejected by the broker's system.

*When a client places a sell order with the broker:*

When the broker receives a sell order from a client, the broker's system first checks whether there are sufficient securities in the client's demat account. The order will only be sent to the exchange for execution, if there are sufficient securities in the client's demat account. Otherwise, the order will be rejected by the broker's system. In such a scenario, the broker shall verify with the clients as a prudential measure.

- **Order matching and its conversion into trade**

On receiving the order, the exchange will send an order confirmation to the broker's system and the order is matched with the suitable counter order. If a counter order is found, the order is executed and the trade confirmation message is sent to the broker's system. If the order is not matched, then it lies in the order book (in case of limit order) or it is cancelled (in case of immediate-or-cancel order).

### **2.1.2 Order Management**

Order management consists of entering orders, order modification, order cancellation and order matching. The main components of an order are:

- Client identity (UCC)
- Price
- Time



- Quantity / No. of Contract
- Security/Contract (What to buy and what to sell))
- Action (Buy / Sell)

A trading member can enter various types of orders depending upon his/her requirements. The order conditions are broadly classified into three categories: price related conditions, time-related conditions, and quantity related conditions which have been discussed in the following section.

### **2.1.3 Different types of orders**

#### **2.1.3.1 Market Order**

A market order is where a trader purchases or sells their security at the best market price available across the market depth to complete the order quantity. In the market order there is no need to specify the price at which a trader wants to purchase or sell. There are two variations on the market order—market order without protection and Market with protection order. The market order without protection means that the trades are executed at the best available price/s in the market at that point in time. The second type of market order i.e. market with protection order wherein It allows the market order to be executed till a specified level mentioned by trader.

#### **2.1.3.2 Limit Order**

Limit orders is when the trader sets the entry or exit price and then aims to buy at or below the market price or sell at or above it. The trader needs to specify the price. Reaching these limits/targets is not always possible and sometimes the orders do not go through. Limit orders are very common for online traders.

#### **2.1.3.3 Stop order**

The type of order that allows the Trading Member to place an order which gets activated only when the market price of the relevant security reaches or crosses a threshold price. Until then the order does not enter the market.

In stop order, the client enters two prices: one is trigger price and the other is limit/market price. A stop order can best be explained with an example. Suppose a trader has a short term (say, for a day) bullish view on a stock, he may buy the stock at say Rs.100 per share in the early hours of trading session. If the stock price moves upwards as per his expectation, he may sell the stock, say at Rs.110 and close his position. The stock price can also move downwards much against expectations of the trader. It may so happen that the trader may have limited risk appetite and does not want to incur loss of more than Rs. 5 per share. In such a scenario, a trader can give a stop loss sell order with trigger price of Rs.96 and limit price of Rs.95. When the stock price starts moving downwards, as soon as it hits the price of Rs.96, the sell order of

Rs.95 will automatically get triggered. Any further downward movement in price will not affect the trader as he has already limited his loss on the position.

A buy order in the Stop Loss book gets triggered when the last traded price in the normal market reaches or exceeds the trigger price of the order.

#### **2.1.3.4 Immediate Or Cancel (IOC) order**

IOC - An Immediate or Cancel (IOC) order allows a Trading Member to buy or sell a security as soon as the order is released into the market, failing which the order will be removed from the market. Partial match is possible for the order, and the unmatched portion of the order is cancelled immediately.

#### **2.1.4 Order Routing Process through exchanges**

Once the order is entered and confirmed by the client/dealer at his trading terminal, the order is routed to the Exchange for its execution. The Exchange system allots a unique order number for all orders received in the system. This is given as order confirmation along with the time stamp to the broker system.

The order matching in an Exchange is done based on price-time priority. The best price orders are matched first. If more than one order arrives at the same price they are arranged in ascending time order. Best buy price is the highest buy price amongst all orders and similarly best sell price is the lowest price of all sell orders. Let us take an example here to better understand this. A sample of the order book is given below for understanding.

<b>Buy Quantity</b>	<b>Buy Price</b>	<b>Sell quantity</b>	<b>Sell Price</b>
50	121.20	50	121.50
100	121.10	200	121.80
25	120.90	3000	122.10
500	120.80	1000	122.20
5000	120.00	200	122.60

These quotes given in the table above are visible to clients. Now if a buy market order comes with an order quantity of 50 it gets executed for a price of Rs. 121.50 and the order book entries on the sell side moves up by one notch i.e. the Rs. 121.80 order comes to top. On the other hand, if a limit order with a sell price of Rs. 121.20 for a quantity of 500, only 50 shares get executed and the order for remaining 450 stays at the top on the sell side at Rs. 121.20.

All orders come as active orders into the order book. If they get a match they will be executed immediately, else they will be entered into the order book according to price and time as passive orders.

### **2.1.5 Order Modification and Cancellation**

Orders once placed in the system can be modified or cancelled till they are matched. The screen available to a trading member displays icons that represent functions such as order modification and order cancellation. Brokers can modify or cancel orders according to the instructions of the client. Once order matching is complete, no modification or cancellation is possible.

Sometimes in a moving market, orders need to be changed in terms of the price and quantity as per the client's requirement. All the orders can be modified till the time they are not fully executed. Orders which are partially executed, only the open or unexecuted part of the order can be cancelled/modified.

## **2.2 Clearing, Settlement and Risk management**

### **2.2.1 Clearing and Settlement Process**

#### **Clearing process:**

The clearing function of the clearing corporation is designed to work out a) what trading members/brokers are due to deliver and b) what trading members/brokers are due to receive on the settlement date.

In the clearing corporation this is done by a process called multilateral netting. This process is performed by the clearing agency (clearing corporation/clearing house). The clearing agency guarantees that all contracts which are traded will be honoured.

Clearing is the process of determination of obligations, after which the obligations are discharged by settlement. A multilateral netting procedure is adopted to determine the net settlement obligations (delivery/receipt positions) of the clearing members. Accordingly, a clearing member would have either pay-in or pay-out obligations for funds and securities separately. Settlement is a two-way process which involves transfer of funds and securities on the settlement date. Clearing corporation have also devised mechanism to handle various exceptional situations like security shortages, bad delivery, company objections, auction settlement etc.

#### **Settlement process:**

In the Indian equities market SEBI has given options to Exchanges/Clearing Corporations to settle trades on Trade+1 day /Trade+2 day basis. In case of T+2 rolling settlement, a transaction entered into on Day 0 has to be settled on the Day T+ 2 working days, when funds pay in or securities pay out takes place. For instance, trades

taking place on Monday are settled on Wednesday, Tuesday's trades settled on Thursday and so on. Hence, a settlement cycle is the period within which the settlement is made. For arriving at the settlement day, all intervening holidays -- bank holidays, Exchange/clearing corporation holidays, Saturdays and Sundays are excluded.

### **2.2.2 Clearing banks and their functions**

Clearing Bank(s) acts as an important intermediary between a clearing member(s) and the clearing corporation. Every clearing member needs to maintain an account with any of the empanelled clearing banks at the designated clearing bank branches. The clearing accounts are to be used exclusively for clearing & settlement operations. It's the function of the clearing members to ensure that the funds are available in his account with the clearing bank on the day of pay-in to meet the funds obligations. In case of a pay-out clearing member receives the amount on pay-out day.

All transactions of pay-in/pay-out of funds are carried out by these clearing banks. The pay-in obligation details are passed on to the clearing banks by clearing corporation, who then debit the clearing member account and based on pay-out instruction from clearing corporation the clearing bank will credit the receiving member clearing account. In the case of the cash market this happens on T+2 and / or T+1 day.

The clearing banks are required to provide the minimum services as specified by Clearing Corporation to clearing members.

### **2.2.3 Role of Custodians**

Custodians are institutional intermediaries, who are authorised to hold funds and securities on behalf of large institutional investors such as banks, insurance companies, mutual funds, and foreign portfolio investors (FPIs). They settle the secondary market trades for institutional investors. Several custodians are also clearing members and clearing banks of the exchange and manage both funds and securities settlement.

### **2.2.4 Settlement Obligations**

Clearing Corporation receives the details of trades and prices from the Exchange. Settlement obligations are computed using predefined methodology specified for the segment/product.

### **2.2.5 Risk management framework**

A comprehensive Risk Management framework is the backbone of the Clearing Agency/Corporation/house. A clearing corporation/house provides settlement guarantee i.e., the settlement of securities and funds will take place even if there is a

failure by a broker/clearing member to fulfil their obligation. In order to safeguard against such failures, the clearing agency is required to carry out the risk management measures as specified by SEBI through its various circulars.

In the Equity Market segment, brokers should have a prudent system of risk management to protect themselves from client default. Margins are an important element of such a system. The 'margins' for this purpose shall mean VaR margin, extreme loss margin (ELM), mark to market margin(MTM), delivery margin, special/additional margin or any other margin as prescribed by the Exchange to be collected by TM/CM from their clients.

Clearing Corporations, Risk containment measures include capital adequacy requirements of members, monitoring of member performance and their track record, stringent margin requirements, position limits based on capital, online monitoring of member positions and automatic disablement from trading when limits are breached, etc.

#### **2.2.6 Role of clearing corporation**

When a trade occurs on the Stock Exchange it is a legal contract between the buyer and seller. If there is a default by either the buyer or the seller the counterparty to the trade will have to bear the loss.

Clearing Corporation ensures that members meet their fund/security obligations. It acts as a legal counterparty to all trades through the process called novation. Thus Clearing Corporation becomes the buyer to every seller and seller to every buyer. If there is a default in this scenario, Clearing Corporation being counterparty, is responsible for ensuring the settlement, thus managing risk and guaranteeing settlement to both the parties.

In a multi-lateral netting scenario, when a default occurs, it is difficult to unwind the trade to find the original counter party who will have to bear the loss. The process of "novation<sup>18</sup>" addresses this risk.

In India, in the equity segment there are three clearing corporations, viz., the NSE Clearing Limited (NCL), Indian Clearing Corporation Limited (ICCL) and Metropolitan Clearing Corporation of India Ltd. (MCCIL).

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<sup>18</sup> As per the definition given in the SEBI Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 "novation" means the act of a clearing corporation interposing itself between both parties of every trade, being the legal counterparty to both.

### **2.2.7 Auction of Securities**

An auction is resorted to when there are shortages in delivery by a seller broker. This mechanism is utilized by the clearing corporation to fulfil its obligation towards the buying trading members. Thus, when the selling broker fails to deliver the shares, the clearing corporation through the stock exchanges system conducts an open market purchase by way of an open auction and the shares bought through the auction are delivered to the buying broker and adequate penalties are levied on selling brokers.

## Chapter 2: Sample Questions

1. Market orders are of how many types?
  - a. 3
  - b. 2**
  - c. 5
  - d. 4
  
2. In case of\_\_\_\_\_, the trader needs to specify the price at which the trade needs to be executed.
  - a. limit order**
  - b. Stop order
  - c. IOC order
  - d. Market Order
  
3. \_\_\_\_\_are institutional intermediaries, who are authorised to hold funds and securities on behalf of large institutional investors.
  - a. Insurance companies
  - b. Registrar and Transfer Agents
  - c. Custodians**
  - d. Stock Exchanges
  
4. An auction is resorted to when there are shortages in delivery by a/an\_\_\_\_\_.
  - a. custodian
  - b. seller broker**
  - c. investor
  - d. bank

## CHAPTER 3: SOCIAL STOCK EXCHANGE: INTRODUCTION, FUNDING STRUCTURES AND INSTRUMENTS

### Learning Objectives

After studying this chapter, you should know about:

- Concept of Social Stock Exchange
- Stakeholders of the Social Stock Exchange
- Funding Structure for NPOs and FPEs

### 3.1 Concept of Social Stock Exchange

The concept of Social Stock Exchange (“SSE”) came into existence in the year 2003 when the first Social Stock Exchange was introduced and launched in Brazil. Thereafter, many other countries viz. South Africa (in the year 2006), Portugal (in the year 2009), Canada (in the year 2013), Singapore (in the year 2013), United Kingdom (in the year 2013) and Jamaica (in the year 2019) also launched Social Stock Exchanges. However, just 3 out of the 7 Social Stock Exchanges that were set up still survive and function. They are based in Canada, Singapore and Jamaica.

The models of SSE in other jurisdictions are classified according to For Profit Enterprise (FPEs) and Non-Profit Organizations (NPOs) (see Box 3.1).

#### Box: 3.1 Models of SSE based on FPEs and NPOs

There are two models of SSE—(1) Matchmaking platform and (2) Alternative investment instruments listed on an existing stock exchange. 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. For example: Brazil’s Socio-Environmental Impact Exchange (BVSA) and South Africa’s SASIX cater to NPOs while UK’s Social Stock Exchange and Canada’s Social Venture Connexion cater to FPEs.

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.

Another model for an SSE is Singapore’s Impact Investment Exchange which trades impact-related securities, such as the Women’s Livelihood Bonds. These impact-



related securities are not strictly pay-for-success structure, as they promise a financial return even if social impact is not created. Alternatively, investors may use the IIX Growth Fund to make equity investments in start-ups or small companies with a social impact. The limitation with the Singaporean alternative investment instruments is that the funding instrument appears to serve only FPEs, and there is no systematic approach for funding NPOs.

By contrast, the Indian SSE will allow trading for equities issued by FPEs, 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.

In the Indian context, the Social Stock Exchange (SSE) shall be a separate segment under the prevailing and existing recognized stock exchanges. 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 are “listed” but also a set of procedures that act as a filter, selecting-in only those entities that are creating measurable positive social impact and reporting such impact. Thus, entities shall need to commit to a minimum reporting standard that brings out such aspects clearly, by requiring social enterprises 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. The minimum reporting standard includes various sections such as general information, governance, funding, legal and statutory filings/reports etc.

### **3.1.1 Definition of Social Stock Exchange**

“**Social Stock Exchange**” means a separate segment of a recognized stock exchange having nationwide trading terminals permitted to register especially Not for Profit Organizations (NPOs) and to list their securities in accordance with the provisions of the SEBI regulations.

The Social Stock Exchange (SSE) is a platform which shall allow social enterprises, be it Not For Profit Organization or For Profit Social Enterprise to raise funds. Additionally, not for profit organization may choose to merely register with SSE and not raise funds. The Non-Profit Organisations (NPOs) includes trust, society, NGOs or Section 8 Company registered/incorporated under the Companies Act, 2013 and For Profit Social Enterprise (FPEs) includes corporates. The social intent must be the first and primary objective of all social enterprises that plan to list their securities on SSE. Additionally, Social Stock Exchange can be defined as a regulated platform that connects the charitable foundations and social organizations with donors to make it easier to support, diversify and grow the social enterprises. SSE shall establish a system and mechanism to regulate the functioning of social enterprises. The most

important role that SSE shall play is to act as a facilitator of social financing and create a common platform for social enterprises, donors and investors.

### **3.1.2 Rationale of Social Stock Exchange**

The current mechanism of Corporate Social Responsibility (CSR), philanthropic investing etc. are being used to fund the social sector in India. However, the resources are not uniformly accessed by social enterprises. The rationale of SSE has several different aspects. Most importantly it bridges the gap between the private sector and non-profit sector for utilisation of these resources. The SSE is meant to serve the FPEs and non-profit sector providers by channeling greater capital to them.

### **3.1.3 Objectives of Social Stock Exchange**

“The SSEs shall aim at unlocking a large pool of social capital, and encourage blended finance structures, so that conventional capital can partner with social capital to meet the concerns and challenges of the society.”

Objective of SSE is to act as a bridge between social and environment organisations and investors looking to support social impact on a platform that provides transparency.

Social sector organisations (both for-profit and nonprofit) play a significant role in delivering essential services to vulnerable and marginalised communities. However, the effectiveness of the said sector is dependent on proper funding. Currently, Corporate Social Responsibility (CSR), impact investment, philanthropy, and regular giving are some of the key financing sources for India's social sector. Enabling these diverse channels to come together on a common platform and introducing uniform frameworks in reporting, measurement, and standards could be an important step in developing the sector. This is where the SSE comes in. The major objective of SSE is to obtain transparency and accountability between the funding channels and its utilization prospects.

### **3.1.4 Functions of Social Stock Exchange**

The SSE lists funding channels which contribute towards the social sector, and provides a set of procedures and guidelines that act as a filter, letting in only those social organisations that are creating measurable/demonstrates social intent and reporting such social intent. The standardisation of procedures in the sector could be a key basic function of SSE. The secondary function of SSE must be the set of framework of procedures, guidelines and code of conduct of the organizations that are aimed towards social intent.

## **3.2 Stakeholders of Social Stock Exchange**

Different stakeholders of the social stock exchange include Trading Members, Non-Profit Organisations (NPOs), For-Profit Enterprises (FPEs), Market Infrastructure Institutions (MIIs), Social Auditors, Information Repositories, Regulators and Investors.

### **3.2.1 Trading Members**

Trading members are members of an authorised exchange. They can trade on their own account or on behalf of their clients including depository participants. The exchanges assign a trading member ID to each trading member. Each trading member can have more than one user. The number of users allowed for each trading member is notified by the exchange from time to time. Each user of a trading member must be registered with the SSE and is assigned a unique user ID. The unique trading member ID functions as a reference for all orders/trades of different users. It is through these trading members that an individual will be able to buy securities of NPOs and FPEs listed on SSE. Other than trading members, there are clearing members who carry out risk management activities and confirmation/inquiry of participant trades through the trading system. There is another class called trading cum clearing member who has the right to trade on its own account as well as on the account of its clients. He can clear and settle the trades for himself, and for others through the Clearing house. A professional clearing member (PCM) is a clearing member who is not a trading member. Typically, banks and custodians become PCMs and clear and settle for their trading members and participants.

### **3.2.2 Non-Profit Organisation and For-Profit Enterprises**

To register on the platform of Social Stock Exchange (SSE), an organisation can legally be incorporated under any law for the time being in force, as long as social impact and social intent is a part of its operations and strategy. They can broadly be categorised into For-Profit Enterprises (FPEs), which are corporates, but create social impact as part of their business; and Non-Profits Organisations (NPOs), which include Section 8 companies, trusts, and societies.

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, 2013, sole proprietorships, partnership firms, HUFs and limited liability partnerships) and NPOs (which include Section 8 companies, Trusts registered under Indian Trust Act, 1882 and Societies registered under Societies Registration Act, 1860).

The models of SSE in other jurisdictions may be classified into a matchmaking platform and alternative investment instruments listed on an existing stock exchange (See Box 3.1 for more details).

## A. Non-Profit Organisation

According to a 2012 government estimate, India has at least 31 lakh non-profit organisations (NPOs), more than double the number of schools and 250 times the number of government hospitals, amounting to about one NPO for every 400 Indians. Further, according to the National Center for Charitable Statistics (NCCS), there are more than 1.5 million non-profit organizations registered in the United States, including public charities, private foundations, and other non-profit organizations.

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. For example, 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. Measuring social impact cannot be easily standardized across these very different arenas of activity.

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. This translates into a funding gap of about Rs. 4.2 lakh crore annually for meeting only 5 of the 17 SDGs 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.

NPOs take a variety of legal forms such as **societies, trusts and not-for-profit companies**. All NPOs must be registered under Section 12A of the Income Tax Act 1961 and file income tax returns as per the provisions of Income Tax Act, 1961. Upon assessment of these returns, an entity is granted an exemption of tax status for a particular year. An NPO can extend tax deduction to its donors upon approval under Section 80G of the Income Tax Act, 1961.

About 70 percent 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.<sup>19</sup> 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.

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.

**As per ICDR Regulations, 2018:** “Not for Profit Organization” means a Social Enterprise which is any of the following entities:

- (i) a charitable trust registered under the Indian Trusts Act, 1882 (2 of 1882);
- (ii) a charitable trust registered under the public trust statute of the relevant state;
- (iii) a charitable society registered under the Societies Registration Act, 1860 (21 of 1860);
- (iv) a company incorporated under section 8 of the Companies Act, 2013 (18 of 2013);
- (v) any other entity as may be specified by SEBI

## **B. For-Profit Enterprises (FPEs)**

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.

According to ICDR Regulations, 2018: “For Profit Social Enterprise” means a company or a body corporate operating for profit, which is a social enterprise for the purpose

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<sup>19</sup> 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 the Ministry of Statistics and Programme Implementation.

of ICDR Regulations and does not include a company incorporated under Section 8 of the Companies Act 2013.

In addition to existing eligibility criteria and disclosure requirements, FPEs shall also have to be eligible as a social enterprise and shall have to make additional disclosures in terms of the social impact created.

However, FPEs may be identified clearly as **For Profit Social Enterprise (FPSE)** by the Stock Exchange, distinct from conventional commercial enterprises.

**Box 3.2: Section 8 Companies**

One of the forms of NPO is Section 8 Company. The Companies Act defines a Section 8 company as one whose objective is promotion of commerce, art, science, research, education, social welfare, religion, charity, protection of environment or any such other object. These companies also intend to apply their profits promoting its objectives and intend to prohibit the payment of any dividend to their members.

By law NPOs, face restrictions on their ability to issue debt, equity and mutual fund 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. While, there are no regulatory hurdles in listing such shares or debt instruments of Section 8 companies these avenues have not been utilized by Section 8 companies apparently due to their inherent inability to provide financial returns on investment.

**3.2.3 Social Auditors**

As per SEBI ICDR Regulations, 2018, “Social Auditor” means an individual registered with a self-regulatory organization under the Institute of Chartered Accountants of India or such other agency, as may be specified by SEBI, who holds a valid certificate offered by National Institute of Securities Market.

Social auditors will perform independent verification of impact reporting. Audit of social impact i.e. social audit shall be mandatory for entities on SSE.

Social Audit firms means any entity which has employed social auditors and has a track record of minimum 3 years for conducting social impact assessment. These firms shall employ social auditors who have qualified a certification examination conducted by NISM. Social Auditors will be required to be empanelled with an SRO under ICAI as a separate Sustainability Directorate.<sup>20</sup>

<sup>20</sup> [https://www.sebi.gov.in/sebi\\_data/meetingfiles/oct-2021/1633606607609\\_1.pdf](https://www.sebi.gov.in/sebi_data/meetingfiles/oct-2021/1633606607609_1.pdf) and <https://www.sebi.gov.in/legal/regulations/nov-2022/securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-regulations-2018-last-amended-on-november-21-2022-65522.html>

Typically, there is a code of conduct to assist and guide the social auditors in discharging their obligations and responsibilities. It sets out the minimum requirement for social auditors to follow in order to maintain and promote the trust of various stakeholders, including the general public, in their services. The code focuses on aspects such as integrity, objectivity, confidentiality, professional behaviour, professional competence and due care, documentation, due diligence, compliances etc.

#### **3.2.4 Information Repositories**

Information Repositories (IRs) are a very important category of participants in the SSE ecosystem. The IRs 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). The objective of information repository is to create and maintain a database of reliable, accurate and timely information, in electronic form, so that it can provide investors with transparent and comparable information.

IRs typically function as an aggregator of information on NGOs, and provide a searchable database in a comparable form.

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 partially function 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.

IRs play an important role in building confidence in NPOs by providing credible and standardized information about them. They also act as a “feeder” to the SSE by helping players on the SSE access additional opportunities to fund high-quality NPOs.

#### **3.2.5 Market Infrastructure Institutions**

Market infrastructure institutions such as stock exchanges, clearing corporations and depositories also play an important role in the ecosystem of social stock exchange.

#### **3.2.6 Regulator and SRO**

SEBI is the regulator of Social Stock Exchanges. To establish the primacy of its social intent, of the projects/programs/activities of social enterprises, SEBI came up with a new class of auditors, the social auditors. A social auditor shall be registered with a self-regulatory organization (SRO) under the Institute of Chartered Accounts of India

(ICAI). The SRO is named as "Institute of Social Auditors of India ", a not-profit making organization and registered as a Section 8 company under the Companies Act, 2013, under the aegis of ICAI.<sup>21</sup>

Other important bodies concerning the evolution of social auditing in India are Ministry of Rural Development (MoRD), Comptroller and Auditor General of India, Social Audit Unit and Ministry of Corporate Affairs.

### **Governing Council for SSE's**

SEBI has also specified that every Social Stock Exchange shall constitute a Social Stock Exchange Governing Council (SGC) to have an oversight on its functioning. The SGC shall have a balanced representation drawn from various categories of stakeholders such as Philanthropic and social sectors including public/private sector donors, Non-profit organizations, Information Repositories, Social Impact Investors etc. The SGC is expected to provide oversight and guidance to facilitate the smooth functioning of the operations of the Social Stock Exchange, with regard to registration, fund raising and disclosures by Social Enterprises.

### **3.2.7 Investors**

Investors can be divided into institutional investors and non-institutional investors. In the context of SSE, there are some investors (outcome funders) interested in creating social impact in the same sector as the implementation agencies and the second category is risk investors.

### **3.2.8 Primary Stakeholder: Communities/target groups**

The social enterprises target underserved or less privileged population segments or regions recording lower performance in the development priorities of central or state governments. These communities/target groups are classified as per the social intent pursued by the social enterprises such as:

- a) eradicating hunger, poverty, malnutrition and inequality
- b) promoting health care including mental healthcare, sanitation and making available safe drinking water
- c) promoting education, employability and livelihood
- d) promoting gender equality, empowerment of women and LGBTQIA+ communities
- e) ensuring environmental sustainability, addressing climate change including mitigation and adaptation, forest and wildlife conservation
- f) protection of national heritage, art and culture
- g) training to promote rural sports, nationally recognised sports, paralympic sports and olympic sports
- h) supporting incubators of social enterprises. etc.

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<sup>21</sup> <https://www.icai.org/post/icai-announces-the-formation-of-sro-for-social-stock-exchange>



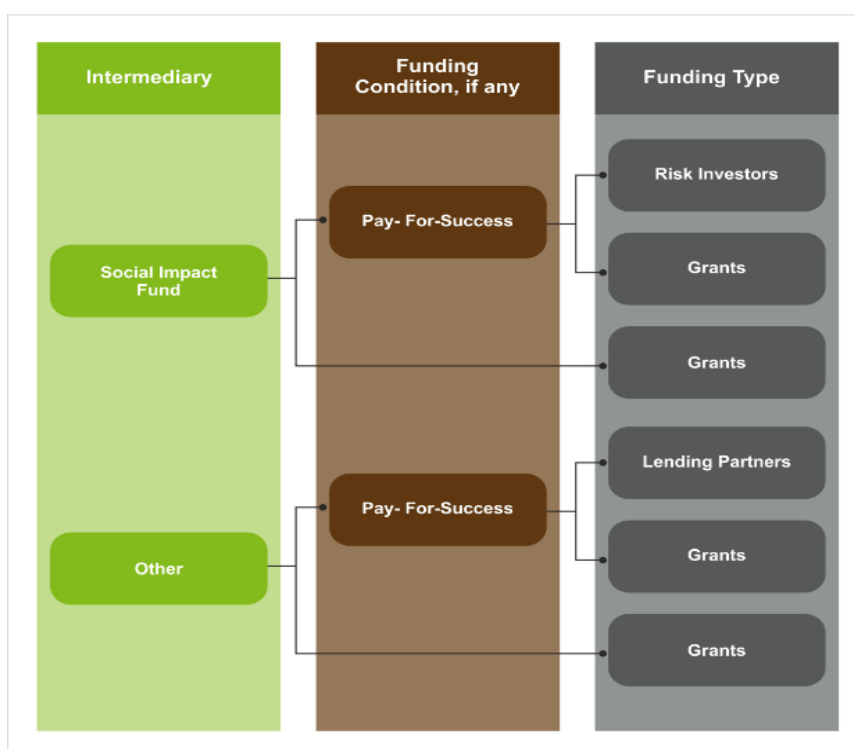
### 3.3 Funding Structures

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”. Specifically, FPEs can raise equity while all NPOs cannot.<sup>22</sup>

#### 3.3.1 Funding Structures for NPOs

The SSE will enable the routing of risk capital (or venture or commercial capital) to non-profits via specialised funding structures. Post registration, NPOs can directly list on SSE through issuance of Zero Coupon Zero Principal Instruments (ZCZP).<sup>23</sup> Section 8 companies can raise funds through issuance of equity. Certain other means available to NPOs may include social impact funds (SIF) and development impact bonds (DIB). Each of these are discussed in the subsequent sub-sections. In the Indian context, there is a need to create an appropriate investment structure which could take a variety of forms, as seen in Figure 3.1

**Figure 3.1: Funding structure for NPOs**



<sup>22</sup> 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.

<sup>23</sup> Zero Coupon Zero Principal Instrument has been notified as securities under Securities Contracts (Regulations) Act, 1956 w.e.f. July 15, 2022.

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.

The various types of funding structures for NPOs are discussed as follows:

### **3.3.1.1 Pay-for-success Structure**

In these structures, conventional capital coming from institutional investors or banking institutions, are combined 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 bears some risk as it only earns 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, as 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 SIF 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. The pay-for-success structure can be further bifurcated into 3 types:

- a. Pay-for-success through Social/ Development Impact Bond:** A structured finance framework involving implementation agencies (or NPOs) working towards similar social outcomes is aggregated by an intermediary. It is discussed in detail in the subsequent section.<sup>24</sup>
  
- b. Pay-for-success through Lending Partners:** 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. (see Figure 2) 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 involves a contractual agreement between several stakeholders. The lending partners such as banks or non-bank financial companies (NBFC) provide the liquidity instead of risk investors.

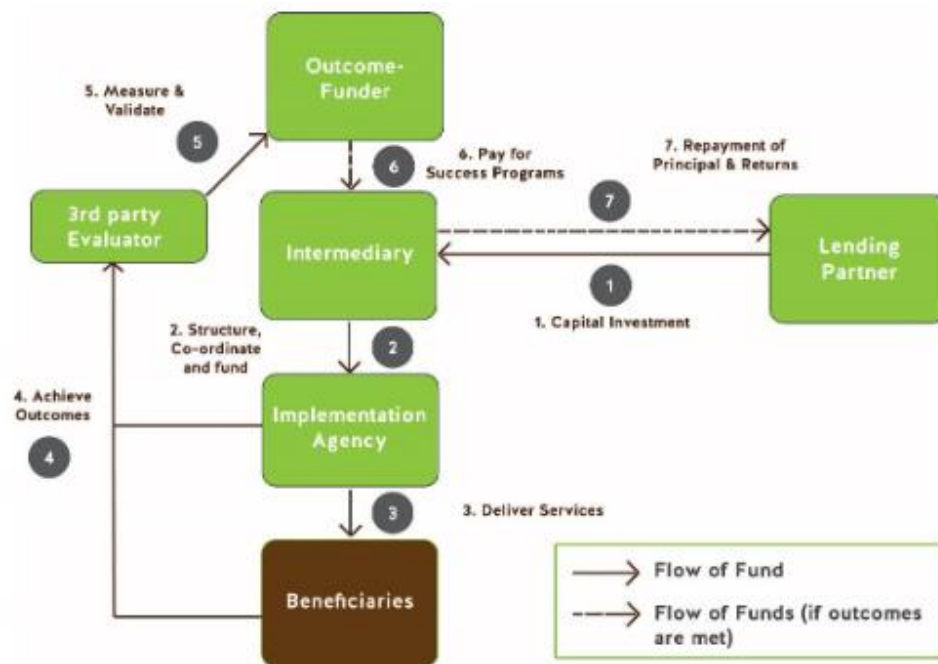
In this structure, the intermediary identifies a well-tested intervention employed by an implementation agency (an NPO or a cluster of NPOs) to create social impact. The intermediary also identifies lending partners to provide a multi-year unsecured lending facility to the implementation agencies to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

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<sup>24</sup> Refer section 3.3.1.3

Further, the intermediary on-boards one or more outcome funders who are willing to pay for a predetermined set of outcomes that the program aims to achieve. An initial portion of these funds from the outcome funders can be held in escrow by the intermediary to help make interest payments to the lenders while the principal payments would be made only upon the achievement of outcomes. The credit risk in this structure is determined by the ability of the implementation agency to achieve the outcomes which in turn will facilitate releasing payments from the outcome funder. Therefore, these funding structures 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 i.e. the intermediary agrees to bear first losses on an investment in order to reduce the credit risk and thus motivate other lenders to participate.

**Figure 3.2: Pay-for-success through Lending Partners**

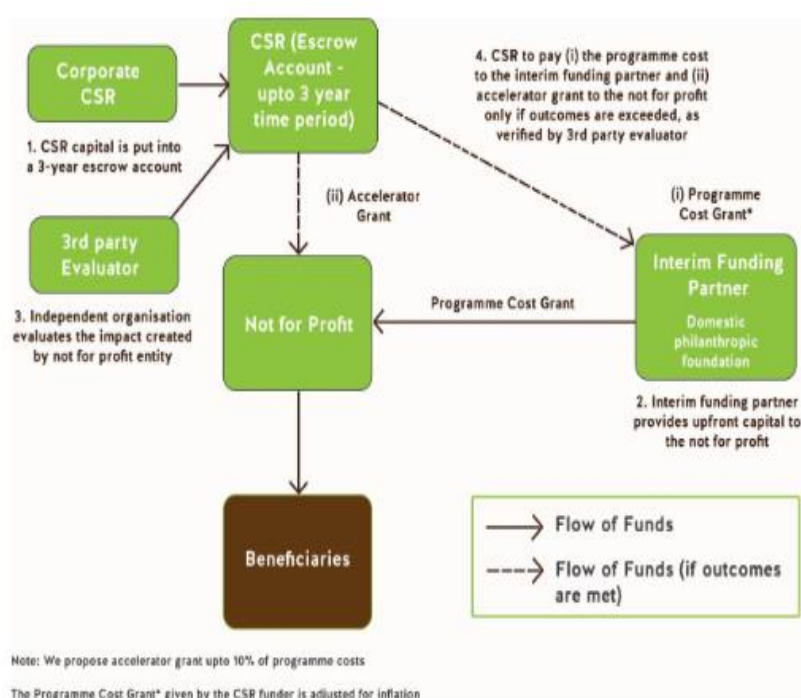


- c. **Pay-for-success through Grants:** Using CSR grants for pay-for-success models is an innovative funding mechanism which ensures that CSR funds are deployed effectively as payment is made only when social impact is achieved. (see Figure 3) In this structure, the CSR arm of a corporation selects 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 later’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 the time that the CSR capital is in escrow, it accumulates interest, then this interest remains in the account.

**Figure 3.3: Pay-for-success through Grants**



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.

### **3.3.1.2 Social/ Development Impact Bond Structure**

DIB is a structured finance product that has evolved in the development sector to create incentives and align payments for social outcomes.

The basic principle of a DIB structure is that a grant is made to an NPO after it delivers on pre-agreed social metrics at pre-agreed costs/ rates. (see Figure 3.4) The donor who makes the grant when the social metrics are achieved is termed as "Outcome Funder". Given that the outcome funder makes the payment on a post facto basis, the NPO needs to raise funds to finance its operations. Such a funder is termed as "Risk Funder". A risk funder not only enables financing of operations on a pre-payment basis, but also undertakes the risk of non-delivery of social metrics by the NPO. To compensate for this risk, a Risk Funder typically earns a small return if the social metrics are delivered.

The social outcome is measured by an independent third-party evaluator. An intermediary shall be responsible for bringing the actors viz., risk investors, outcome funder, NPOs, 3rd party evaluator together to enable this product.

DIBs are governed by tight legal contracts and have strong governance structures in place on reporting, impact measurement etc, but are currently able to access a limited set of institutional donors and investors. DIBs can be listed for individual projects, or for a pool of projects in a particular area, and the listing can be for just risk funding (debt capital) or for outcomes funding (grant funding) or both.

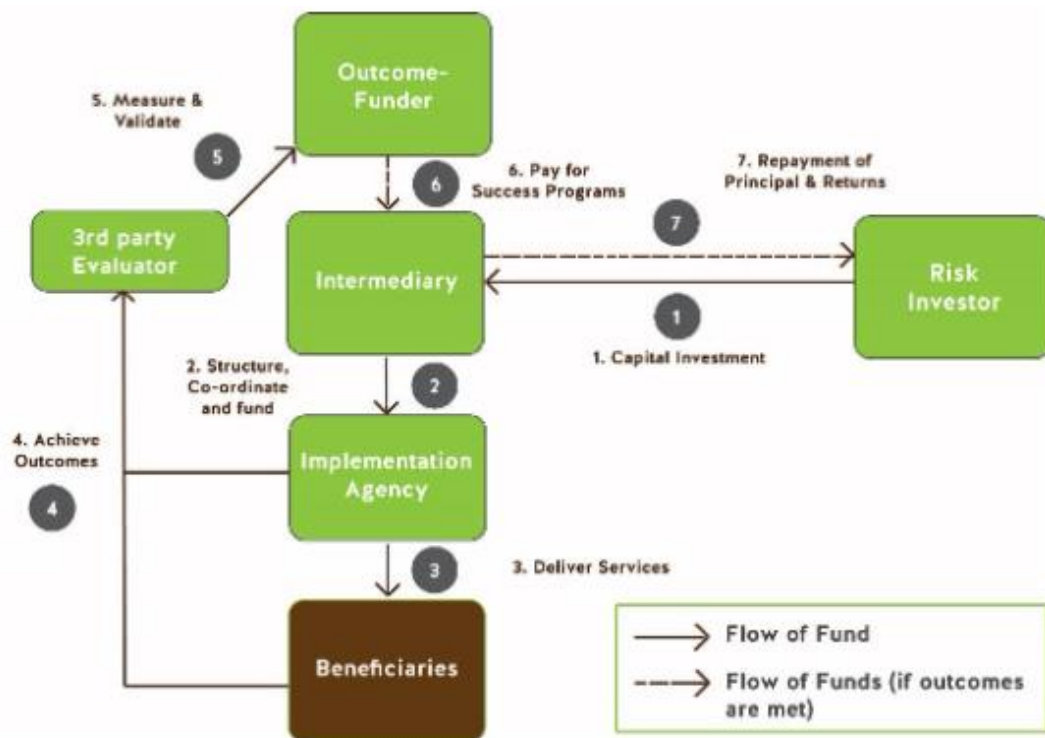
DIBs on SSE can bring in new money sources to credible NPOs who are willing to follow disclosure norms. Further, with CSR acting as outcome funder, will reduce complexity of CSR donation for smaller companies. DIBs also present an opportunity to channelize risk investors need to fund credible social projects.

Globally DIBs are seeing increasing traction. As per Brookings report on "What is the size and scope of the impact bonds market?", it is observed that 194 impact bonds have been issued so far across 33 countries.<sup>25</sup> Most of these bonds have been issued in developed markets (177 in UK and US). The total capital deployed in impact bonds exceeds USD 420 million. There are success stories in India as well.

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<sup>25</sup> 'What is the size and scope of the Impact Bonds market?', Emily Gustafsson-Wright, Brookings 2020. [https://www.brookings.edu/wp-content/uploads/2020/09/Impact\\_Bonds-Brief\\_1-FINAL-1.pdf](https://www.brookings.edu/wp-content/uploads/2020/09/Impact_Bonds-Brief_1-FINAL-1.pdf)

**Figure 3.4: Financing through Social/ Development Impact Bond**



The key partners in a DIB structure are as follows: (see Table 3.1)

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

**Outcome Funders:** 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. Typically, an outcome funder can be CSR donors, Foundations, Retail Investors or Government who desire to fund development outcomes creating impact at grassroots without the risk of backing ineffective solutions. Hence, an outcome funder commits to repaying principal and returns if targets are met.

**Risk Investor:** These investors provide the upfront capital for desired outcomes and carry the risks of achieving outcomes. Risk investors introduce market discipline and commitment to disclosure norms for NPOs.

**3<sup>rd</sup> Party Evaluator:** These are external organizations having expertise in designing assessment, lay outcome parameters, measure and evaluating outcomes and impact against the targets set. They are employed for a fee to provide their services.

**Intermediary** (Project Manager/ AIF-SIF in SSE): These entities are specialists in result based financing aimed at solving pressing issues. They are responsible for aligning all partners together.

**Table 3.1: Key partners in a DIB structure**

	<b>Motivation</b>	<b>Role</b>	<b>Types of Entities</b>
<b>Service provider/ Implementation agency</b>	To access pooled and continuous funding, to achieve uninterrupted coordinated action on the ground	To implement programs to generate social impact for the target beneficiaries	NPO and/or FPEs
<b>Outcome funder</b>	To fund useful projects to create impact at grassroots without the risk of backing ineffective solutions	To pay the investor their principal amount with interest for funding the project upfront	CSR donors, foundations, retail investors, Government
<b>Risk funder / investor</b>	To get back the investment with interest (approx. 4 -8%) if targets are met, or to lose a part of the amount if they are not met	To supply upfront capital for implementation and get paid by outcome funder	Entities with capital market expertise, discipline, who can bring the rigour of disclosure norms to social markets
<b>Independent evaluator</b>	To provide true unbiased measurement of social impact generated	To lay out the outcome parameters, measure and evaluate the impact against the targets set in contract	External organisations who have expertise in designing assessment and evaluating different outcomes

<b>Intermediary or Program Manager</b>	To solve social and environmental issues	To match interested partners, negotiate the terms of contract, and perform due diligence	Entities with result-based financing; can also be the Government
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### Pros and Cons of DIB Structure

DIBs are apt for programs whose implementation models already have a proof of concept, and where the outcomes of choice have well-defined and measurable qualitative metrics/ surrogates (as opposed to outcomes that are intangible).

DIBs will not work well for projects that have no proven pilots in place already, or require significant innovation to implement. Similarly, it will not be suited to projects that have a multiplicity of variables or where outcomes cannot be linked to the inputs/ interventions by the service provider or where the solution that needs implementing is not an intervention but a product or tool.

The DIB route becomes economical for relatively large projects that need large investments. Service providers must also have the requisite ability to scale up to reasonably achieve the outcomes laid out, and be able to absorb the additional monitoring and oversight that comes with the financial structuring involved in a DIB.

### Examples of DIBs in India and other Jurisdictions

India is among the few nations that are in the forefront in terms of concerted activities towards the mainstreaming of DIBs.

- The Quality Education DIB with a total value of USD 10 million focuses on improving literacy and numeracy of two lakh children in Rajasthan, Gujrat, and Delhi, and has multiple service providers such as KEF, Gyanshala and SARD.

India is yet to see examples where the Government steps in as an outcome funder, in which case these bonds would be referred to as social impact bonds (SIB).<sup>26</sup>

The United Kingdom pioneered the social impact bond model and its Government had a central role to play in this.<sup>27</sup> Further, several outcome funds for multiple impact

<sup>26</sup> Such as Girl child education, Quality Education and Utkrisht

<sup>27</sup> 'A study into the challenges and benefits of the Social Impact Bond commissioning process in the UK-Final Report', Ecorys, 2019.



bonds have been launched in the U.K., including the Innovation Fund, which supported 10 SIBs for education and employment for disadvantaged young people.<sup>28</sup>

In the USA, impact bonds are better known as Pay For Success (PFS) projects. Here too, federal support has been observed to play an important role. For instance, the Social Impact Partnerships to Pay for Results Act (SIPPRRA) was passed in 2018, and it aims to support outcome-based financing and provide funding from the Treasury for social impact partnerships, including PFS projects.

### **How DIBs can benefit from the SSE in India**

The SSE platform can support social enterprises (both NPOs and FPEs), large donors like CSR contributors and high networth individual (HNI) philanthropic donors by providing a scaled-up avenue to galvanise funding to credible social impact creating opportunities. Therefore, it can help DIBs access a greater spread of CSRs, donors and risk investors to attract funding for social outcomes. While the service providers i.e. the social enterprises commit to reporting requirements on the SSE to signal credibility and performance, companies, particularly smaller companies trying to solve their CSR deployment strategy can rely on the SSE for less-complex ways to invest upto 100% of their funds.

A listing of DIBs on the SSE can enable showcasing of the programs enlisted under each DIB to a more diverse and larger set of funders, including by philanthropic contributors, as potential outcome funders. For example, a HNI donor may be pitched with a proposition that a donation of INR 50,000 is to be paid only if two low-income/low-skilled youth are placed in jobs with incomes of over INR 15,000.

With significant reporting and transparency in the DIB structure, it can help donors get over their apprehensions of donating to fraudulent or ineffective service providers, and make the donation only if the outcomes are achieved. It can help build a lot more trust for the philanthropy market which is estimated at over INR 35,000 crore. Also, through the infrastructure created by the SSE, donors can be issued online receipts, etc, rather than having to follow up with individual NPOs. In addition, DIBs can also enable investors to be impact investors by acting as risk investors and placing their money with selected service providers and earn a small return on their investment if the service providers deliver on results.

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/957374/A\\_study\\_into\\_the\\_challenges\\_and\\_benefits\\_of\\_the\\_SIB\\_commissioning\\_process.\\_Final\\_Report\\_V2.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/957374/A_study_into_the_challenges_and_benefits_of_the_SIB_commissioning_process._Final_Report_V2.pdf)

<sup>28</sup> UK Government outcomes funds for impact bonds, Government Outcomes Lab, Blavatnik School of Government, <https://golab.bsg.ox.ac.uk/the-basics/outcomesfunds/outcomes-funds/>

### **3.3.1.3 Financing Instruments for NPOs**

A Not for Profit Organization may raise funds on a Social Stock Exchange (SSE) through:<sup>29</sup>

- i. issuance of Zero Coupon Zero Principal (ZCZP) Instruments to institutional investors and/or non-institutional investors as per SEBI (ICDR) Regulations, 2018
- ii. donations through Mutual Fund schemes as specified by SEBI
- iii. any other means as specified by SEBI from time to time

#### **● Zero Coupon Zero Principal (ZCZP) Instruments**

Zero Coupon Zero Principal Instrument means an instrument issued by a Not for Profit Organisation (NPO) which shall be registered with the Social Stock Exchange segment of a recognised Stock Exchange.

ZCZPs shall have zero coupon and no principal payment at maturity. The ZCZPs shall be issued only for a specific project or activity that are listed under SEBI (ICDR) Regulations. These projects/ activities shall be completed within the duration specified in the fundraising document. Thus, it differs from the conventional bonds.

While a conventional bond provides a fixed interest/ repayment of the funds raised through the various contractual arrangements, ZCZPs do not offer such returns but promise a social return to the funder. Such a promise carries some probability of being defaulted upon non-delivery of the social impact that is promised to be created.

It is essential to recognize that the funder's sense of fulfillment or disappointment has to do with the creation of social impact instead of any financial return. If the funder is disappointed, the NPO is liable to lose the funder's trust and therefore its donations in the future. So, the essential quality of an asset or a security as a promise that can on occasion be defaulted upon, and the default event having consequences for the defaulter's ability to raise funds in the future, is retained in the case of ZCZPs.

ZCZPs shall be issued by an NPO for specific social development projects/activities. Such an NPO shall need to show expertise in the targeted areas through social performance of past projects which in turn allow investors to gain greater insight into the NPO's activities. ZCZPs shall be listed on the SSE and shall carry a tenure equal to the duration of the project that is being funded. At maturity, they shall be written off the investee's books.

As per SEBI (ICDR) Regulations, NPOs shall issue ZCZP Instruments to:

- (a) public through a Public Issue; or

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<sup>29</sup> Vide SEBI (ICDR) Regulations, 2018 and SEBI (AIF) Regulations, 2012.

(b) Social Impact Funds registered under SEBI (AIF) Regulations through a Private Issue.

The ZCZP Instruments are listed on the Social Stock Exchange post their issuances.

While the trading potential for ZCZPs shall be limited, it is essential to list such securities on the SSE platform to enforce disclosure related requirements such as periodic disclosure of impact created and utilization of funds by NPOs. The minimum reporting standard (which also mandates reporting on social impact in a standardized format) shall make sure that investors channel their funds only to credible and legitimate NPOs. Further, such NPOs can also signal their credibility and legitimacy to investors/ funders by choosing to register with Information Repositories.

Other conditions relating to the issuance of ZCZP are as given below:

- Minimum issue size: Rs. 1 crore
- Minimum application size: Rs. 2 lakhs
- Minimum subscription: 75% of the funds proposed to be raised through issuance of ZCZP instruments
  
- **Social Impact Funds**

Social Impact Fund (SIF) means an Alternative Investment Fund which invests primarily in securities, units or partnership interest of social ventures or securities of social enterprises and which satisfies the social performance norms laid down by the fund.<sup>30</sup> SIFs or schemes of SIFs issue social units to its investors who have agreed to receive only social returns or benefits and no financial returns against their contribution.

The issuer (AIF) wishing to raise funds for NPOs shall need to show expertise of the NPOs involved in the targeted area through social performance of past projects undertaken by them in the same area as well as through differentiators. NPOs while reducing their issue expenses, compared to ZCZPs, will be able to raise funds through SIFs. It is noteworthy that while the units of SIFs can be listed, their trading potential in case of 100% grant-in/ grant-out shall be limited.

The following types of investments are permitted by SEBI through SIFs:

(a) Existing SIFs may invest 25% of their investable funds in securities of NPOs registered or listed on a social stock exchange.<sup>31</sup>

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<sup>30</sup> Social Venture means a trust, society or company or venture capital undertaking or limited liability partnership formed with the purpose of promoting social welfare or solving social problems or providing social benefits.

<sup>31</sup> Investable Funds means corpus of the scheme of Alternative Investment Fund net of expenditure for administration and management of the fund estimated for the tenure of the fund.

(b) SIFs or schemes of SIFs, launched exclusively for registered or listed NPOs, may invest 100% of its investable funds in securities of NPOs registered or listed on a social stock exchange

- **Equity or Debt**

A section 8 company may choose to raise funds on SSE by issuing equity or debt instruments. The existing provisions as applicable for other body corporates shall continue to apply for such issuances.

The Section 8 Company wishing to list equity shall need to show its track record through social performance of past projects/ activities undertaken by them as well as through differentiators that will allow investors to gain greater insight into the company's activities.

SEBI will continue to explore other instruments that shall be feasible for direct listing on SSE by NPOs.

### **3.3.2 Funding Structures for FPEs**

The existing fund raising structures as available for corporates shall also be available for '*For Profit Social Enterprises*' (FPEs). The funding structures discussed for NPOs may be used for funding FPEs as well. FPEs may list their securities on the appropriate existing stock exchanges:

- debt securities may be listed on the main board,
- equity securities may be listed on the main board or Small and Medium Enterprise (SME) Platform or Innovators Growth Platform (IGP)

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. 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. Listing criteria will apply for FPEs, just as they apply for 'for-profit conventional enterprises' who list on the main board of the stock exchanges.

#### **3.3.2.1 Financing Instruments are as follows**

A For Profit Social Enterprise may raise funds through:

- i. issuance of equity shares on the main board, SME platform or Innovators Growth Platform or equity shares issued to an Alternative Investment Fund including a Social Impact Fund;
- ii. issuance of debt securities;
- iii. any other means as specified by SEBI from time to time

SEBI has further clarified that securities issued by '*For Profit Social Enterprises*' shall be listed and traded under the applicable segment of the stock exchange with an identifier stating that the scrip is that of a '*For Profit Social Enterprise*'. Such '*For Profit Social Enterprises*' shall meet the eligibility criteria for the main board, SME Platform or Innovators Growth Platform (IGP), as applicable.

- **Equity and Debt**

The FPE wishing to list equity or debt needs to show its track record through social performance that will allow investors to gain greater insight into the FPE's activities. The extant regulations for listing of equity or debt shall also need to be followed. If FPEs raise capital through equity or debt, they shall comply with existing stringent norms under securities laws and in addition, shall also have to comply with additional disclosure norms in respect of social impact.

In case of equity, the segment of listing shall also need to be considered, i.e. Startup/IGP, SME or main boards. FPEs shall list equity on the SSE subject to a set of listing requirements, including operating practices (financial reporting and governance) and social impact reporting. In addition to this, FPEs listing equity/ debt shall comply with the disclosure requirements as per the applicable segment such as main board, SME, IGP, etc.

- **Social Impact Fund/ Development Impact Bonds**

These shall typically be issued by an aggregator for a specific target area. The issuer wishing to list such instruments shall need to show the impact areas and other relevant metrics such as impact expected and the expertise of the aggregator and other stakeholders in managing such projects.

Social Impact Funds (SIFs) issued by AIFs can invest 75% of their investable funds in unlisted securities or partnership interest of social ventures or in units of social ventures or in securities of social enterprises. The remaining investable funds to be invested in securities of NPOs with prior consent of at least 75% of the investors by value of their investment. These funds may accept grants which need to be only utilised in the above manner.

### Chapter 3: Sample Questions

1. Which among the following is NOT an objective of a Social Stock Exchange?
  - I. unlocking a large pool of social capital
  - II. listing funding channels
  - III. encourage blended finance structures
  - IV. providing a set of procedures and guidelines
  - a. Only I and II
  - b. Only II and III
  - c. Only I and III**
  - d. Only II and IV
  
2. Which among the following constitute stakeholders of social stock exchange?
  - I. Trading Members
  - II. Non-Profit Organisation
  - III. For-Profit Enterprises
  - a. Only I and II
  - b. Only II and III
  - c. Only I and III
  - d. I, II and III**
  
3. The \_\_\_\_\_ is measured by an independent third-party evaluator.
  - a. social impact
  - b. social outcome**
  - c. social intent
  - d. social activity
  
4. The minimum issue size of Zero Coupon Zero Principal (ZCZP) is:
  - a. Rs. 2 lakhs
  - b. Rs. 5 lakks
  - c. Rs. 1 crore**
  - d. Rs. 2 crore

## CHAPTER 4: REGISTRATION AND LISTING ON SOCIAL STOCK EXCHANGES

### Learning Objectives

After studying this chapter, you should know about:

- Registration process on Social Stock Exchanges
- Rights, Obligations and Disclosures Document
- Key Listing Guidelines

### 4.1 Registration process on Social Stock Exchanges

For the purpose of registration, the Social Stock Exchange shall notify the conditions as applicable on social enterprise as on the date of filing of documents with the SEBI. SSE shall also direct social enterprises to follow the rules and principles framed by the Social Stock Exchange Governing Council (SGC).

#### 4.1.1 Eligibility requirements-

A social enterprise shall be eligible for fund raising through the Social Stock Exchange mechanism after fulfilment of below mentioned prior conditions:

- (a) Establish the primacy intent of social impact (as per the 17 Social Development Goals (SDG)) for being eligible to qualify for on-boarding the Social Stock Exchange (SSE) and access the SSE for fund-raising. The social enterprise could either engage in the products, services, or programs or work on research, policy analysis and development, awareness building, governance or capacity building.
- (b) The activities as specified for the social enterprises must focus on underserved or underprivileged populations or geographic areas or regions that have recorded lower performance in the development priorities of national/state governments. These activities may include rendering services or delivering products to the members belonging to Scheduled Castes (SC), Scheduled Tribes (ST), Other Backwards Classes (OBC), people with special needs, the elderly, children, at-risk adolescents, migrants, and displaced persons may also fall under this category.
- (c) Social Enterprise shall have at least 67% of its activities qualifying as eligible activities to the target population. This can be ascertained by one or more of the following: (i) Revenue – At least 67% of the immediately preceding 3-year average revenues should have come from providing the eligible activities to members of the target population; (ii) Expenditure – At least 67% of the immediately preceding 3-year average of the SE's expenditure has been incurred for providing the eligible activities to members of the target population; (iii) Customer base/ beneficiaries – Members of the target population to whom the eligible activities have been provided constitute at least 67% of the immediately preceding 3-year average of the SE's customer base/ beneficiaries.

Provided that the corporate foundations, political or religious organizations or activities, professional or trade associations, infrastructure and housing finance Companies, except affordable housing, shall not be eligible to be identified as a Social Enterprise.

#### **4.1.2 Initial Qualifying Criteria for Onboarding**

The eligibility requirements for Social Enterprises to get registered on social stock exchange have been given in point 4.1.1. After fulfilling the qualifying criteria, distinction between FPEs and NPOs has to be ascertained. It is necessary for a Not for profit organization (NPO) to qualify the eligibility requirements as mentioned above for the purpose of registration on Social Stock Exchange, and thereafter, it may decide either to list or not for the purpose of raising funds through SSE. The minimum requirements for registration of a Not for Profit Organization on a Social Stock Exchange have been specified by SEBI vide its Circular dated September 19, 2022. However, a For Profit Enterprise (FPE) shall not seek registration or listing with Social Stock Exchange, unless it is registered as a Company under the provisions of Companies Act, 2013 or erstwhile provisions of Companies Act, 1956 as the case may be and complies with the requirements in terms of SEBI Regulations for issuance and listing of equity or debt securities.

##### ***4.1.2.1 On boarding process for NPOs***

NPOs unlike FPEs are not well-versed with rigours and discipline required for raising money through public. The NPOs are required to meet certain mandatory criteria in order to register. NPOs possess a variety of legal structures and are regulated by a variety of statutory bodies and legislative acts, registration shall serve a three-fold purpose. Firstly, it shall bring interested NPOs onto a common platform of legal requirements for the purposes of accessing the SSE. Secondly, it shall inculcate a cultural shift in NPOs and enable transition towards a disclosure driven fund raising system. Thirdly, it shall provide a means for NPOs (and especially, smaller NPOs) to signal the primacy of social impact and the quality of their governance, transparency even if they wish to not list any security at the present moment. This will enable the NPOs to leverage the reputation value of being registered while raising funds, whether or not they choose to list, and this reputation value will derive from the registered NPOs satisfying the mandatory criteria, which also include annual reporting requirements, as described below.

##### ***4.1.2.2 Mandatory Qualification Criteria***

The mandatory criteria for NPO registration is given in Table 4.1. It is to be noted that in addition to the legal requirements, the mandatory qualifying criteria for registration



shall include a set of minimum size as indicated by funds received/deployed. This shall ensure that the NPO wishing to register has an adequate track-record of operations.

The NPOs shall ensure compliance with all the qualification requirements, registration requirements, reporting requirements etc. at any given point of time.

**Table 4.1: Mandatory Criteria for NPO Registration** [read with Regulation 292F (1) of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018]

Broad Parameter	Indicator	Details
<b>Legal Requirements</b>		
Entity is registered as an NPO	Registration certificate valid at least for next 12 months at the time of seeking registration with SSE	Entities must be registered in India as one of the below: a. a charitable trusts registered under the public trust statue of the relevant state; b. a charitable trust registered under the Societies Registration Act,1860 c. a charitable trust registered under the Indian Trusts Act, 1882 d. a Company incorporated under Section 8 of the Companies Act, 2013. .
Ownership and control	Governing document (MOA & AOA/ Trust Deed/ Bye-laws/ Constitution)	Disclose if NPO is owned and/or controlled by government or private.
Exemption under Income Tax Act	Registration certificate under Section 12A/12AA/12AB under Income Tax Act 1961	Registration certificate under Section 12A/12AA/12B to be valid for at least the next 12 months. Does not have a notice or ongoing scrutiny by Income Tax.
Registration with Income Tax as an NPO	IT PAN	Valid IT PAN
Age of the NPO	Registration certificate	Minimum 3 years

Tax deduction under Income Tax Act, 1961	Valid 80G registration under Income-Tax Act, 1961 .	Entity to ensure whether tax deduction is available or not to investors.
Eligible to be Social Enterprise	Requirements with regulation 292E of ICDR Regulations	As may be specified by SSE
<b>Minimum Fund Flows</b>		
Annual Spending in the past financial year	Receipts or Payments from Audited accounts/ Fund Flow Statement	Must be at least Rs. 50 lakhs
Funding in the past financial year	Receipts from Audited accounts/ Fund Flow Statement	Must be at least Rs. 10 lakhs

## 4.2 Rights, Obligations and Disclosures Document

The SGC Shall lay down the Rights and Obligations of the NPO and FPEs who wish to list with the SSE and also the nuances of the Risk Disclosure Document (RDD). The RDD shall contain important information on risks involved with the trading on the stock exchanges. All social enterprises are required to read this document and understand the nature of the relationship into which they are entering and the extent of their exposure to risk.

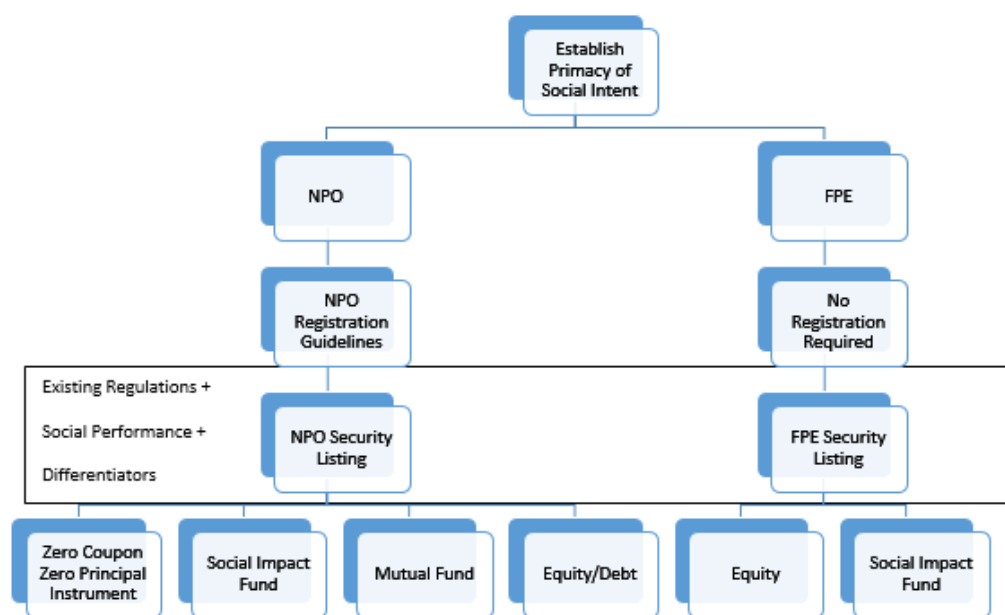
## 4.3 Key Listing Guidelines

### 4.3.1 Listing for FPSEs and NPOs

Existing SEBI regulations set the requirements for eligibility and governs the listing of equity and debt securities issued by FPEs. Among these regulations includes SEBI (Issue of Capital and Disclosure Requirements) Regulations, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

The process flow for onboarding Social Stock Exchange by social enterprises is depicted in Figure 4.1

**Figure 4.1: Process Flow for onboarding social stock exchange by social enterprises**



For Profit Enterprises (FPEs) shall list their securities on their appropriate existing boards of stock exchanges. For example, debt securities shall be listed on the main boards, while equity securities shall either be listed on the main board (NSE/BSE), or on the SME platform (NSE-EMERGE/BSE SME) or Innovators Growth Platform (IGP).

The offer documents of the social enterprises for various modes of fund raising shall require disclosure of aspects called “differentiators”. In case of FPEs, the differentiators mentioned in Table 4.2 are additional requirements as mandated in SEBI Regulations in respect of raising funds through equity or debt. The differentiators cover aspects such as vision, target segment, strategy, governance, management, operations, finance, compliance, credibility, social impact and risks. FPEs will also be required to provide information in the offer document under various SEBI regulations.

As part of the pre-listing process, the NPO shall provide audited financial statements for the previous 3 years and social impact statements. Additionally, the offer documents for social enterprises shall provide the details under the following heads, called “differentiators” (Table 4.3).

**Table 4.2: Differentiators for FPEs and NPOs**

Sr. No.	Differentiator	Details
1	Vision	Organisation’s activities and programmes are in line with aims and objects stated in its constitution

2	Target Segment	Organisation has defined its target segment and reach to accomplish its planned activities. Clear identification and understanding of the target segment (those affected by the problem and how they are affected). The SE must disclose how its approach intends to improve inclusion for its customers / recipients
3	Strategy	Strategy formulation towards accomplishing vision, should take into account capabilities and learning from challenges.
4	Governance	Organisation has a governing body and details of its highest governing body, composition, dates of board meetings held (key items covered).
5	Management	Details of key managerial staff such as those in charge of Programmes, Fundraising, Finance, HR. Organisation discloses whether it provides letters to staff and volunteers defining roles and responsibilities, has a periodic performance appraisal process etc.
6	Operations	The organisation has a physical existence, is operational and shares its address for visits.
7	Finance	Disclosure of financial statements in accordance with guidelines for NPOs issued by ICAI
8	Compliance	Organisation makes available, annual accounts duly audited for the latest three financial years and there are no material qualifications or material irregularities reported by its auditor. Compliances w.r.t. Income Tax, notices received etc.
9	Credibility	Documents such as Registration, Trust Deed/ MoA and AoA, Address Proof, IT PAN, 12A/12AA Certificate, FCRA certificate and returns, remuneration to governing members.
10	Social Impact	Strategic Intent and planning; Impact Scorecard
11	Risks	Disclose (i) risks that the NPO sees to its work, and how it proposes to mitigate these (ii) unintended consequences that the NPO sees from its work, and how it proposes to mitigate these

The above categories will be used by potential funders/investors to differentiate between the various similar NPOs and securities being listed and to make informed investment decisions.

For program-specific or project-specific listings, the NPO shall have to provide a greater level of detail in the listing document about its track record and impact created in the program target segment. The NPO will also be required to publicly display on its website all the information submitted as part of pre-listing and post-listing requirements.

An outline for offer documents of the social enterprises for ZCZP is available at Annexure 3.

The Social Stock Exchange lists out various procedures and workflows (e.g. for registration, listing, delisting, accounting, disclosures and other fees etc.), laying out detailed roles and responsibilities for all stakeholders.

**Annexure 3: Outline for the Offer document requirements for Zero Coupon Zero Principal Instruments**

<b>Table of Contents</b>	
	<b>Additional Considerations for the SSE</b>
<b>Section I: General</b>	
Disclaimer	As deemed fit by SSE
Presentation of Financial, Industry & Other Information	As deemed fit by SSE
Forward Looking Statements	As deemed fit by SSE
<b>Section II: Risk Factors</b>	Inclusion of risk of impact not being achieved; Risks, Unintended Consequences
<b>Section III: Introduction</b>	
General Information	Consider Section 3 information – ‘general information to be published’ in this section
Capital Structure	As deemed fit by SSE
Statement of Tax benefits available to the debenture holders	Bond holder – 12A registration
Objects of the Issue	Discussion on impact envisioned and use of proceeds (incl Impact Taxonomy)
<b>Section IV: About our Company/Organization</b>	
Industry Overview	Sector Overview
Our Business	Our Programme Interventions
History and certain other corporate matters	As deemed fit by SSE
Our management	To be aligned to ‘Highest Governing Body’
Our promoters	As deemed fit by SSE
Related party transactions	As deemed fit by SSE

<b>Section V: Financial Information</b>	
Financial Statements	Align to legal and statutory filings/reports
Summary of significant differences between Indian GAAP and Ind AS	As deemed fit by SSE
Material developments	As deemed fit by SSE
Financial indebtedness	As deemed fit by SSE
<b>Section VI: Issue Related Information</b>	
Issue structure	<ul style="list-style-type: none"> <li>● Impact thesis – in line with strategic intent and goal setting</li> <li>● Social impact scorecard</li> <li>● Pipeline of programs for which the proceeds will be used</li> </ul>
Terms of the Issue	As deemed fit by SSE
<b>Section VII: Legal and Other Information</b>	
Outstanding litigation	As deemed fit by SSE
Other regulatory and statutory disclosures	As deemed fit by SSE
Key regulations and policies	As deemed fit by SSE
<b>Section VIII: Summary of the Main provisions of the Articles of Association</b>	
<b>Section IX: Other Information</b>	

#### Chapter 4: Sample Questions

1. For fund raising through the Social Stock Exchange, a social enterprise need to fulfil which of the following condition(s):
  - i. Establish the primacy intent of social impact
  - ii. Social enterprises must focus on underserved or underprivileged populations
    - a. Only i
    - b. Only ii
    - c. Both i and ii**
    - d. None of these
  
2. Who has prescribed minimum requirements for registration of a Not for Profit Organization on a Social Stock Exchange?
  - a. RBI
  - b. SEBI**
  - c. ICAI
  - d. NISM
  
3. Which of the following entities are covered as per the mandatory criteria for an NPO registration under SEBI ICDR Regulation?
  - I. a charitable trust registered under the public trust statue of the relevant state
  - II. a charitable trust registered under the Societies Registration Act,1860
  - a. Only a
  - b. Only b
  - c. Both a and b**
  - d. None of these
  
4. The offer documents of the social enterprises for various modes of fund raising shall require disclosure of aspects called\_\_\_\_\_.
  - a. Registration certificate
  - b. Workflow document
  - c. Risk Disclosure Document
  - d. Differentiators**



## CHAPTER 5: SOCIAL AUDIT AND SOCIAL AUDITORS

### Learning Objectives

After studying this chapter, you should know about:

- Concept of Social Audit
- Principles of Auditing
- Code of Conduct for Social Auditors etc.

### 5.1 Evolution of Social Audit

The concept of the social responsibility of enterprises has progressed rapidly in the last few decades. An organization's performance in relation to the society in which it operates and its impact on the environment has become a critical part of measuring its overall performance and its ability to continue operating effectively.

In India, the Gandhian philosophy of trusteeship captures the business responsibility towards society. The philosophy of giving back to the society has been an integral part of the culture, which has also been imbibed in traditional Indian businesses since time immemorial.

Responsible Business Conduct is a globally recognized concept founded on the idea that businesses can perform better when engaged in re-vitalizing the society from which they extract resources for production. The National Guidelines on Responsible Business Conduct, 2018 (NGRBC), encourage businesses to contribute towards broader development goals while seeking to be economically viable.

Development of sustainability reporting standards like Global Reporting Initiative (GRI) ISO 26000: Guidance on Social Responsibility, Principles of Responsible Investing (PRI), Sustainability Accounting Standards Board (SASB) have contributed significantly to our understanding of social responsibility.

India is a signatory of global initiatives like The Sustainable Development Goals (SDGs), adopted by the United Nations in 2015. These global initiatives address universal social development issues and call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.

With sharp focus on the social impact of business, standards, frameworks and guidance on social auditing have become essential requirements. Monitoring, measuring and reporting the social performance of enterprises have emerged as a regulatory requirement. Based on the guidance in NGRBC, Business Responsibility & Sustainability Reporting is a compliance requirement for the top 1000 companies in India. The fact that NGRBC is dovetailed with the United Nations Guiding Principles on Business & Human Rights (UNGPR) makes the BRSR disclosures globally relevant.

In India, the concept of monitoring and evaluation of social development activity and performance audit of flagship social development programs has been active for national social development initiatives like National Rural Health Mission, Sarva Shiksha Abhiyana, Pradhan Mantri Gram Sadak Yojana etc.

Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) was launched in 2006. It is pegged as the most ambitious anti-poverty program, which guarantees 100 days of unskilled manual labour for adult members in rural households. The Gram Sabha is expected to monitor the NREGA and conduct social audits of all NREGA projects implemented in the Gram Panchayat.

With the introduction of the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2020 - social impact assessment came into the purview of compliance

*In the said Rules, in rule 8, after sub-rule (2), following sub-rule is inserted, namely: -  
“(3) A company having the obligation of spending average CSR amount of Rs 5 Crore or more in the three immediately preceding financial years in pursuance of sub-section 5 of Section 135 of the Act, shall undertake impact assessment for their CSR projects or programmes, and shall disclose details of the same in its Annual Report on CSR.”*

With the forthcoming launch of the social stock exchange – social audit has matured with well-defined deliverables. For the first time, the development of Social Audit Standards (SAS) by ICAI has defined the required social audit procedures for 16 thematic areas of social development.

### **5.1.1 Definitions of Social Audit**

There are many definitions of social audits which are emerging. Some of the more acceptable ones are listed below.

Social Audit is the process of reviewing and verifying the Social Accounts at the end of each social accounting period. The term 'social audit' is sometimes used generically for the concept and for the whole process.<sup>32</sup>

A Social audit is a formal review of a company's endeavours, procedures, and code of conduct regarding social responsibility and the company's impact on society. A social audit assesses how well the company achieves its goals or social responsibility benchmarks.<sup>33</sup>

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<sup>32</sup> Social Audit Network, UK <https://www.socialauditnetwork.org.uk/>

<sup>33</sup> Chris.Murphy, Investopedia, <https://www.investopedia.com/terms/s/social-audit.investopedia>

The NREGA defines social audit as reviewing official records and determining whether state-reported expenditures reflect the actual monies spent on the ground.<sup>34</sup>

"Social Auditing is a process that enables an organization to assess and demonstrate its social, economic, and environmental benefits and limitations. It measures the extent to which an organization lives up to the shared values and objectives it has committed. Social auditing assesses the impact of an organization's non-financial objectives through systematically and regularly monitoring its performance and the views of its stakeholders."<sup>35</sup>

"Social Audit is an independent evaluation of the performance of an organisation as it relates to the attainment of its social goals. It is an instrument of social accountability of an organisation. In other words, Social Audit may be defined as an in-depth scrutiny and analysis of the working of any public utility vis-à-vis its social relevance."<sup>36</sup>

The Social Audit process is intended as a means for social engagement, transparency and information communication, leading to greater accountability of decision-makers, representatives, managers and officials. The underlying ideas are directly linked to concepts of democracy and participation."<sup>37</sup>

Social Audit Network UK defines Social Auditor as "A person who chairs the social audit panel and manages the audit process at the end of each cycle, including the examination of the data and the sample checking to the source (the audit trail), and issuing the Social Audit Statement. "

SEBI defines a social auditor as an individual registered with a self-regulatory organization (SRO) under the purview of the Institute of Chartered Accounts of India (ICAI). To be qualified as a social auditor, an individual must qualify for a certification program conducted by the National Institute of Securities Market (NISM) and hold a valid certificate.

### **5.1.2 Difference between social audit and financial audit**

The distinguishing features between the social audit, and financial Audit is given below:

#### *Features of Financial Audit are as follows:*

- Involves Audit of financial statements and transactions.

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<sup>34</sup> <https://nrega.nic.in/netnrega/SocialAuditFindings>

<sup>35</sup> Caledonia Centre for Social Development, United Kingdom (<http://www.aledonia.org.uk/>)

<sup>36</sup> (Centre for Good Governance, Andhra Pradesh. <https://www.cgg.gov.in/>)

<sup>37</sup>Kurian Thomas, Social Audit;<https://pria-academy.org/pdf/m4-4-Social-Audit%20.pdf>

- Covers nonfinancial matters limited only to those aspects that provide additional information to stakeholders of the business who are mainly interested in the entity's financial status.
- Financial Audits are done keeping in mind the objective of issuing an opinion on the state of financial affairs.
- Deals mainly with the study of financial data.

Features of Social Audit are as follows:

- Looks at the impact caused on the society by the organization
- Takes an "outside in" approach of looking at organization, dealing more with how the non-financial stakeholders view the business rather than how the managers/ owners of the organization plan it to be.
- Deals with the study of social impact parameters, most of which can be gathered from outside the organisation which is being audited.
- Involves the stakeholders of the enterprise and adopts a triple bottom line approach.

**Table No 5.1: Difference between Financial and Social Auditors**

	<b>Financial Auditors</b>	<b>Social Auditors</b>
<b>Perspective</b>	Has financial Perspective only	Is multi perspective
<b>Stakeholders</b>	Doesn't consider the larger ecosystem of stakeholders. Concentrates on shareholders	Societal ecosystem is important. All stakeholders are important including the shareholders / funders/ financiers
<b>Eligibility</b>	Chartered Accountants	Chartered Accountants and Graduates of any discipline with experience and certifications as prescribed by SRO/SEBI
<b>Aspects</b>	Financial	Economic , Social and environmental
<b>Comparative</b>	Comparison with the firm to be audited / auditee	Within the organization +other external standards +other comparative organisations
<b>Impact</b>	Only financial performance is key metric	Social impact , social performance as well as financial Audit are all key metrics
<b>Methods</b>	Standardized methods	Methods vary as per project and thrust areas of the organisation.
<b>Indicators</b>	Deals primarily with quantitative indicators	Both quantitative and qualitative indicators are important

<b>Audit Conclusion</b>	Reflection of financial matters of enterprise	Reflection of social impact of the enterprise
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## 5.2 Principles of auditing<sup>38</sup>

Auditing principles help to make the audit an effective and reliable tool, by providing information on which an organization can act in order to improve its performance. Adherence to these principles is a prerequisite for providing audit conclusions that are relevant and sufficient, and for enabling auditors, working independently from one another, to reach similar conclusions in similar circumstances.

**The seven principles of auditing are outlined below.**

a) Integrity: the foundation of professionalism

Auditors and the individual(s) managing an audit programme should:

- perform their work ethically, with honesty and responsibility
- only undertake audit activities if competent to do so
- perform their work in an impartial manner, i.e. remain fair and unbiased in all their dealings;
- be sensitive to any influences that may be exerted on their judgement while carrying out an audit.

b) Fair presentation: the obligation to report truthfully and accurately

Audit findings, audit conclusions and audit reports should reflect truthfully and accurately the audit activities. Significant obstacles encountered during the audit and unresolved diverging opinions between the audit team and the auditee should be reported. The communication should be truthful, accurate, objective, timely, clear and complete.

c) Due professional care: the application of diligence and judgement in auditing

Auditors should exercise due care in accordance with the importance of the task they perform and the confidence placed in them by the audit client and other interested parties. An important factor in carrying out their work with due professional care is having the ability to make reasoned judgements in all audit situations.

d) Confidentiality: security of information

Auditors should exercise discretion in the use and protection of information acquired in the course of their duties. Audit information should not be used inappropriately for personal gain by the auditor or the audit client, or in a manner detrimental to the legitimate interests of the auditee. This concept includes the proper handling of sensitive or confidential information.

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<sup>38</sup> IS ISO19011 Guidelines for auditing management systems

e) Independence: the basis for the impartiality of the audit and objectivity of the audit conclusions.

Auditors should be independent of the activity being audited wherever practicable, and should in all cases act in a manner that is free from bias and conflict of interest. For internal audits, auditors should be independent from the function being audited if practicable. Auditors should maintain objectivity throughout the audit process to ensure that the audit findings and conclusions are based only on the audit evidence.

For small organizations, it may not be possible for internal auditors to be fully independent of the activity being audited, but every effort should be made to remove bias and encourage objectivity.

f) Evidence-based approach: the rational method for reaching reliable and reproducible audit conclusions in a systematic audit process

Audit evidence should be verifiable. It should in general be based on samples of the information available, since an audit is conducted during a finite period of time and with finite resources. An appropriate use of sampling should be applied, since this is closely related to the confidence that can be placed in the audit conclusions.

g) Risk-based approach: an audit approach that considers risks and opportunities

The risk-based approach should substantively influence the planning, conducting and reporting of audits in order to ensure that audits are focused on matters that are significant for the audit client, and for achieving the audit programme objective.

### **5.3 Code of Conduct for Social Auditors**

ICAI has developed a Code of conduct for Social Auditors (SAs) based on international and Indian practices. The objective of the code of conduct is to guide the SAs in discharging their duties responsibly and diligently. The CoC is in addition to the regulatory requirements prescribed by the SSE or any other regulatory bodies having jurisdiction over them.

The important principles and values for social auditing are listed below:

1. Integrity: Implies that the SA is right, truthful, fair dealing and honest. It is a core value for the Social Auditor. SA should not knowingly be associated with reports, returns, communications or other information where he believes that the information contains a materially false or misleading statement. High ethical standards are expected out of a SA.
2. Objectivity: Implies that a SA will not compromise judgment because of bias, conflict of interest or under any person's or institutional influence. Loss of objectivity can be detrimental to the conclusions of the social Audit.

3. Confidentiality: Implies that information will not be disclosed to a third party during or after the closure of a professional relationship. Access to or any information gathered during the Social Audit is to be considered as Confidential information. Apart from certain circumstances like disclosures under law utmost confidentiality is expected of a Social auditor.
4. Professional behaviour: SA is expected to behave lawfully taking care so as not to discredit the profession. It is expected that a SA has a pragmatic disposition having a broad perspective and able to understand complex operations.
5. Professional Competence and Due care: Implies that a SA attains, maintains and updates professional competence in related technical, professional and business domains.
6. Independence: Implies independence in mind (not being influenced in the professional judgment) and appearance (the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that the Auditor's integrity, objectivity or professional skepticism has been compromised.)

#### **5.4 Certification requirements for Social Auditors**

Financial auditors can qualify to be social auditors after they have successfully completed a course at the National Institute of Securities Markets (NISM) and received a certificate of completion.

Other individuals desirous of being Social auditors need to have at least 1 eligibility criterion listed below:

1. Post-graduates from universities recognized by the University Grants Commission (UGC) with a minimum of 3 years of experience in the development sector, or
2. Graduates from universities recognized by the UGC with a minimum of 6 years of experience in the development sector, or
3. Cost and management accountants, or any other persons with suitable accreditations with a minimum of 6 years of experience in the development sector.

AND

4. Complete the NISM certificate course mentioned above. All Social Auditors will have to be empanelled under an SRO (Institute of Social Auditors of India) formed as a separate Sustainability Directorate under the aegis of ICAI.

#### **5.5 Competencies and Skills required for Social Auditor**

**Competencies**, are the auditors' knowledge and behaviours that lead them to be successful in a job. The individual(s) managing the audit programme should have the

necessary competence to manage the programme and its associated risks and opportunities and external and internal issues effectively and efficiently, including knowledge of:

- a) audit principles, methods and processes for social audit
- b) management system standards, other relevant standards and reference/guidance documents; e.g. Social Audit Standards, ISO 26000: Guidance on Social Responsibility, NGRBC, BRSR to name a few
- c) information regarding the auditee and its context (e.g. external/internal issues, relevant interested parties and their needs and expectations, business activities, products, services and processes of the auditee)
- d) applicable statutory and regulatory requirements and other requirements relevant to the activities of the auditee- social enterprise or CSR program

As appropriate, knowledge of risk management, project and process management, and information and communications technology (ICT) may be considered.

The individual(s) managing the audit programme should engage in appropriate continual development activities to maintain the necessary competence to manage the audit programme.

Skills are the specific learned abilities that you need to perform a given job well.

1. Essential Knowledge: This refers to knowledge applicable to the domain, especially the Social Audit Standards thematic area. It includes but is not restricted to understanding national law, international conventions, standards applicable to the domain, social audit standards, etc. Competency of a thorough knowledge of the SDGs and NITI Aayog SDG Index is necessary. Understanding national and regional laws is essential to contextualize the project/ activity at the micro/ macro level.
2. Auditing knowledge and skills: compliance issues of the domain, compliance issues in specific geographies.
3. Stakeholder Consultation methods: Social Audit involves inclusion and feedback from various stakeholders- the auditor should be aware of the different consultation methods (interviews, focus group discussions, SWOT analysis etc.). The auditor should be able to deduce the relevance and suitability of the consultation methods adopted in the impact report.



4. **Effective Communication:** The ability to communicate effectively with managers, staff, beneficiaries and government agencies/officials is crucial. An auditor must be a good listener; as active listening is critical to the social audit process. The ability to communicate clearly with all stakeholders in the appropriate language or dialect will be an added advantage.
5. **Interpersonal skills:** These will be enhanced by sensitivity to gender, racial, ethnic, cultural and socio-economic issues. The auditor should be able to deal with people from different backgrounds and take clues from nonverbal communication.
6. **Personal-professional attributes** include a high code of conduct governed by law with solid ethics and integrity—honesty, trustworthiness, and the ability to remain independent from personal interests.
7. **Ability to make decisions** based on verifiable and material sources and verifiable evidence.
8. **Problem-solving and analytical skills** are very important.

### **5.6 Empanelment of Social Auditors with SROs**

All SAs shall be empanelled with a Self-Regulatory Organization (SRO) viz. Institute of Social Auditors of India. The empanelment process shall consider the following criteria:

- Experience of the individual/firm/institution in assuring non-financial information (with the individual/firm/institution's social sector experience carrying a higher positive weight in such consideration)
- Number of partners/employees meeting the criteria for being social auditor (in the case of firm/institution) Disciplinary cases/sanctions against the individual/firm/institution would carry a negative weight in such consideration
- With the advent of time, more parameters will be considered for empanelment - e.g. size, nature/complexity, and scale of operations of the funders/projects; the possession of specific social sector expertise (e.g., nutrition, education, health, water & sanitation, energy conservation, environment and climate change) etc.

### **5.7 Scope of Work for Social Auditors**

The social auditor managing the audit programme should:

1. communicate the relevant parts of the audit programme, including the risks and opportunities involved, to relevant interested parties and inform them periodically of its progress, using established external and internal communication channels;
2. define objectives, scope and criteria for each individual audit;

3. Select audit methods- The audit methods chosen for an audit depend on the defined audit objectives, scope and criteria, as well as duration and location

**Table 5.2: Audit Methods**

Extent of involvement between the auditor and the auditee	Location of the auditor	
	On-site	Remote
<b>Human interaction</b>	Conducting interviews  Completing checklists and questionnaires with auditee participation  Conducting document review with auditee participation  Sampling	Via interactive communication means: — Conducting interviews; — Observing work performed with remote guide; — Completing checklists and questionnaires; — Conducting document review with auditee participation.
<b>No human interaction</b>	Conducting document review (e.g. re-cords, data analysis)  Observing work performed  Conducting on-site-visit  Completing checklists  Sampling (e.g. products)	Conducting document review (e.g. records, data analysis)  Observing work performed via surveillance means, considering social and statutory and regulatory requirements  Analysing data
<p>On-site audit activities are performed at the location of the auditee. Remote audit activities are performed at any place other than the location of the auditee, regardless of the distance.</p> <p>Interactive audit activities involve interaction between the auditee’s personnel and the audit team. Non-interactive audit activities involve no human interaction with individuals representing the auditee but do involve interaction with equipment, facilities and documentation.</p>		

4. coordinate and schedule audits and other activities relevant to the audit programme;
5. ensure the audit teams have the necessary competence
6. provide necessary individual and overall resources to the audit teams

7. ensure the conduct of audits in accordance with the audit programme, managing all operational risks, opportunities and issues (i.e. unexpected events), as they arise during the deployment of the programme;
8. ensure relevant documented information regarding the auditing activities is properly managed and maintained
9. review the audit programme in order to identify opportunities for its improvement
10. Assessing the demonstration of the social intent of the organisation
11. Identify stakeholders and the targeted beneficiaries.
12. Alignment of the objectives and goals with the NITI Aayog's SDG India Index. NGRBC guidance etc.
13. Assessment of implementation and review mechanism, e.g. variances between intended and actual targets, staff capacity development, benchmarking, key impact indicators, internal or external audit.
14. Assessment of the methodology for data collections techniques, research methods, desk review of existing documents.
15. Review stakeholder's responses to evaluation questions in the impact report
16. Evaluate subject matter information: whether the evidenced changes are traceable to the intervention and how much could have happened irrespective of the intervention, what are the unintended negative impacts as a result of the intervention and are they reported.
17. Assessment of Evaluation criteria viz. the Key Impact indicators based on the subject matter information, quantitative and qualitative evaluation criteria to be identified against which impact needs to be mapped.
18. Final assessment, including the audit opinion.
19. Prepare audit report in compliance with SSE

## **5.8 Social Audit Process**

A typical social audit process – from collecting information to reaching audit conclusion is as following:

### **5.8.1 Collecting and verifying information**

During the audit, information relevant to the audit objectives, scope and criteria, including information relating to interfaces between functions, activities and processes should be collected by means of appropriate sampling and should be verified, as far as practicable.

### **5.8.2 Audit Evidence**

The evidence can be formulated in the form of:

- Documentary-This consists of varieties of documents gathered/verified/checked at the time of auditing. It may include different types of reports, notes etc.

- Oral- This type of evidence includes oral discussions/interactions etc. with various stakeholders of an institution being audited. The auditors must note the inconsistencies, if any.
- Physical-Physical evidence is where the Audit inspects the asset and counts them whenever required. This evidence is collected wherever possible based on the nature of the Audit.
- Analytical-The use of analytical procedure is made to derive the required data or know the correctness of information obtained. The conclusions here are based on comparisons, calculations, and the relationships between the various pieces of information derived by the auditor.

### **Information and documents required by social auditor**

The auditor must have access to all documentary evidence collected by the organisation relevant to the project / activity. Access to primary sources of data on which the Social Impact report is based are crucial evidence. Thus, the auditor must have access to:

1. Secondary data: This data is readily available through a repository of information available with the organisation. The records that are maintained by the organisation as a part of their routine project activity are an example of secondary data. Data available in the public domain is also secondary data. If need be, social auditors can obtain data from any public authority under RTI.
2. The auditor should demand access to relevant secondary data which is material to the project to be audited. Some examples of secondary data are: out of school children in a slum/zone, amount and value of loans given to women in a microfinance program etc.
3. Monthly, quarterly and six-monthly reports maintained by the organisation. Case study reports, intake sheets of beneficiaries should be produced to the auditor on demand
4. Photo documentation, film clippings of events/ activities are also important evidence and should be made available to the auditor.
5. Stakeholders are an integral part of the social audit process. The auditor can also look into the documentary evidence used / cited in the Social impact report such as a list of farmers with signatures is one of the pieces of evidence to ascertain that they were indeed consulted for the Social Impact consultation. Any discrepancy noted herein can be further scrutinized.
6. Primary data: This is obtained from first hand sources and needs to be included in the impact report. Key stakeholders from the organization and beneficiaries should be consulted. Interviews, questionnaires, focus group discussions, surveys are some examples of primary sources of data. Sources of primary data collected should be maintained in a form that can be retrieved by the Auditor during audit trail.

7. The auditor needs to use appropriate techniques and sample size to ensure reliability, accuracy and validity of information collected to derive evidenced conclusions. Depending on the nature of the Social project, a combination of probabilistic sampling methods (simple random/ systematic/ cluster / stratified) or non-probabilistic methods (quota, judgemental, snowball) can be used to collect evidence.
8. Evaluation of misstatements identified during the Audit and the evidence for the same.
9. Audited financial statements of the organisation and the audited utilisation certificates of the project.

### **Evidence Building**

The social auditor should plan and perform a social audit with an attitude of professional skepticism to obtain sufficient appropriate evidence of the implementation of the social program in the field.

Following are the points to be considered while building evidence:

- When designing and performing procedures, the practitioner would also need to consider the relevance and reliability of the information to be used as evidence. If:
  - a. Evidence obtained from one source is inconsistent with that obtained from another; or
  - b. The social auditor has doubts about the reliability of information to be used as an evidence,
- The social auditor should determine what changes or additions to the procedures are necessary to resolve the matter, and should consider the effect of the matter, if any, on other aspects of the engagement.
- The social auditor should accumulate uncorrected misstatements identified during the engagement other than those that are clearly trivial and determine the effect of the misstatement on the assurance report.
- The social auditor should request from the appropriate party(ies) a written representation:
  - a. That it has provided the social auditor with all information of which the appropriate party(ies) is aware that is relevant to the engagement.
  - b. Confirming the measurement or evaluation of the underlying subject matter against the applicable criteria, including that all relevant matters are reflected in the subject matter information.
  - c. If, in addition to required representations, the social auditor determines that it is necessary to obtain one or more written representations to support other evidence relevant to the subject matter information, the social auditor should request such other written representations.
- When written representations relate to matters that are material to the subject matter information, the social auditor should:

- a. Evaluate their reasonableness and consistency with other evidence obtained, including other representations (oral or written); and
  - b. Consider whether those making the representations can be expected to be well-informed on the particular matters.
  - c. The date of the written representations should be as near as practicable to, but not after, the date of the assurance report.
- **Description of Applicable Criteria:**

The social auditor would need to evaluate whether the subject matter information adequately refers to or describes the applicable criteria. The description of the applicable criteria advises intended users of the framework on which the subject matter information is based, and is particularly important when there are significant differences between various criteria regarding how particular matters may be treated in the subject matter information.

### **Characteristic of Audit Evidence**

Competence signifies the reliability of an audit evidence

If the social auditor is unable to obtain sufficient appropriate evidence, a scope limitation exists and the social auditor should express a qualified opinion/conclusion or disclaim an opinion/conclusion, or withdraw from the engagement, where withdrawal is possible under applicable law or regulation, as appropriate.

Relevance means pertinence of the information to provide an opinion.

The social auditor should evaluate the sufficiency and appropriateness of the evidence obtained in the context of the engagement and, if necessary in the circumstances, attempt to obtain further evidence. The social auditor should consider all relevant evidence, regardless of whether it appears to corroborate or to contradict the measurement or evaluation of the underlying subject matter against the applicable criteria. If the practitioner is unable to obtain necessary further evidence, the social auditor should consider the implications for the social auditor's opinion/conclusion.

Sufficiency describes whether the information obtained is enough to provide an opinion/judgment/conclusion.

The social auditor should form an opinion/a conclusion about whether the subject matter information is free of material misstatement. In forming that opinion/conclusion, the social auditor should consider the conclusion regarding the sufficiency and appropriateness of evidence obtained and an evaluation of whether uncorrected misstatements are material, individually or in the aggregate.

If the social auditor is unable to obtain sufficient appropriate evidence, a scope limitation exists and the social auditor should express a qualified opinion/conclusion or disclaim an opinion/conclusion, or withdraw from the engagement, where withdrawal is possible under applicable law or regulation, as appropriate.

### 5.8.3 Audit Conclusions

- a) review the social audit findings and any other appropriate information collected during the audit, against the audit objectives;
- b) agree on the audit conclusions, taking into account the uncertainty inherent in the audit process;
- c) prepare recommendations, if specified by the audit plan;
- d) discuss audit follow-up, as applicable.

#### Content of audit conclusions

Audit conclusions should address issues such as the following:

- a) the extent of conformity with the social audit criteria
- b) achievement of audit objectives, coverage of audit scope and fulfilment of audit criteria;  
If specified by the audit plan, audit conclusions can lead to recommendations for improvement, or future auditing activities.

Two audit opinions can be made by a Social Auditor based on the assessment of social impact as follows:

1. Unqualified opinion or unmodified opinion also known as "Clean Report". This implies that there is no material mismanagement and there is sufficient and appropriate audit evidence obtained in reference to evaluation criteria applied for the impact assignment.
2. Qualified Opinion or modified opinion is given when the auditor is unable to obtain sufficient appropriate audit evidence or as a whole, the Impact report is not free from material mismanagement.

### 5.9 Accounting System and Internal Control

While performing the Social Audit, the auditor should obtain the basic understanding of the accounting system by obtaining and reading the following documents:

S.no.	Document Name	Document Description
1	Accounting Manual including SOP	The Accounting manual contains the description of accounting system and relevant accounting policies and procedures designed for the various processes such as income, expenditure, cash & bank, fixed assets, etc.
2	Chart of Accounts	The Chart of accounts contains the list of accounts which are there on the accounting system
3	Cost Center Details	Cost Center details is the list of code entered into the system to identify the cost related to various specific projects

4	Delegation of Authority Matrix	This matrix contains the details of roles and responsibilities of each level to ensure smooth functioning and approval of transactions by authorized persons within the organizations
5	IT Controls Manual	It contains the detail regarding the IT controls in relation to accounting system such as Access Controls, Physical and environment security, logical security, backup and recovery etc.

### 5.10 Social audit report

The social audit team leader should report the audit conclusions in accordance with the audit programme. The audit report should provide a complete, accurate, concise and clear record of the audit, and should include or refer to the following:

1. A title that clearly indicates the report is an independent audit report.
2. Social audit report is ordinarily addressed to the engaging party, but in some cases there may be other intended users
3. audit objectives;
4. audit scope, particularly identification of the organization (the auditee) and the functions or processes audited;
5. identification of the audit client;
6. identification of audit team and auditee's participants in the audit;
7. dates and locations where the audit activities were conducted;
8. audit criteria;
9. audit findings and related evidence;
10. audit conclusions
11. a statement on the degree to which the audit criteria have been fulfilled;
12. Any unresolved diverging opinions between the audit team and the auditee;
13. The audit report can also include or refer to the following, as appropriate:
  - a. the audit plan including time schedule;
  - b. a summary of the audit process, including any obstacles encountered that may decrease the reliability of the audit conclusions;
  - c. confirmation that the audit objectives have been achieved within the audit scope in accordance with the audit plan;
  - d. any areas within the audit scope not covered including any issues of availability of evidence, resources or confidentiality, with related justifications;
  - e. a summary covering the audit conclusions and the main audit findings that support them;
  - f. good practices identified;
  - g. agreed action plan follow-up, if any;



- h. a statement of the confidential nature of the contents;
- 14. Any implications for the audit programme or subsequent audits.
- 15. A statement that the engagement was performed in accordance with SAS Framework or as any other framework as applicable.
- 16. A statement that the social auditor complies with the independence and other ethical requirements of the Code of Conduct applicable to Social Auditor issued by the Self-Regulatory Organization (SRO) / SEBI.

### **5.11 Challenges related to Social Auditing**

Social audit happens in a dynamic, multidimensional and an interconnected framework. The following highlight the challenges related to Social Auditing:

- Capturing "softer data "can be challenging while capturing the social impact. Ex. confidence, self-esteem, sense of agency. The Social Auditor should ascertain that the AIR has used appropriate methods to capture outcomes for such indicators. It can be addressed by using proxy indicators, paisa scale or narrative numeracy methods. Social auditor needs to be skilled and knowledgeable to trace the materiality of data to the impact indicator reported.
- Capturing social and economic impact is a tough task. Organizations will need refined documentation tools and data analysis methods to arrive at conclusions. Lack of appropriate indicators which are traceable might be a challenge. This can be mitigated by thinking through the data needs that need to be captured while at the project design stage. Hiring the services of a qualified professional may assist. The Social Auditor needs to be well versed with reporting frameworks / tools for the same.
- Traceability of certain stakeholder groups e.g. an intervention for adult learners/ nomads/ may be difficult. Primary evidence/ audit trail for such groups will be an impediment.
- Access to appropriate data in a user friendly manner is necessary to draw conclusions. Organisations may hide/ withhold data that may be counter intuitive.
- Over claiming of impact needs to be addressed. Assigning roles to intervening variables, capturing quality of life indicators by stakeholders and using dead weights can avoid over claiming.
- Multi-dimensional projects implementation will have convergence of sectors. (Example) A District / State rural health intervention will have convergence of sanitation, nutrition, behaviour change communication, primary health services,

etc. Social Audits of this complexity and scale will make the Social Audit process lengthy and cumbersome. This may pose a challenge to the rigour of the Audit.

- Lack of Social auditors who are equipped to conduct audits as per the Social Audit Standards which are aligned to the SDGs. It may be a challenge to have accredited social auditors and experts in all thematic sectors.

### Chapter 5: Sample Questions

1. Which of the following is not a feature of social audit?
  - a. Evaluating the impact caused on the society by the organization
  - b. Issuing an opinion on the state of financial affairs**
  - c. Being a multi perspective in nature
  - d. Adopting the triple bottom line approach
  
2. Both quantitative and qualitative indicators are important in case of \_\_\_\_ audit.
  - a. Social**
  - b. Financial
  - c. Compliance
  - d. Operational
  
3. \_\_\_\_\_ is the rational method for reaching reliable and reproducible audit conclusions in a systematic audit process.
  - a. Fair presentation
  - b. Due professional care
  - c. Evidence-based approach**
  - d. Risk-based approach
  
4. Having which of the following \_\_\_\_\_ implies that a Social Auditor attains, maintains and updates professional competence in related technical, professional and business domains.
  - a. Integrity
  - b. Professional behaviour
  - c. Professional Competence and Due Care**
  - d. Confidentiality

## CHAPTER 6: SOCIAL AUDIT STANDARD FRAMEWORK

### Learning Objectives

- After studying this chapter, you should know about:
- The Social Audit Standards and their Framework
- Social Audit Engagement, Scope, Stakeholders, Planning etc.

### 6.1 Social Audit Standard

The Social Audit Framework developed by ICAI provides a social auditor guidance for conducting a social audit. The social audit framework is applicable from the date of its hosting on ICAI website. Social Audit Framework does not cover any elements of a financial audit or review, which may be covered by relevant auditing/review standards.

#### 6.1.1 List of Social Audit Standards (SAS)

The SAS has sixteen thematic areas which is listed below

- SAS 100: Eradicating hunger, poverty, malnutrition, and inequality.
- SAS 200: Promoting health care (including mental health) and sanitation; and making available safe drinking water
- SAS 300: Promoting education, employability, and livelihoods
- SAS 400: Promoting gender equality, empowerment of Women and LGBTQIA+ communities
- SAS 500: Ensuring environmental sustainability, addressing climate change including mitigation and adaptation, forest, and wildlife conservation
- SAS 600: Protection of national heritage, art, and culture
- SAS 700: Training to promote rural sports, nationally recognised sports, Paralympic sports, and Olympic sports
- SAS 800: Supporting incubators of social enterprises
- SAS 900: Supporting other platforms that strengthen the non-profit ecosystem in fundraising and capacity building
- SAS 1000: Promoting livelihoods for rural and urban poor including enhancing income of small and marginal farmers and workers in the non-farm sector
- SAS 1100: Slum area development, affordable housing, and other interventions to build sustainable and resilient cities
- SAS 1200: Disaster management, including relief, rehabilitation, and reconstruction activities
- SAS 1300: Promotion of financial inclusion
- SAS 1400: Facilitating access to land and property assets for disadvantaged communities
- SAS 1500: Bridging the digital divide in internet and mobile phone access, addressing issues of misinformation and data protection

SAS 1600: Promoting welfare of migrants and displaced persons

### **6.1.2 Scope of Social Audit Standard**

The Social Audit Standard should be applied while conducting a social audit. The relevant SAS thematic area should be chosen according to the activity (social project) which is being audited.

The social project may be for a social enterprise (for -profit or not-for-profit (NPO) and may also have appropriate application to other related functions of social auditors.

### **6.1.3 Compliance with SAS**

- Compliance with SAS is a mandatory requirement for social audit conducted for social enterprises listed on social stock exchange.
- Social auditors should ensure that guidance available in SAS are followed while conducting social audits. If for any reason a social auditor is not able to perform a social audit in accordance with the SAS, his report should draw attention to the material departures therefrom.
- Social Auditors are expected to follow SAS in the social audits commencing on or after the effective date specified in the SAS.

## **6.2 Social Audit Standard (SAS) Framework**

ICAI Social Audit Standard (SAS) Framework provides guidance for the elements and objectives of a social audit performed by Social Auditors. It provides a frame of reference for:

- Social Auditors when performing social audits
- Responsible party, engaging party and other stakeholders who are the intended users of social audit report

SAS Framework does not itself establish standards or provide specific requirements for the performance of specific thematic area e.g., poverty, climate change, health etc.

### **6.2.1 Applicability of SAS Framework**

**Social Audit Standard Framework** will be applicable from the date of its hosting on ICAI website. Reference to the ICAI Social Audit Standard Framework is mandatory while conducting social audits.

Social Audit Standard (SASs)<sup>39</sup> contain guidance on performance of thematic areas for social audit engagements. The appropriate Social Audit Standard thematic area may be referred for relevant social indicators.

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<sup>39</sup> SASs are the area specific thematic Social Audit Standards issued by the Institute of Chartered Accountants of India.

### **6.2.2 Objective of the SAS Framework**

The objective of **ICAI Social Audit Standard Framework** is:

- a. To provide guidance for social audit of projects/ programs/ project-based activities of a social enterprise registered/ listed on the Social Stock Exchange; and social audit of projects/ programs/ project-based activities of any other organisations.
- b. To provide related guidance on matters relating to preparation of Social Audit Report, in accordance with the Social Auditor's findings based on the social audit procedures performed and evidence obtained.

### **6.2.3 Scope of SAS Framework**

- i. This Framework applies to social audit (i.e., social impact assessment of project/ program of social enterprises) to be conducted by social auditors using the principles given in SASs.
- ii. This Framework may also be applied to other engagement(s) conducted by a social auditor e.g., CSR Impact Assessment [as required under the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021 or any other similar assignment.
- iii. The social auditors and the reporting entity may agree to apply the principles of this Framework to an engagement when there are no intended users other than the reporting entity. In such situations, the social auditor's report includes a statement restricting the use of the report to the reporting entity.
- iv. This Framework does not cover any elements of a financial audit or review, which may be covered by relevant financial auditing/review standards.
- v. Any other engagement(s) conducted by other auditors of an organization e.g., statutory audit, internal audit, tax audit will not be under the scope of this Framework.

## **6.3 Social Audit Engagement**

There are five elements of a social audit engagement which are:

1. Three Party Relationship involving a social auditor, a responsible party, and intended users
2. Social Project/ Program/ Intervention scope
3. Social Project Monitoring Framework
4. Audit Evidence
5. Social Audit Report or Social Impact Assessment Report

These elements are discussed below.

### **6.3.1 Three Party Relationship**

Social audit engagements involve three separate parties: a social auditor, a responsible party and intended users. The responsible party and the intended users

may be from different entities or the same entity.

a. Social Auditor

Social Auditor means an individual registered with Self-Regulatory Organisation (SRO) under the Institute of Chartered Accountants of India (ICAI) or such other agency, as may be specified by the Securities and Exchange Board of India (SEBI), who has qualified a certification program conducted by National Institution of Securities Market (NISM) and hold a valid certificate.

b. Responsible Party

The responsible party is the person (or persons) who is responsible for the subject matter. **Generally, social enterprise is the responsible party.** The responsible party may or may not be the party who engages the social auditor (the engaging party).

c. Intended Users

The intended users are the person, persons or class of persons for whom the social auditor prepares the social audit report. The responsible party can be one of the intended users, but not the only one.

### **6.3.2 Social project/ program/ intervention scope**

Social audit engagement helps define the audit scope of the social project / program / intervention relating to a thematic area(s) of the activities conducted by social project/ program/ intervention scope.

### **6.3.3 Social Project Monitoring Framework**

Social projects apply the methodology of Theory of Change when designing social projects. Theory of Change methodology maps out how and why a desired change is expected to happen in a particular context.

The Social Project Monitoring Framework based on Theory of Change model will detail out the **inputs, activities, outputs, outcomes, and impact**. This contributes to social auditor's understanding of the projects and its nuances, identify key evaluation parameters, thematic areas of intervention and the benefits rendered to the community.

The following parameters are considered to assess the impact, or the change (positive or negative) occurred due to the project;

- **Inclusiveness:** Ability of different stakeholders, particularly poorest and most marginalised - to access the benefits of activities, be part of institutions (healthcare / education committees'/Farmer groups) and have access to shared benefits through the intervention.

- **Relevance:** Are the services /inputs /institutions facilitated in the project able to meet community priorities? How was the planning done? Was it participatory? How were the success indicators developed? Was the community involved in development of project indicators?
- **Effectiveness & efficiency:** Have the activities been able to effectively address community expectations? If the project is completed within the finalised time duration How efficiently have the resources been deployed, monitored and utilised? If there is a potential to replicate the solution in other states or districts?
- **Convergence:** Degree of convergence with government/other partnerships; relationship between individuals, community, institutions and other stakeholders.
- **Sustainability:** Do communities feel ownership over the assets created by the activities and/or will the Project initiated community interventions sustain even after the exit of the funding agency. Are the institutions strengthened adequately to effectively manage and sustain the activities after the completion of project? Has an exit strategy been drafted?

#### **6.3.4 Audit Evidence**

The social auditor plans and performs a social audit with an attitude of professional scepticism to obtain sufficient appropriate evidence of the implementation of the social program in the field. An attitude of professional scepticism means the social auditor makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by the responsible party.

#### **6.3.5 Social Audit Report**

The social audit report should be in writing and should contain a clear expression of the social auditor's findings. Oral and other forms of expressing conclusions can be misunderstood without the support of a written report. For this reason, the social auditor should not report orally.

The social audit report should address the social impact aspect covered by the project/ program/ project-based activity that the intended users will be interested in. Social auditor should strive to provide audit reports which are not only stakeholder- friendly and timely but also comprehensive, convincing and balanced.

To be comprehensive, the report should put forward the perspective of social impact vis a vis meeting the intended social objective(s) such as eradication of poverty etc.



To be convincing, the report should be logically structured and present a clear relationship between the objective/scope, indicators and findings. The report should explain why and how problems observed in the findings hamper social impact to encourage the social enterprise or the stakeholder to initiate corrective action.

Being balanced means that the audit report should present findings objectively and fairly in an impartial manner considering different perspectives and viewpoints of stakeholders. The reports should incorporate positive impacts and aspects related to gaps/ challenges and avoid any kind of biased language or information.

This Framework does not require a standardized format for reporting on all social audit engagements. Instead, it identifies the basic elements the social audit report should include. Social audit reports may be tailored to the area specific circumstances. The social auditor may use headings, paragraph numbers, typographical devices, for example the bolding of text, and other mechanisms to enhance the clarity and readability of the report.

A typical social audit report contains certain essential elements which are given below. (These elements are only indicative)

<b><u>Social Audit Report</u></b>
To Appropriate Addressee
<b>Section I</b>
<ul style="list-style-type: none"><li>• Context<ul style="list-style-type: none"><li>○ About the project</li><li>○ Responsibilities of responsible party and social auditor</li><li>○ Conformance to Framework for Social Audit Standards, applicable Social Audit Standards and Code of Conduct for Social Auditors issued by the Self-Regulatory Organization (SRO)</li></ul></li></ul>
<b>Section II</b>
<ul style="list-style-type: none"><li>• Scope of the Social Audit</li><li>• Overall Approach &amp; Methodology used, including Sampling, Data collection and Limitations, if any:</li></ul>
<b>Section III</b>
<ul style="list-style-type: none"><li>• Key Findings from the audit including gaps</li><li>• Case studies</li></ul>
<b>Section IV</b>
<ul style="list-style-type: none"><li>• Annexures (if applicable)</li></ul>
<b>Inherent Limitation:</b> This report in no way should be construed as an opinion, attestation, certification or other form of assurance. The procedures performed as

part of the social audit do not constitute an examination or a review in accordance with generally accepted auditing standards or attestation standards.

This assessment has been undertaken by [name of firm/agency/individual],  
(Registration No. allotted by SRO)

#### **6.4 Social Audit Scope**

Social audit is an independent, objective and reliable examination of impact of a project / program / project-based activity of a social enterprise.

A social audit -

- Assesses whether the project / program / project-based activity is operating in accordance with the stated strategic intent and planning.
- Assesses the stated performance in terms of impacts/ outcomes.
- Suggests ways to improve the impact measurement and/ or performance by way of a management letter.

Social Audit Scope should include the physical and virtual-locations, functions, organizational units, activities and processes, as well as the time period covered.

#### **6.5 Stakeholders**

Stakeholders are individuals or groups of people or organisations that affect or are affected by the activities of the organisation e.g., a social enterprise or a corporate business. Stakeholder engagement by a social auditor allows the stakeholders to provide information, resources and their perspective needed for the social audit. The stakeholders may include all or any the following:

- Social Enterprise (FPE / NPO)
- Beneficiaries
- Risk Investors
- Impact Investors
- Outcome Funder
- Third Party Evaluator
- Intermediaries
- Regulators
- Society/ communities
- Vendors.
- Third party agencies
- Governments
- Funds providers
- Trustees
- Directors etc.

- Corporates

### **6.6 Social Audit Engagement Acceptance**

A social auditor accepts a social audit engagement when relevant ethical requirements—of independence and professional competence are met and the engagement meets the requirement of Integrity, Objectivity, Confidentiality, Professional behaviour and professional competence and due care.

#### **Written Representations**

The social auditor should request written representations from management and, where appropriate, those charged with governance on material social audit issues. Although written representations provide necessary audit evidence, they are not sufficient or appropriate by itself. Written representations do not affect the nature or extent of other audit evidence that the social auditor obtains about the fulfilment of management's responsibilities, or about specific assertions.

### **6.7 Communication with those charged with governance**

The objectives of the social auditor's communication with Those Charged with Governance (TCWG) are:

- (a) To communicate clearly with those charged with governance the responsibilities of the social auditor in relation to the social audit, and an overview of the planned scope and timing of the social audit.
- (b) To obtain from those charged with governance information relevant to the social audit.
- (c) To provide those charged with governance with timely observations arising from the social audit that are significant and relevant to project/program; and
- (d) To promote effective two-way communication between the social auditor and those charged with governance.
- (e) Communicate appropriately to those charged with governance deficiencies in internal control for program implementation/ management, that the auditor has identified during the social audit. The deficiencies observed by the social auditor should be of sufficient importance to merit attention.

### **6.8 Social Audit Quality Control for Social Auditor/ Audit firm**

The Social Auditor should establish a system of quality control and quality management designed to ensure compliance with professional standards, ethics, regulatory and legal requirements.

A Social Audit firm should establish policies and procedures designed to promote an internal culture based on the recognition that quality is essential in performing engagements. The quality control policies and procedures should be documented and

communicated to the firm's personnel to ensure that the firm and its personnel (and engaged experts) comply with relevant ethical requirements

Social Audit Quality ensures that the social audit reports issued by the social auditor are appropriate in the given circumstances. The Social Audit firms of quality control should include policies and procedures addressing the following:

- a. Leadership responsibilities for quality within the firm
- b. Ethical requirements
- c. Acceptance and continuance of end user relationships and specific engagements including scope determination
- d. Human resources including engagement of experts
- e. Engagement performance including social audit trail
- f. Monitoring

### **6.9 Social Audit Planning**

The objective of planning for a social audit is to build an understanding of the project, consider a variety of strategies and decide on the efficient and effective approach to conduct the social audit.

The Social Auditor should establish an overall engagement strategy that sets the scope, timing, and direction of the engagement, and that guides the development of the work plan.

In establishing the overall engagement strategy, the Social Auditor should:

- (a) Identify the characteristics of the engagement that define its audit scope.
- (b) Ascertain the reporting objectives of the engagement, timing of the social audit assessment, and nature of the communications required.
- (c) Consider the factors that, in the social auditor's professional judgment, are significant in directing the engagement team's efforts.
- (d) Consider the results of preliminary engagement activities and apply relevant knowledge gained in other engagements.
- (e) Ascertain the nature, timing, and extent of resources necessary to perform the engagement.
- (f) Include a description of procedures required to be compliant with the Social Audit Standards-
- (g) Update the overall engagement strategy and the work plan as and if required during the engagement.

### **6.10 Understanding the Entity and its environment**

The Social Auditor should conduct a preliminary entity review to understand and the social and cultural environment it operates to establish the primacy of its-social intent. This is required for the purpose of identifying and assessing the risks of material

misstatement(s)

### **Entity Overview**

A sample of indicative points for entity overview could include the following

- Legal identity entity and its intent/ objectives.
- Projects and timelines for which Audit is to be carried out
- Key Managerial Personnel of the entity
- Geographical regions in which the entity operates
- Policies and procedures
- Governing board/ promoters

### **Social Objective & Impact Overview**

The Social Auditor should conduct a preliminary review on the social objective and impact overview of the entity's activities.

A sample of indicative points for social objective and impact overview could include the following

- Stated objectives of the Projects/ Program
- Project Monitoring Framework
- Program specific baseline, midline, and end line assessment reports (if any)
- Project progress and closure report (if applicable)
- Program specific fund utilization certificate
- Details of vendors and other third parties

### **6.11 Social Auditor's Responses to Assessed Risk**

While planning the audit, the social auditor should consider the risks/challenges in implementing the project/program, which may be different for different thematic areas.

### **6.12 Field level research agency and/or subject matter experts**

It is important to note that the social auditor is primarily responsible for the Social Audit report – even though he/ she may delegate some aspects of the audit work to field level research agency or uses work performed by other social auditors and subject matter experts.

Therefore, the social auditor is encouraged to plan necessary procedures to monitor, track and review the work of the field level research agency and/or subject matter experts. The procedures must be adequate and relevant to the audit purpose.

The social auditor should consider the significant findings/assessments of the assistants'/ field level research agency or other social auditors or subject matter

experts.

The social auditor should evaluate whether the subject matter expert has the necessary competence, capabilities, and objectivity for the social auditor's purposes.

The social auditor should obtain sufficient understanding of the subject matter to determine the nature, scope and objectives of that expert's work and thus evaluate the adequacy of that work for the social audit

The social auditor should have an agreement with the subject matter on the following matters

- (a) The nature, scope and objectives of that expert's work.
- (b) The respective roles and responsibilities of the social auditor and the subject matter expert
- (c) The communication type, format & frequency between the social auditor and the subject matter
- (d) Non-disclosure agreement with the subject matter
- (e) the relevance and reasonableness of the subject matter expert's findings or conclusions, and their consistency with other audit evidence.
  - relevance and reasonableness of the assumptions used by the subject matter in the given circumstance
  - Relevance completeness, and accuracy of the source data used by the subject matter expert
- (f) The social auditor should not refer to the work of a subject matter expert in social audit report unless required by law or regulation. If such reference is required by law or regulation, the social auditor should indicate in the social audit report that the reference does not reduce the social auditor's responsibility for the social audit.

#### **6.12.1 Documentation**

The social auditor should prepare on a timely basis, engagement documentation that provides a record for the social audit report that is sufficient and appropriate, to understand:

- The nature, timing and extent of the procedures performed to comply with this Framework
- The results of the procedures performed, and the evidence obtained; and
- Significant issues observed during the engagement and the recommendations for improvements in the future.

The social auditor should assemble the engagement documentation in an engagement file (whether maintained in hard copy or soft copy). He/ she should complete the administrative process of assembling the final engagement file on a timely basis, usually not more than 60 days after the date of the social audit report.

After the assembly of the final engagement file has been completed, the social auditor should not delete or discard engagement documentation of any nature before the end of its retention period.

### **6.12.2 Materiality**

The Social Auditor should identify material issues when assessing impact of the social project. Materiality should consider the context of quantitative and qualitative factors and the effect of these factors on the evaluation of the subject matter.

### **6.12.3 Internal Controls**

The social auditor should understand and verify internal controls available for the social project management, progress tracking and quality assurance and procedures. Internal control systems help track and assess impact measurements and performance.

### **6.12.4 Fieldwork Process - Sampling and Data collection**

Social Audit Engagement should consider the following while planning the field work for sampling & data collection required for the social audit.

#### Need Assessments Obtaining Program/Project Understanding

The Social Auditor should consider the baseline, mid-line and end-line assessment report (if available) of the social project being audited. The baseline measurement is needed to establish the starting point in any project/ program/ project-based activity. Later mid-line and end-line assessments give the auditor insight on the opportunities and challenges for the social audit. Establishing the baseline is critical to measure what changed due to the intervention<sup>40</sup>.

#### Sample Size

Sampling is a process of selection of a part of the population or universe to engage interact, assess, and obtain feedback about the social project. The sample size will be determined by the data availability and accessibility of beneficiaries.

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<sup>40</sup> Intervention here refers to an intentional action to promote change undertaken through the program/ project/ project-based activity

### Determining Sample size

- i. Type of Universe: The first step in a sample design is defining the set of objects, aggregate of elements technically defined as population or Universe. Universe can be finite or infinite i.e., where the number of items or elements is certain, the universe is finite whereas, if the number of items or elements is not certain, the universe is not finite.
- ii. Sampling Unit: Sampling unit can be defined as the minimum unit for observation, that acts as a building block of the data, for instance social unit i.e., family, school, religious place, or geographical unit i.e., state, district, block, village etc.
- iii. Sample Size: This can be defined as number of items, objects or elements selected from universe or population to constitute a sample for conducting impact study. Sample size determination depends on many factors such as time, cost, facility. In general, larger samples are better, but they also require more resources.
- iv. Sampling Methodology: The choice of the sampling method is influenced by the objectives of the evaluation/ research, availability of financial resources, time constraints, and the nature of the problem to be investigated. For calculating statistically significant sample sizes, one must define confidence interval and margin of error.

### Data Collection

The social auditor should keep the following points in mind while planning for data collection for the social audit.

- i. Assumptions & limitations of the data collection methodology
- ii. Listing of data requirements and documents required for the social audit
- iii. Key past performance trends for the project or similar projects
- iv. Detailed work/implementation plan with monitoring & evaluation calendars
- v. Deviations in data trends, if any vis-à-vis. the baseline status with the reasons for deviation
- vi. Data alignment with project outcomes including National Priorities/ State Priorities and mapping with the Niti Aayog's SDG India Index Indicators (as relevant).
- vii. List of stakeholders identified, mapped, and prioritized, and engaged for data collection.
- viii. Data required for measuring indicators may often be available in qualitative and quantitative form.

Data collection sources are of 2 types: Primary Source(s) and Secondary Source(s).

- The primary sources of data collection may include any one or more of individual interviews, questionnaires, focus group interviews, observation sometimes as per the indicators that have been identified by the auditor at the planning stage. The



respondents or information providers would be the stakeholders of the social enterprise which affect or are affected by the project/ program/ project-based activity.

- The secondary sources of data collection may include any one or more of journal articles that comment on or analyse research textbooks dictionaries and encyclopedias books that interpret, analyse, dissertations, newspaper editorial/opinion pieces etc.

#### Data Collection Methods

The Social Auditor should consider any one of the appropriate methods for collecting quantitative & qualitative data.

- (i) Observation: The information is collected with direct observation using the observation checklist without interacting with the respondents. The information captured under this method is focused on what is currently happening; it is not impacted by either the past or future instances. This method is independent of respondent's willingness to respond.
- (ii) Interview Method: Interview requires the interviewer asking questions from respondents either in a face-to-face contact to or via telephonic discussion using structured/ unstructured interviews.
  - a. Structured interviews: This Interview method involves collecting information through personal interviews and is carried out in a structured way. This method involves series of pre-determined set of questions that interviewee responds in the defined order.
  - b. Unstructured Interviews: In unstructured interviews there is flexibility in approach to questioning. This method does not follow a system of pre-determined set of questions and standardised techniques of recording data. The interviewer in unstructured interview has the freedom to ask, and if required, supplementary questions can be added or certain questions can be omitted depending on the situation.
- (iii) Focused Group Discussion (FGD): In FGD, a selected group of people discuss or share their opinions, experiences about given issue material to the social project and the discussion should be moderated by the social auditor or his field team. FGD is an important tool to gather information from stakeholders and helps to validate the quantitative data collected from the beneficiaries related to the interventions.

Data collection can be through online surveys, virtual interviews, satellite imagery for monitoring forestry coverage etc.

### Data Quality

The Social Auditor should check data quality based on the following indicators:

- Validity: Whether data collected measures what it is intended to measure
- Reliability: Whether data measurements are based on standard methodologies
- Completeness: All data aspects are captured as per method
- Integrity: Data is protected from bias or manipulation
- Timelines: Data is up to date and prompt

### Data Analysis & Interpreting Results

- Data cleaning is to be done to check if the data is duplicate, erroneous or incomplete and identify any outliers within the data sets. If data is incorrect, outcomes and results may not be reliable, even though they may look correct. Data cleaning process may vary from dataset to dataset.
- Data analysis is the process of collecting, modelling, and analysing data to extract insights that support decision-making. Data Analysis is important as it helps in making informed decisions, reduces cost and helps to target the stakeholders better.
- Data gathered by the social auditor needs to be analyzed to reach audit conclusions. Data analysis is a process of understanding, measuring and reporting on the social, environmental and economic value that is being created by the project/ program/ project-based activity.
- Data may be analyzed using appropriate methods of analysis to interpret the data meaningfully such as trend analysis, regression analysis (as relevant).
- The Social Auditor should take care of multiple entries and should not report anything that cannot be verified. Duplicate entries should either be removed, or multiple counts should be grouped as one. For example, two beneficiaries of one family may be grouped as one in count of families.
- The results of data analysis need to be interpreted as per the Theory of Change explaining the process of intended social impact of the project/ program/ project-based activity.
- The TOC model used by the social auditor should outline the linkage from inputs to activities, to outputs, to outcomes, and ultimately to impact.
- The social auditor needs to study the outcomes and the real social impact on the target segments to identify gaps, if any. Social auditor should also compare the actual results with the expected outcome(s) and/ or benchmark data, baseline data, if any.
- In presenting the results of the analysis, the social auditor should tailor the qualitative discussion to sample representatives of each stakeholder group, since stakeholders will have different objectives, and the relationship of each stakeholder to the social enterprise will vary.

The stakeholder feedback capture information to help assess the impact, validate and establishes a check and avoids overclaiming. The review process should answer the following questions.

- What was the situation before and what would have happened in the absence of this project/ program/ project-based activity?
- How much the project/ program/ project-based activity contributed to the changes that are evidenced as compared to pre project interventions?
- How much unintended impacts (positive and negative) happened due to the project/ program/ project-based activity?

The analysis of data and its interpretation needs to be discussed with the stakeholders so that the same may be validated. The social auditor should be able to compare the actual social impact with the intended impact of the project/ program/ project-based activity.

### **6.13 Use of Technology in Social Audit**

The social auditor should determine the usage and acceptability of technology for collecting data for a social audit. The social auditor should consider the extent of usage of IT tools to be deployed for –

- Stakeholder interaction- virtual meetings, phone surveys
- Information Database on project sites, donors, stakeholders – beneficiaries, volunteers, staff
- Data analysis, visualisation, presentation of infographics

## Chapter 6: Sample Questions

1. The Social Audit Framework in India has been developed by \_\_\_\_\_ to provide a social auditor guidance for conducting a social audit.
  - a. SEBI
  - b. ICAI**
  - c. RBI
  - d. UNDP
  
2. Three Party Relationship involving a social auditor, a responsible party, and intended users are elements of \_\_\_\_\_.
  - a. Social Intervention
  - b. Social Project Monitoring Framework
  - c. Social Audit Engagement**
  - d. Audit Evidence
  
3. \_\_\_\_\_ contributes to social auditor's understanding of the projects and its nuances, identify key evaluation parameters, thematic areas of intervention and the benefits rendered to the community.
  - a. Social Intervention
  - b. Social Project Monitoring Framework**
  - c. Social Audit Engagement
  - d. Audit Evidence
  
4. The \_\_\_\_\_ plans and performs a social audit with an attitude of professional scepticism to obtain sufficient appropriate evidence of the implementation of the social program in the field.
  - a. Social Auditor**
  - b. Intended Users
  - c. Responsible Party
  - d. ICAI

## CHAPTER 7: SOCIAL IMPACT ASSESSMENT

### Learning Objectives

After studying this chapter, you should know about:

- Social Impact Assessment approaches, steps, guidelines, tools and importance
- Different Organisational Models of Social Impact Assessment
- Aspects related to Social Impact Reporting

### 7.1 Social Impact Assessment<sup>41</sup>

Social Impact Assessment is a process of research, planning and the management of social change or consequences (positive and negative, intended and unintended) arising from policies, plans, developments and projects.<sup>42</sup> It is a process of assessing direct/indirect, intended/unintended and positive/negative consequences of social interventions. It is a powerful tool for implementing organisations to take necessary steps to enhance potential positive impacts and contain potential adverse impacts. It helps decision makers to understand the benefits gained against the investment made in the project and also helps in reducing the costs.

Concept of SIA gained formal recognition with the US National Environmental Policy Act (NEPA) (1969), which included social elements in the environmental impact studies. SIA concept evolved over a period of time and gained global importance with a lot of international standards incorporating it as a crucial component.

#### 7.1.1 Steps in conducting Social Impact Assessment

SIA is a process of analysing, monitoring and managing social change in a society as a result of organisation's social interventions. Following are the steps for conducting SIA: <sup>43, 44</sup>

- a) Setting objectives (defining the scope of impact analysis, the level and the desired social change to be achieved);
- b) Analyzing stakeholders (identifying potential stakeholders which need to be involved to these processes);
- c) Measuring (setting relevant parameters by which SE will plan its intervention, and how the activity achieves the outcomes and impacts; identifying measurement tools; measuring the targeted outcomes and impact;

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<sup>41</sup> Social Impact Assessment/ Social Impact Analysis/Social Impact Evaluation are used interchangeably.

<sup>42</sup> (UNEP, 2007): International Institute for Sustainable Development

<sup>43</sup> Hehenberger et al. (2015)

<sup>44</sup> Source: Urmanaviciene, A. (2020). Social Impact Assessment - Is It a Possible Challenge for Social Enterprise?

- d) Verifying and valuing Impact (verifying that the logical implications are strong enough and that the impact is valued by the key stakeholders);  
Monitoring and reporting (integrating this information into the management system and reporting data to relevant stakeholders).

### 7.1.2 Approaches to Social Impact Assessment<sup>45</sup>

It is a crucial aspect to verify whether an organisation's social mission has been achieved. The steps mentioned above are based on a common framework that can be used for SIA but there are different SIA methodologies and tools that have been designed by academics, impact investors and practitioners. These methodologies and tools are based on three approaches of SIA: Qualitative research, Quantitative research and Monetisation of social impact as illustrated in Table 7.1.

**Table 7.1 Approaches to SIA<sup>46</sup>**

Approach	Strengths	Weakness	Methods
Qualitative	Social impact nature is qualitative, thus qualitative research helps to reveal the broader and in-depth effect of social mission	High-quality qualitative research also requires a great deal of effort: the systematic formulation of research design and the testing hypothesis that is directly related to the logical model	Theory of change, structured interviews, focus groups, case studies
Quantitative	Possible to analyze large amounts of data and report those data in numerical form. Stakeholders usually are requesting qualification of results	Requires knowledge of statistical and mathematical methods	Surveys, statistical data analysis
Monetization	It helps to express social benefits in monetary terms and make them understandable to	Focusing on an organization's economic aspects can lead to a situation where there is a lack of information on	Social Return on Investment (SROI), Cost-Benefit analysis

<sup>45</sup>Source: Urmanaviciene, A. (2020). Social Impact Assessment - Is It A Possible Challenge For Social Enterprise?

<sup>46</sup>Source: Compiled by the Author based on Epstein, Yuthas(2014), Zeyen, Beckmann (2018).

	other stakeholders as investors, funders. Monetary value allows to compare very diverse SEs	the broader realization of the social mission. Its difficult to monetize such human and social capital effects at the individual and community levels	
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All three approaches have their own strengths and drawbacks where qualitative research does in-depth study of social impact, quantitative approach helps in analysing large number of data and monetisation approach helps investors in understanding social impact in terms of monetary returns against the investment made. Though the qualitative approach requires detailed analysis of qualitative indicators which is a time-consuming method, quantitative and monetisation approaches are also criticised widely. Many social change indicators like indicators of behavioural change or psychological change are difficult to quantify or monetise. Secondly, the quantification approach only captures the number of beneficiaries impacted which is a very narrow approach to social impact. Hence quantification of social impact and assigning monetary value to social impact lacks information on achievement of social mission. Hence, it is crucial to understand the objective of the organisation to conduct SIA and accordingly select appropriate approach and tools. There is no standard format or single tool that captures all aspects of social impact, it clearly depends on objectives and interventions of the organisation.

### **7.1.3 Importance of conducting social impact assessment for different stakeholders**

Social interventions result in change for various stakeholders. It is vital for the organisation to understand intended / unintended as well as positive/ negative impacts on these stakeholders. This would help the organisations to revise their interventions and implementing strategy; and to make efficient use of resources. Importance and benefits of SIA to its stakeholders is explained below:

- (a) It helps the management of the organisation to understand whether projects are being conducted effectively; and require any modifications in project activities.
- (b) It helps the management to understand whether the social intervention is resulting in any change amongst the target group and communities at large.
- (c) It helps the organisation use the SIA report as evidence to advocate their inventions and secure future funding.
- (d) It helps donors/ investors to ensure timely and effective achievement of predetermined targets.

- (e) It helps the management as well as other stakeholders to regularly monitor and ensure that the implementing team is adhering to stipulated timelines and budgets.
- (f) It enables organisations to collect data that track successes and failures and helps to build strong data management systems to understand trends and track long term impact.
- (g) Concrete evidence of impact can motivate internal as well as external stakeholders to contribute in future as well.

## **7.2 Different organisational models for structuring evaluation**

### **7.2.1 Outsourcing Model**

Social Impact Assessment is a process of identifying and reporting wider effects of organisations activities on different stakeholders and environment. This process is time consuming as well as requires expertise in understanding the various terms in social impact like output, outcome and impact; and methodologies of SIA. Many times, organisations do not have that expertise and enough financial and human resources to develop internal SIA systems or carry out SIA with internal staff. SIA methodologies include perception of different stakeholders and internal stakeholders of the organisation i.e. employees, board members are also required to contribute to SIA which can result in conflict of interest. In order to get unbiased and effective report organisations prefer to outsource SIA process to external agencies.

For instance, the Development Monitoring and Evaluation Office (DMEO), NITI Ayog is responsible to monitor and evaluate the schemes implemented by Government of India. Most of the times DMEO carries out monitoring and impact evaluation internally, but on some occasions, it is outsourced to reputed external agencies. DMEO has set up a panel with expert agencies in six sectors – Agriculture & Allied Sectors, Economic Sector, Energy Sector, Infrastructure Sector, Social Sector and Social Welfare Sector and their sub sectors. External agencies for impact evaluation are selected from these sub sectors through a competitive bidding process.

However, outsourcing of SIA has a few drawbacks such as smaller organisations which are dependent on donations and grants lack resources to hire external agencies for conducting SIA. Social Impact depends on social change covering a lot of qualitative aspects. Organisation implementing social intervention has more clarity and connection with the community and pre and post social intervention situation. It is possible that an external agency is not able to capture all the impact indicators which are a crucial part of SIA.



### 7.2.2 Partnership Model

Apart from contractual relationships, research and policy teams can build mutually beneficial partnerships. These partnerships can ensure that interests of both the parties are combined like researchers who are interested in conducting research on a policy question and policy makers and program implementers who are seeking to ensure that a good-quality impact evaluation is set up in their project. Researchers have incentives to address new questions that will add to the global evidence base, and to push the envelope of the impact evaluation and contribute to its broader visibility. The research team may be able to leverage some co-financing for the impact evaluation if the objectives of funders are closely aligned with the research focus of the evaluation.<sup>47</sup>

The partnership approach presents certain risks. At times, innovative research elements covered by the researcher are not fully aligned to the immediate policy objectives at the local level, although they can add value more globally. From the perspective of policy makers and program implementers scientific rigor may not be required to undertake rigorous impact evaluations, and they may have a higher tolerance than the research team with respect to potential risks to the impact evaluation. It is crucial that the objectives of the research team and policy teams are closely aligned. For instance, the research and policy teams need to design evaluation strategies together along with respective teams' roles and responsibilities. Laid down impact evaluation plan can describe operational rules along with potential risks. A mutual commitment to an impact evaluation as embodied in a clear evaluation plan is essential for the partnership to work smoothly, even if a contractual relationship is not put in place. However written agreement is always preferred to have clarity on roles and responsibilities of both the parties.

This model is being used by the World Bank in their projects where groups like DIME (Development Impact Evaluation), SIEF (Strategic Impact Evaluation Fund), and GIL (Gender Innovation Lab)—provide funding and technical support to impact evaluations. For instance, in Côte d'Ivoire, a joint initiative between the World Bank, the Abdul Latif Jameel Poverty Action Lab (J-PAL), and the government evaluated a Youth Employment and Skills Development Project. This research team presented partnership between various stakeholders like a World Bank team leader, international academics, and local experts, and a policy team including specialists from the project implementing unit, the affiliated Ministry, and World Bank staff.<sup>48</sup>

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<sup>47</sup>Impact Evaluation in Practice, 2016

<sup>48</sup> (Impact Evaluation in Practice, 2016, pp 212)

### 7.2.3 Fully Integrated Model

Integrated Social Impact Assessment is an integral part of a programme where impact assessment is carried out on a regular basis and not at the end. Under Integrated Social Impact Assessment procedural and organisational arrangements covering environmental, economic and social indicators are incorporated to capture data at similar points in time. This can help the organisation to reduce inconsistencies in data and ensure that interdependencies amongst the varied impact indicators are captured. This model is usually used by social venture capital firms and/or impact investors to track regular progress on their investments in social enterprises and ensure sustainability of those social enterprises. For instance, Acumen Fund has designed BACO Ratio (Best Available Charitable Option) for decision making on social enterprise investment. This ratio is used to identify viability of the investment based on financial leverage, technological leverage and social impact.<sup>49</sup>

Another example is Robin Hood Foundation, a nonprofit from New York City which provides ongoing grants to nonprofit organizations working in areas: Jobs & Economic Security; Education; Early Childhood & Youth; and Survival. Robin Hood developed its Benefit-Cost Ratio methodology to capture the best estimate of the collective benefit to poor individuals that Robin Hood grants create per dollar cost to Robin Hood Foundation. This helps the foundation in translating the outcomes of diverse programs into a single, monetized value. When an organisation integrates impact assessment as an internal tool, it has its own advantages and disadvantages as described in Table 7.2.

**Table 7.2 Advantages and Disadvantages of Integrated Social Impact Assessment**

<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"><li>• Social Impact Indicators are developed based on objectives and interventions of the organisation</li><li>• It provides benchmarks to track progress of interventions.</li><li>• Comparable data is available from time periods, different projects.</li><li>• Impact Assessment can be done at any time as per requirement of stakeholders.</li></ul>	<ul style="list-style-type: none"><li>• Requires financial and technical resources to develop an integrated system.</li><li>• Requires expert human resource to develop, operate and generate impact reports.</li><li>• It is difficult to incorporate new tools or indicators in future if the existing tool is not flexible.</li></ul>

<sup>49</sup> (<https://acumen.org/wp-content/uploads/2013/03/BACO-Concept-Paper-final.pdf>)

<ul style="list-style-type: none"> <li>• Provides standard format for generating impact reports for all the projects.</li> </ul>	
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#### 7.2.4 DIY (Do-it-Yourself)

Social Enterprises can develop their own social impact assessment tools which can be customised to the expectation of stakeholders of the organisation.

A few examples on how companies have incorporated impact measurement tools for their CSR spending are<sup>50</sup>:

1. *HDFC has also implemented innovative monitoring and evaluation tools for their CSR spend creating a score-based system for M&E. Projects for evaluation are identified on the basis of their criticality, which is defined as a combined score of 'Implementing Partner Sensitivity' and 'Project Sensitivity' for the Bank. While low and moderate criticality projects are evaluated internally by the Impact team, medium and high criticality projects are evaluated through a reputed third-party research agency.*
2. *Organisations like Villgro, Aspire Impact are providing technical support to corporations and social sector organisations to conduct social impact assessment. They are also providing training and capacity building support to develop their own customised tool for impact assessment.*

Social Enterprises can develop comprehensive social impact assessment after considering various assessment tools developed by other organisations at national and international level.

This model is similar to integrated social impact assessment in terms of its benefits and drawbacks.

### 7.3 Theory of Change

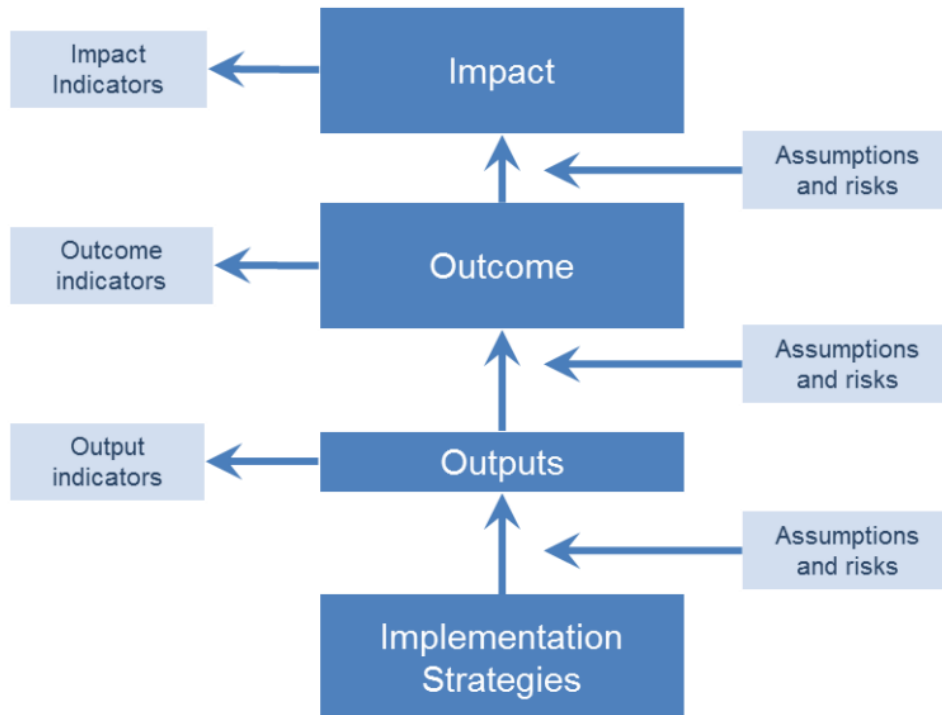
Theory of Change is a structured and systematic approach to link activities to their impact. Social Change is a composite array of cultural, demographic, economic, environment, political, religious, scientific and technological forces; which is not a

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<sup>50</sup> Report on Social Impact Assessment of Corporate Social Responsibility in India (2021)

simple process. Theory of Change is an outcome-based method with participatory approach which applies critical thinking to design, implementation and evaluation of intervention.<sup>51</sup> Figure 7.1 depicts the chain of results in theory of change.

**Figure 7.1: Process of Theory of Change<sup>52</sup>**



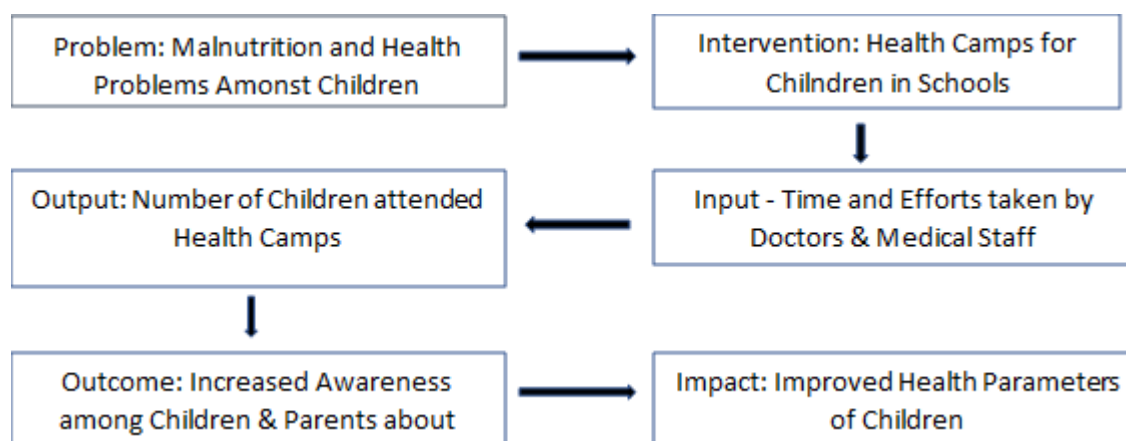
This process describes how interventions are understood to contribute to a series of results that lead to final intended impacts. This process initiates with situation analysis and identifying the problem that intervention seeks to address. Next step is to gather the relevant information on input, output, outcome and impact from primary (feedback from different stakeholders) and secondary sources (research and documents published by the organisation and other published documents). The process is described with an example in Figure 7.2.

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<sup>51</sup> Serrat, O., 2017

<sup>52</sup> Source: Methodological Briefs Impact Evaluation No. 2: Theory of Change, UNICEF

**Figure 7.2: Example of Theory of Change**



Contextual factors that help or hinder social change and the assumptions on which it is built can also be incorporated in the representation of theory of change. It can be used for strategic planning with identification of needs and opportunities, intended situations and the way to achieve that situation. It can also be used during implementation of social interventions to monitor indicators. This tool can be used in impact reporting as well where a graphical presentation can be easily used to depict the process of change and end result. Another example is explained below:

Assumptions	Area	Risk
Students use toilets on regular basis  Students understand benefits of using toilets.  Girls feel more comfortable to come to school.	<b>Problem Statement</b> <ul style="list-style-type: none"> <li>Lack of Toilets in Rural Schools</li> </ul>	There are no proper water and drainage facilities in the area.  Toilets are not maintained and repaired when required by the school.  Reduced attendance of students in related other facilities in the school.
	<b>Activity</b> <ul style="list-style-type: none"> <li>Construction of Toilets in Rural Schools</li> </ul>	
	<b>Output</b> <ul style="list-style-type: none"> <li>Number of Schools with Newly Constructed Toilets</li> <li>Number students using toilets</li> <li>Number of children who started attending schools</li> </ul>	
	<b>Outcome</b> <ul style="list-style-type: none"> <li>Increased awareness about sanitation and cleanliness</li> <li>Improved attendance of girl children</li> </ul>	
	<b>Impact</b> <ul style="list-style-type: none"> <li>Improved Health of Children</li> <li>Developed Interest in Education</li> </ul>	

### 7.3.1 Importance of theory of change in social impact analysis

Theory of Change can be an effective tool for impact evaluation to understand the changes due to social intervention. In an impact evaluation, the existing theory of change can also be reviewed and revised as needed to guide data collection, analysis and reporting.

*A theory of change can support an impact evaluation in several ways.<sup>53</sup> It can identify:*

- *specific evaluation questions, especially in relation to those elements of the theory of change for which there is no substantive evidence yet*
- *relevant variables that should be included in data collection*
- *intermediate outcomes that can be used as markers of success in situations where the impacts of interest will not occur during the time frame of the evaluation*
- *aspects of implementation that should be examined*
- *potentially relevant contextual factors that should be addressed in data collection and in analysis, to look for patterns.”*

### 7.4 Guidelines and Tools for impact assessment

There are various guidelines and tools emerged at national and international level to cover impact indicators by different stakeholders who are actively involved in implementation of social intervention. Some of these guidelines and tools are explained in this section.

#### 7.4.1 National Guidelines on Responsible Business Conduct

In 2011, the Ministry of Corporate Affairs issued National Voluntary Guidelines on the Social, Environmental and Economic Responsibilities of Business (NVGs). These guidelines were further revised in 2015 to align with International Standards and Sustainable Development Goals (SDGs). These guidelines can be used by all types of business with different size, sectors, ownership, structures and ownership. These guidelines contain the principles and connected Core Elements to ensure operationalisation of each Principle explained in Table 7.3 below.

**Table: 7.3 Principles Under National Guidelines on Responsible Business Conduct<sup>54</sup>**

Sr. No.	Principle
1	Businesses should conduct and govern themselves with integrity, and in a manner that is ethical, transparent, and accountable.

<sup>53</sup> Methodological Briefs Impact Evaluation No. 2: Theory of Change, UNICEF.

<sup>54</sup> For the detailed information on core elements of each principle, refer to: [https://www.mca.gov.in/Ministry/pdf/NationalGuideline\\_15032019.pdf](https://www.mca.gov.in/Ministry/pdf/NationalGuideline_15032019.pdf)

2	Businesses should provide goods and services in a manner that is sustainable and safe.
3	Businesses should respect and promote the well-being of all employees, including those in their value chains.
4	Businesses should respect the interests of and be responsive to all its stakeholders.
5	Businesses should respect and promote human rights.
6	Businesses should respect and make efforts to protect and restore the environment.
7	Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent.
8	Businesses should promote inclusive growth and equitable development.
9	Businesses should engage with and provide value to their consumers in a responsible manner.

Formation of NGBRC was a step taken by the Government to meet its international obligation under several treaty bodies. Companies are expected to recognise and prioritise these core elements and integrate them into their business strategies. Though these guidelines give a comprehensive framework, these guidelines have received criticism for its non-legal enforceability. Apart from adhering to NGBRC companies are using different ways to capture social impact.

#### **7.4.2 Framework introduced by Global Investing Community**

##### **A. IRIS+**

IRIS+ is an impact accounting system which can be used by impact investors to measure, manage and optimize their impact. Global Impact Investing Network (GIIN) offers the IRIS+ system to support the practice of impact investing and promote transparency, credibility, and accountability in the use of impact data for decision making across the impact investment industry. IRIS+ provides generally accepted definitions of Impact Categories and Impact Themes and identifies common goals and Core Metrics Sets by theme, thereby providing a shared language for describing, assessing, communicating, and ultimately comparing impact performance. Since most of the impact investors focus on SDGs for their social interventions, IRIS+ has developed core metrics sets and catalogue of metrics which are aligned to the SDGs. It measures impact through Impact Management Project (IMP) based on five dimensions as shown below in Table 7.4.

**Table 7.4: Dimensions of Impact Management Project<sup>55</sup>**

<b>WHO</b>	<b>IMP Definition</b>	Who experiences the effect and how undeserved are they in relation to the outcome?
	<b>IMP Data Categories</b>	Stakeholder type, geographical boundary, baseline level of outcome, stakeholder characteristics
<b>HOW MUCH</b>	<b>IMP Definition</b>	How much of the effect occurs in the time period?
	<b>IMP Data Categories</b>	Scale: number of people experiencing the outcome (social outcomes only) Depth: degree of change experienced by the stakeholder Duration: time period for which the stakeholder experience the outcome
<b>WHAT</b>	<b>IMP Definition</b>	What outcomes the enterprise is contributing to and how important the outcomes are to
	<b>IMP Data Categories</b>	Outcome level in period, outcome threshold, SDG, importance of outcome to stakeholders
<b>CONTRIBUTION</b>	<b>IMP Definition</b>	How does the affect compare to what would likely occur anyway?
	<b>IMP Data Categories</b>	Depth: An enterprise's contribution to the depth of an outcome by factoring in the estimated degree of change that would have otherwise happened. Duration: An enterprise's contribution to the duration of an outcome by factoring in the estimated duration that the outcome would have otherwise endured.
<b>RISK</b>	<b>IMP Definition</b>	Which risk factors are significant and how likely is it that the outcome is different from the
	<b>IMP Data Categories</b>	The type of impact risk, typically described using one of 10 risk factors, evidence risk, external risk, execution risk, stakeholder participation risk, drop-off risk, unexpected impact risk, efficiency risk, contribution risk, alignment risk, and endurance risk.

<sup>55</sup> Source: IRIS+ System: Standards, <https://iris.thegiin.org/>



To assess effects of investments, core metric sets describe key impact performance indicators which are explained in <https://iris.thegiin.org/>.

### **B. Global Impact Investment Rating System (GIIRS)**

Global Impact Investing Rating System (GIIRS) is a comprehensive and transparent system for assessing the social and environmental impact of developed and emerging market companies and funds with a ratings and analytics approach analogous to Morningstar investment rankings and Capital IQ financial analytics.<sup>56</sup> GIIRS assesses social and environmental impact and practices of companies and funds using rating methodology that has been now used by 6000 companies. It is an online assessment tool which offers both the company and fund impact ratings. It issues a composite score of social and environmental performance which can help company to earn incremental positive points. These ratings can be comparable across companies and fund sizes. Details of the rating system are available at GIIRS website.<sup>57</sup>

### **C. Global Reporting Initiative (GRI)**

GRI is an international non profit organisation which was established in 1997 in partnership with United Nations' Environment Programme (UNEP). Sustainability reporting standards have been developed to enhance transparency and accountability of economic, environmental and social performance of organisations. It also offers a comprehensive sustainable reporting framework. These standards are available for all the types of organisations from different sectors, which allows them to report their impact in a credible way. This can help the organisations to develop their strategies and set goals and targets.<sup>58</sup> There three categories under GRI standards -

- GRI Universal Standards which are applicable for all the organisations describe critical concepts, process to use these standards, details of organisations' policies and activities and process to use sector and topic standards.
- GRI Sector Standards which are developed for 40 sectors like agriculture, oil and gas and so on explain sector's characteristics, sector specific impacts and disclosures.
- GRI Topic Standards contains disclosures related to specific topics like health & safety, tax, waste management etc.

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<sup>56</sup> Richardson, B., 2012

<sup>57</sup> <https://giirs.org/about-giirs/how-giirs-works/162>

<sup>58</sup> For more details of these standards visit: <https://www.globalreporting.org/>.

### 7.4.3 Framework introduced by Multi-lateral Development Agency

#### UN Global Compact (UNGC)

UN Global Compact offers companies to align their strategies and operations with ten principles covering human rights, labour, environment and anti-corruption and guides companies in achieving SDGs. Over 9,500 companies and 3,000 non business signatories from over 160 countries are associated with UNGC. UNGC derives its principles from the Universal Declaration of Human Rights, the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the UN Convention against Corruption. Box 7.1 describes principles of UNGC.

#### **Box 7.1: Principles of UNGC<sup>59</sup>**

##### **Human Rights**

Principle 1: Business should support and respect the protection of internationally proclaimed human rights; and

Principle 2: Make sure that they are not complicit in human rights abuses.

##### **Labour**

Principle 3: Businesses should uphold the freedom of association and effective recognition of the right to collective bargaining;

Principle 4: Elimination of all forms of forced and compulsory labour;

Principle 5: Effective abolition of child labour; and

Principle 6: Elimination of discrimination in respect of employment and occupation.

##### **Environment**

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: Undertake initiatives to promote greater environmental responsibility; and

Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

##### **Anti-Corruption**

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

In India, Global Compact Network India (GCNI), was formed in 2003 and registered as a non-profit society to function as the Indian Local Network of the Global Compact, New York giving membership to over 500 leading business and non-business participants in India.

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<sup>59</sup> <https://www.unglobalcompact.org/what-is-gc/mission/principles>

#### **7.4.4 Frameworks of impact funders with operations in India**

##### **A. Omidyar Network**

Omidyar Network is a social change venture which invests in the social enterprises working towards strengthening the community. They partner with funders, advocates, scholars, businesses, innovators and others in the developmental areas. Omidyar Network India (ONI) has made investments in the areas like education, digital society, technology, financial inclusion and self-sustaining cities. In order to ensure accountability of these organisations and impacts created by these investments Omidyar Network has developed its own impact measurement tool. This tool captures impact at two levels - (a) Direct Impact that includes reach (number of people impacted), depth (Quality of life improvement) and inclusion (percentage of customers from the bottom 60 percent of India's income distribution); (b) Sector Impact that comprises imitators (organisations have replicated or adapted the investees' model Follow-on capital raised (follow-on capital raised by the investee after ONI funding), Contribution to impactful ecosystem changes. They aggregate the results obtained across all investees, and assess progress at the level of their initiatives, their strategic pillars, and as an organization as a whole to capture portfolio impact.<sup>60</sup>

##### **B. Aavishkar**

Aavishkar India Micro Venture Capital Fund was started in India in 2001 with the vision to provide leadership in rural and underserved regions of India. It focussed on encouraging and incentivising aspiring entrepreneurs to launch businesses and demonstrate to investors that profit and positive social change should be generated at the same time with their model. AIMVCF assesses the business model prior to investment not only in terms of profitability but also with the potential social impact. Investments are made only if investees' business model meets with following criteria with respect to social change.<sup>61</sup>

- The company's products or services must impact those living in rural, underserved India
- The company's products or services must reduce the direct or indirect costs of the targeted populace, which they would have otherwise incurred while accessing such basic services
- Use of company's products must result in improvement in yields/efficiencies that translates into increased incomes for the targeted populace
- The operations of the company must provide increased employment in a geography where limited employment opportunities existed before
- The business must result in the creation of a transparent and more efficient distribution chain resulting in better income for rural producers

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<sup>60</sup> <https://www.omidyarnetwork.in/impact-framework>

<sup>61</sup> Source: Case Study: Aavishkaar India Micro Venture Capital Fund (AIMVCF)

Today, with number of companies under Aavishkaar Group like Arohan, Ashv, Aavishkaar Capital, Aavishkaar Foundation and Intellectap, they are making investments in various sectors like Agriculture, Livelihoods, Climate Change, Clean Energy, Financial Services, Gender & Inclusion, Healthcare, Water and Sanitation. These investments are made with focus on its alignment to environment, social and governance practices.<sup>62</sup>

### **C. Indian Social Responsibility Network (ISRN)**

The Indian Social Responsibility Network (ISRN) is a platform created for professionals from diverse sectors to channelize their services to underserved society. It provides services like capacity building, research, implementation of development projects and offers membership to companies and voluntary organisations. It allows companies and social organisations to network, share their knowledge and resources. This platform can be used to develop and share effective impact measurement tools across different types of organisations understanding CSR requirements of companies and social interventions of voluntary organisations.

## **7.5 Impact Reporting**

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. For instance, 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, it is recommended 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.’<sup>63</sup>

### **7.5.1 Types of Impact reporting**

Impact reporting is communicating the difference made by the organisation or the social change to the stakeholders. Impact reporting can be in the form of an independent impact report or part of an annual report or sustainability report. The format and contents of the impact report depends on the objective of conducting SIA, time and resources available for SIA and stakeholders for whom the report is documented. For instance, the SIA is conducted due to regulatory mandates, then the

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<sup>62</sup> Details of these companies and their portfolios can be accessed at <https://aavishkaargroup.com/>.

<sup>63</sup> Professor Alnoor Ebrahim

report will be prepared based on the guidelines laid down by the Government. If SIA is conducted for a single programme or project for internal requirements of the organisation, then the impact report can be an independent report or the findings can also be included in the annual report.

Reporting impact to stakeholders can help the organisation in following ways:

- Reviewing impact against vision and goals set by the organisation;
- Creating a learning organisation where people focus on results and adapt and improve services;
- Encouraging employees, volunteers, and board members through celebrating achievements;
- Building trust and credibility amongst various stakeholders and;
- Sharing lessons, challenges, and success stories with organisations working on the same social cause or have similar social interventions.

As discussed earlier, SIA can be carried out using different tools and methodologies. An organization tracking and monitoring SIA on a regular basis can show the impact over a long period of time with trends. An organisation using the Theory of Change method can express impact in terms of a map showing input, output, outcome and impact. Impact can also be documented in terms of compiling success stories or case studies. Generally used format for impact reporting is detailed qualitative report covering objectives, scope, data collection and analysis of the impact assessment.

### **Direct Impact on target Community**

Direct impact would imply changes seen as a result of the intervention in the intended target group who are also the key stakeholders of a program/project/activity. Direct impacts are material/ critical to account the performance of the SE and link it to its social intent. Direct impacts are seen in the immediate time frame and cannot be excluded in the impact report. Each taxonomic classification (within the SASs) will guide the set of indicators to capture direct impact and these indicators should get included in the Impact scorecard. Evidence gathering of direct impact indicators will be a critical component of the social audit plan.

The other important term herein, is the target community. Every NPO/SE will have an area of intervention where the program/ project / activity is implemented. The target community will be mentioned/ established by the NPO/ SE.

### **Systemic Impact**

Of the many social changes NPO/SE address, some interventions extend beyond one specific target group and geography or across disciplines. In such an intervention, the

resultant change and the intended impact will be not on one target group or beneficiaries, but at the systems level. It is a system wide or a systemic impact.

Systemic impact will take a medium or long term intervention to reach its logical conclusion, thus in an impact report, it will be necessary to see the past performance trends of the SE to see the progress on systemic impact.

An example of systemic impact is the passing of the Right to Information Act (RTI) which empowered citizens to demand transparency and accountability from government institutions. Aruna Roy and Mazdoor Kisan Shakti Sangathan were instrumental in this.

Another example will be a training and capacity development intervention for teachers with the DIET (District Institution for Education and Training). The intended outcome is to impact changes in instruction methodology thereby impacting the learning levels of students.

Some other examples of systemic impact are Education department managers have 21st Century leadership skills, Teacher education focuses on 21st Century skills.

### **7.5.2 Components of Impact Reporting**

Findings of SIA can be used for the organisation's internal purposes or for discussions with different stakeholders. Final report on SIA should include qualitative, quantitative and financial aspects to provide a comprehensive picture of social value created by the organisation to various stakeholders. The report should also be as short as possible while meeting principles of transparency and materiality which stakeholders should be interested in reading and should get quick required information. Following are the components of SIA report<sup>64</sup>:

- An executive summary aimed at all the stakeholders.
- Information about the organisation, its vision and mission, key stakeholders and activities;
- Description of the scope of the SIA
- Details of stakeholder involvement, methods of data collection.
- In case of quantitative or monetary approaches, details of the calculations, and a discussion of any estimates and assumptions
- Impact map, theory of change map (refer to section 7.3)
- Any assumptions and limitations underlying the analysis;

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<sup>64</sup><http://www.socialvaluelab.org.uk/wp-content/uploads/2016/09/SROI-a-guide-to-social-return-on-investment.pdf>

- An audit trail for decision-making, including which stakeholders, outcomes or indicators were included and which were not, and a rationale for each of these decisions;
- Building Impact score card/evaluation criteria using Key metrics (see Box 7.2), past trend analysis and Case studies or quotes from participants that illustrate particular findings;

The Annual Impact reports typically perform a dual role, viz. (i) prepare a trend analysis of the NPO/FPSE performance and (ii) provide a baseline and midline for successive years.

Past performance trends are applicable for ongoing programs /projects / activities and crucial to be covered in SIA reporting. The past performance trend helps the management to introspect/tweak its practices and project management skills so as to optimize its output and impact.

A positive trend will also imply that the target population is being positively impacted. Further, these trends are helpful in attracting potential investments.

Along with positive changes or effects, it is crucial to report even negative impacts of the social interventions in order to reduce the adverse effect in the future. It can include future recommendations or modifications based on the same. For example: if the performance trend dips, the FPSE / NPO will be accountable for the same. The causes of a dip in impact or inability to reach the targets may be internal (related to the NPO/ SE) or external (regulatory, natural or manmade calamity, change in the socio- political situations etc). Reasons/ causes for underachievement also need to be reported.

After NPOs and FPEs have listed their securities on SSE, they will have to produce an Annual Impact Report. The details are discussed in Chapter 9. For impact reporting, Social Audit Standards issued by the SRO has to be adhered with. These aspects have been discussed in Chapter 6.

<b>Box 7.2: Sample indicators of social performance in select sectors</b>	
<b>Livelihoods</b>	
<b><i>Indicators related to direct impact</i></b>	Geographical coverage I. Outreach – along with social composition (SC, ST, OBC, etc.) II. SHGs and their associative tiers

	<ul style="list-style-type: none"> <li>III. Savings and credit information</li> <li>IV. Change vector – number of women and men working as change vectors</li> <li>V. Capacity Building – SHGs, Farm intervention, NRM, Gender, WASH</li> <li>VI. Institution building – number of SHGs or federations taking action on issues of gender, caste, and class</li> <li>VII. Specific programs <ul style="list-style-type: none"> <li>a. WATSAN</li> <li>b. Land Rights</li> <li>c. Youth</li> </ul> </li> <li>VIII. Gross annual household income</li> <li>IX. Finance leveraged and invested</li> <li>X. Community contribution</li> <li>XI. Donor requirement – examples <ul style="list-style-type: none"> <li>a. Livelihoods Fund project – number of trees, tree species, mortality, amount of carbon sequestration</li> <li>b. HUF – Amount of land treated, number of water harvesting structures, amount of water conserved</li> <li>c. ICICI funded “arresting distress migration” – number of people who got wage employment in MGNREGA, social composition, and average workdays generated</li> </ul> </li> </ul>
<b>Indicators related to sector-wide impact</b>	XXX
<b>Health</b>	
<b>Indicators related to direct impact</b>	<p>Health sector organisations could have two kinds of programs:</p> <ul style="list-style-type: none"> <li>A. Clinical Services</li> <li>B. Community Services</li> </ul> <p><u>Indicators for Clinical Services</u></p> <ul style="list-style-type: none"> <li>I. Number of patients treated – OPD, IPD, Operated (Major, Minor and Intermediate, as also elective vs emergency), Deliveries (Vaginal, Assisted, Cesarean), Emergencies attended to, ICU care (Denominator difficult</li> </ul>



	<p>to determine as patients may come from wide geographic areas – hence lives saved, or reduction of medical impoverishment are difficult to establish)</p> <p>II. Mortality (in hospital)</p> <p>III. Gender, Social group (Tribal, Dalit, OBC), Economic class,</p> <p>IV. Direct expenses – Out of Pocket average (OPD, IPD)</p> <p><u>Indicators related to Community Services Program</u></p> <p>I. Mother and Child Health (MCH) – Maternal deaths, Institutional deliveries, Safe deliveries %, Near miss, NB deaths, LBW and VLBW outcomes, Under 5 Deaths, Immunisation coverage upto 5 years – Avni app (earlier open CHS platform)</p> <p>II. Non-Communicable Diseases (NCD) – Numbers screened and diagnosed, New cases added and on treatment, Total number coming for FU visits or to PSG meetings regularly (Avni – Sr Health Workers)</p> <p>III. Malaria – Number of Fever cases, Slides made and Tested, Slide positivity rate, Seasonality</p>
<b><i>Indicators related to Sector-wide impact</i></b>	<p>Public Health System Strengthening (in partnership with State Govt and NHSRC)</p> <ul style="list-style-type: none"> <li>• Trainings</li> <li>• Mentoring and Supportive supervision</li> <li>• Technical support –</li> <li>• Accountability</li> <li>• QI initiatives</li> </ul>
<b>Education</b>	
<b><i>Indicators related to direct impact</i></b>	<p>Strengthened leadership capacities of xxxx education leaders in districts towards following outcomes:</p> <p>I. Number of Coaches trained and supported</p> <p>II. Number of Schools have functional library</p> <p>III. Schools with Building as Learning Aid</p> <p>IV. Schools with active Bal Sansad</p> <p>V. New Students enrolled in Govt. schools</p> <p>VI. Dropped students enrolled back</p>

	<p>VII. Volunteers involved in more than 3 campaigns</p> <p>VIII. Students enrolled for ALP Program (ALP – Advanced Learning Program)</p> <p>IX. Improved learning outcomes in xxx demonstration schools</p>
<b><i>Indicators related to Sector-wide impact</i></b>	<p>I. Education department managers have 21st Century leadership skills</p> <p>II. School clusters as true ‘units of change</p> <p>III. Teacher education focuses on 21st Century skills</p> <p>IV. Future ready Curriculum &amp; Assessment</p>

### 7.6 Issues or Challenges in conducting SIA

- **Lack of Standard Use of Terminologies** - There is a variety of terminologies used across different approaches. It makes it challenging to compare results between organisations and programmes. For instance, outcome and impact are used by multiple organizations to describe outputs in their methodologies and calculations. Acumen Fund writes about its BACO Ratio as a ratio of cost per outcome or cost per social impact but it actually focuses on output. Similarly, contribution by the donor agency is explained in terms of attribution, share of outcome or organisation’s contribution.
- **Lack of Standardisation of Reporting Framework:** Another challenge in impact reporting is multiple frameworks or guidelines for social and environmental reporting at internal level. With a plethora of international and national standards for social and environmental impact; organizations may find it difficult to use a standard format and may have to publish multiple reports depending on the frameworks it is adhering to. Investors or donors also have their own set of reporting guidelines and they accept reporting only in their own formats which increases the workload of the reporting team to prepare separate reports depending on individual requirements of the donors/ investors.
- **Lack of common measures within the sector** -Few organizations consider cost effectiveness, few consider benefit cost ratio and few organisations use qualitative approaches. This makes programmes from the same sectors incomparable.
- **Unavailability of accurate and reliable data** - Smaller organizations often do not maintain proper database on input, output, outcome and impact indicators. To get a true picture of social impact, it is necessary to get reliable and accurate data on

various indicators. Especially when the data is collected from primary stakeholders there are chances of biased data due to conflict of interest of stakeholders.

- **Assumptions** - Projections on outcome and impact indicators are often based on assumptions. For instance, in education based programmes it is assumed that all the children will develop interest in higher education or will take up jobs in the future which may not happen with all the beneficiaries.
- **Interdependencies** - Interdependencies refer to the outcomes of one or a series of interventions that are dependent on other interventions or other external factors. For instance, the outcome of improved educational levels through a peer tutoring program is also dependent on the family support given to the beneficiary.
- **Timeframes** - SIA can be conducted for any time frames. Some programmes show impact in 3-5 years like health initiatives or microfinance programmes whereas some programmes show impact after 15 -20 years like environment programmes or programmes related to behavioural or cultural changes. It depends on the organisation which timeframe they want to take into consideration. Hence the standard time frame cannot be used across different programmes.

## Chapter 7: Sample Questions

1. Pertaining to the advantages of the Integrated Social Impact Assessment, which of the following are NOT true:
  - a. It provides benchmarks to track progress of interventions.
  - b. **Requires expert human resource to develop, operate and generate impact reports.**
  - c. Impact Assessment can be done at any time as per requirement of stakeholders.
  - d. Comparable data is available from time periods, different projects.
  
2. \_\_\_\_\_ is an impact accounting system which can be used by impact investors to measure, manage and optimize their impact.
  - a. GIIRS
  - b. GRI
  - c. UNGC
  - d. **IRIS+**
  
3. Which of the following statement is false regarding social impact reporting?
  - a. The format and contents of the impact report depends on the objective of conducting SIA
  - b. Impact reporting communicates the social change to the stakeholders.
  - c. **Impact reporting is restricted to be in the form of an independent impact report.**
  - d. Impact reporting can be in the form of an annual report.
  
4. Which of the following are the challenges of Social Impact Assessment?
  - I. Interdependencies
  - II. Assumptions
  - III. Timeframes
  - IV. Standardisation of Reporting Framework
  - a. **Only I, II and III**
  - b. Only II, III and IV
  - c. Only I, III and IV
  - d. I, II, III and IV

## CHAPTER 8: SOCIAL IMPACT ASSESSMENT (CASE STUDIES)

### Learning Objectives

After studying this chapter, you should know about:

- Practical insight of Social Impact Assessment
- Aspects related to Social Audit Report

### 8.1 Case Study on Draft Social Audit Standard (SAS) 500: Ensuring environmental sustainability, addressing climate change including mitigation and adaptation, forest and wildlife conservation

AB Responsible Services is Social Enterprise Not for Profit Organisation working in Maharashtra. With more than 15 years of experience in watershed management programs- AB Responsible Services was founded to address the issue of water conservation, soil conservation and increasing availability of water for irrigation. Their focus on these issues has demonstrated increasing agricultural productivity, enhancing livelihood and increasing green cover in their project areas.

Their main project sites are in the districts of Ratnagiri and Raigad which faces extreme water shortage inspite of receiving good rainfall. Being a hilly terrain, the water runoff to the sea is high. Building storage facilities is expensive due to the hilly terrain. AB Responsible Services wants to raise funds to initiate an Integrated Water Management Project (IWMP) to increase water storage capacity and thereby increase the productivity of a wide range of stakeholders.

IWMP aims to conserve fertile soil, reduce and harvest runoff rainwater, recharge ground water tables, create green belts, increase agricultural productivity, and thus contribute to community development.

Activities in this project included construction of check dams, farm ponds, desilting, borewell recharge and installing water pipelines for drinking water for households. The project has been implemented in 18 villages with a population of 25,000 people.

AB Responsible Services has invested a total of Rs. 45.3 lakhs in IWMP.

### Section I - Introduction

#### Objective and Scope

1.10 Ratnagiri and Raigad districts in Maharashtra situated between Western Ghats and the Arabian Sea receives heavy rainfall during monsoons. Rainfall is a crucial factor affecting agriculture, domestic water supply, hydroelectric power generation plants and industries.

Water resources are highly sensitive to climate change and can pose serious threats to food and environmental security. Understanding the changes in rainfall patterns, inability to store water with slope of Western Ghats and inadequate water resources in the region AB Responsible Services developed the Integrated Watershed

Management Programme to address the issue of integrated water management in the project sites.

IWMP project was implemented with an objective of increasing agricultural productivity, enhancing livelihood and increasing green cover in the 18 villages of Ratnagiri & Raigad with a population over 25,000 local people.

## **Section II – Evaluation Social Impact**

### **Data Collection**

1.20 The stakeholders that have been approached for obtaining data include:

- ✓ Direct beneficiaries e.g., villagers, farmers, owners of local businesses etc.
- ✓ Implementing team of AB Responsible Services
- ✓ Representatives of local government - Panchayat Members, Relevant Taluka and District Level officials
- ✓ NGOs operating in these districts on environmental issues

The data collection tools used were Key Informants Interview (KII), Focus Group Discussions and quantitative surveys. Questionnaires were designed and data collection conducted by AB Responsible Services.

5% sample was selected from direct beneficiaries (farmers, local business owners and community) from 18 villages of the programme.

### **Desk Review**

1.30 A desk review of existing documents was conducted to gain further insight into the evaluation procedure and impact assessment. These documents cover company's policies, values, activities towards environment conservation:

- Reports generated under Environment protection laws
- Annual Reports
- Sustainable Development curriculum
- Feedback form by staff/trainees
- Photographs of activities carried out under IWMP
- Data on improved soil fertility
- Data on rainfall and availability of water
- Data on improved agricultural productivity
- Details of plans, programmes held and to be held future
- Water Conservation Management Policy

### **Inspection and Personal Interviews**

1.40 Besides desk review, physical inspection was conducted of check dams, borewells, farm ponds and water pipelines to understand the effectiveness of the programme. Personal interviews were also conducted with selected stakeholders to understand the social and environmental impact of IWMP.

20 Focus group discussions, 10 KII and 500 quantitative surveys with stakeholders were conducted.

### **Evaluation Questions**

1.50 Evaluation questions were also reviewed by the social auditor to assess the responses received from various stakeholders and to understand what has changed.

This helped the Social Auditor in forming his views on the following aspects:

a. IWMP Implementation:

- What watershed management activities were carried out in the village?
- What water supply related challenges were faced by the village population?
- Currently, what are the efforts being carried out by the local government for better water availability?
- What permissions were taken by the Government departments to carry out IWMP activities?

b. Impact on Agriculture:

- What is the increase in the area of land that has been irrigated through the watershed development project?
- How many farmers have been impacted because of the watershed development activities?
- Have people been able to enhance their standard of living through vegetable gardens and bolster their cultivation?
- Has there been an improvement in biomass production?

c. Impact on Health & Standard of Living:

- How many villagers got access to better drinking water supply?
- Have the incidences of waterborne diseases reduced in the village?
- How much is the increase in annual income of villagers with enhanced agricultural productivity and improved income from local businesses?

d. Impact on Environment:

- Has the water quality in the area improved?
- Has there been an improvement in biomass production?
- Is there any impact on aqua life?

### **Key Metrics for Evaluation of Project / Program**

1.60. The Social Auditor reviewed the project/program documents to frame the evaluation criteria for assessing impact. Key metrics collated from base-line, mid-line (monthly / quarterly) and end-line assessments were analysed to effectively understand and evaluate impact.

Following aspects are covered with respect to direct beneficiaries:

(a) Demography

- Financial and Social Background of the beneficiaries -Age, Gender Occupation, Family Income, Sources of Income.
- (b) Water Resources available for domestic, commercial and industrial use
- Quality of water supply
  - Amount spent by villagers to get additional water supply
- (c) Agriculture
- Current agriculture practices
  - Land under irrigation pre and post implementation of IWMP
  - Increase in farm production
  - Increase in agriculture allied activities
  - Increase in income from agriculture
- (d) Commercial Activities
- Change in income
- (e) Environmental factors
- Enhanced soil and water quality
  - Improved biodiversity
  - Improved ground water tables

**Assessment of Evaluation Criteria (Illustrative Key Impact Indicators)**

1.70 Following are the quantitative and qualitative indicators identified by the Social Auditor to capture social and environmental impact of IWMP.

Sr No	Evaluation Criteria
<b>(A)</b>	<b>Quantitative Criteria</b>
1	Over 25,000 beneficiaries directly impacted by IWMP which include Farmers, Total Population in Villages, Local Businesses
2	Over a lakh indirect beneficiaries IWMP - Population from neighboring villages
3	177 hectares of land brought under irrigation
4	76% water availability increased
5	45% percent increase in annual income
6	27% decrease in medical expenses incurred by villagers
7	Average 4 watershed management activities carried out in every village
8	6,875 households got better drinking water supply
9	Average 12% increase in farm production



10	18% increase in amount of total water resources used
<b>(B)</b>	<b>Qualitative Criteria</b>
1	Improvement in living conditions with better sanitation facilities
2	Improved health conditions with reduction in water pollution and restoration of quality of soil
3	Improved standard of living with increased annual income
4	Per capita water availability
5	Improved awareness about watershed management practices
6	Availability of new employment opportunities for maintenance of watershed management activities
7	Increase in hydraulic energy generation
8	Increase in awareness on rainwater and stormwater harvesting
9	Changes in soil quality
10	Increase in horticulture practices
11	Changes in green cover over total surface area
12	Changes in migration pattern with better employment opportunities and living conditions

### **Section III – Assessment of Challenges, And Limitations**

#### **Challenges/ Areas for improvement**

1.80 Following challenges were faced by stakeholders which were identified during primary data collection:

- Difficulty in understanding the importance and use of watershed management practices
- Inability to understand the immediate impact of climate change
- Lack of awareness about biodiversity in general
- Lack of awareness on maintenance of watershed management activities
- Underestimation of changes and impact of rainfall and storms

### **Limitations of the assessment**

1.90 Following are the limitations of the assessment:

- Non availability of baseline data on all indicators especially qualitative indicators
- Overlapping of stakeholders as farmers are also part of local community
- Respondents' inability to answer few questions especially on quantitative indicators

### **8.2 Case Study on Draft Social Audit Standard (SAS) 200: Promoting health care including mental healthcare, sanitation and making available safe drinking water**

AYU Pharma Ltd is a for-profit social enterprise which has developed new mammography equipment. This hand-held non-invasive equipment builds on AI to detect breast cancer by scanning heat maps on the breast. Easy to transport in mobile medical vans, this innovative medical technology has provided more than 10000 women early access to the detection of breast cancer thus saving many lives. The cost of the breast detection test is INR 350. The technology is real-time based on 5G technology making the test report available in less than 3 hours.

MMUs are staffed with medical professionals who are equipped to detect breast cancer using new technology scanning machines.

The 2-year-old company has deployed 10 mobile medical units which have conducted breast cancer detection camps in 22 districts. These Mobile Medical Units (MMUs) are equipped with medical facilities, qualified doctors and medical attendants. The company invested about 1.35 cr in this project

Ayu Pharma has commissioned Social Auditor ABC to conduct a social audit on the impact of the social enterprise.

### **Section I - Introduction**

#### **Objective and Scope**

The objective of the Social Audit is to report on the social impact of the Breast cancer detection activities conducted by Ayu Pharma in Rajasthan from March 2018 to Feb 2019. The social audit aims to assess the primacy of intent of the social enterprise Ayu Pharma aligns with its activities.

#### **Scope of the social audit**

Activity Scope boundary is the activity of Ayu Pharma, 10 mobile units in 22 districts in the year 2018-2019

Assess the impact of their activities in:

- The success rate in detecting breast cancer
- Accessibility of the tests to the poor, vulnerable sections of the society

## **Section II – Evaluation of Social Impact**

### **Data Collection**

1.20 Data was collected from the following stakeholders:

The stakeholders that were approached for obtaining data included:

- Direct beneficiaries - women who have been tested for breast cancer
- Immediate family members of the direct beneficiaries
- Medical assistants and technicians conducting tests
- Medical institutions (management) who have collaborated with XYZ for their community programme.
- Government Health officers (at block, district, state and national levels as relevant) and related institutions
- Key program officials of the Ayu Pharma

For data collection, 5% sample was taken from each district to ensure adequate representation of the entire affected population. Data collection tools i.e. questionnaires and interview schedules were prepared by the in-house team for monitoring and evaluation of activities. Since the MMUs were maintaining a database of the beneficiaries who visited MMUs for various healthcare facilities, a sample was selected from the same database and staff of MMUs were asked to collect primary data from the villagers. This entire study was carried out over a period of 3 months.

### **Desk Review**

1.30 A desk review of secondary data was conducted by the auditing team of documents provided by Ayu Pharma to gain further insight into the activities and the impact (changes) happening due to the activities of AYU pharma.

- Feedback form from beneficiaries
- MOU between the entity and the partnership / implementing agencies/ sponsors/ Contractors/suppliers/funding entities/ other related institutions
- Helpline facilities provided
- Photographs of various programmes/ events
- Beneficiaries' data and health status reports maintained by MMU team
- Annual Reports and sustainability reports
- Photographs and success stories documented by the company
- Data on health indicators maintained by local government
- Process followed for Conducting health camps along with pre and post-health check-ups conducted
- Subsidised health treatments provided e.g. Ayushman Bharat Yojana, Mahatma Jyotiba Phule Jan Arogya Yojana (in the state of Maharashtra), etc.
- Key data metrics followed by Ayu Pharma to measure success.
- Content of education and awareness campaigns conducted

## **Inspection and Personal Interviews**

1.40 Besides desk review, the social auditor conducted physical inspection and interviews.

- Inspections were done in person or remotely through the use of technology.
- Interviews were done in groups -Focus group discussion or individually – called Key informant interviews (KII).
- Stakeholder feedback was collected through paper and online surveys.
- The overall activity of conducting a survey and collecting sample data were from Jan 12 2021 to Jan 30 2021
- Number of field data enumerators 15
- Number of KII 25
- Number of FGDs 30
- Number of quantitative surveys 350

## **Evaluation Questions**

1.50 Evaluation questions were also reviewed by the auditor to assess the responses received from various stakeholders and to understand what has changed.

- Are the doctors and medical staff friendly and helpful?
- Are equipment and medicines provided are of good quality and give good results?
- How many patients have been referred to hospitals for further treatment?
- Are these MMUs easily accessible?
- What are the challenges faced by MMUs staff and doctors while conducting breast cancer detection camps?
- Is there any impact on other healthcare facilities in the village/district like primary healthcare center, private and government hospitals and private clinics?
- Has the awareness about breast cancer detection improved in the region?
- Did the target people receive the benefit?
- Did the standard of living due to early detection improve? if yes – how- please explain in 100 words
- Has the life expectancy increased for breast cancer patients in the area.
- Whether facilities are accessible to all irrespective of their social or economic status or religion and to what extent they are being used?
- Composition of the beneficiaries
- Were the participants satisfied with the services that they received?
- How was the quality of engagement with beneficiaries?
- Are beneficiaries better informed about their rights, entitlements, and the policies and schemes that affect them viz. Ayushman Bharat Yojana, LaQshya' programme (Labour Room Quality Improvement Initiative), National Health Mission, National Mental Health Programme, National Tobacco Control Programme(NTCP) etc.
- Whether helpline facilities provided were beneficial and effective?

- Suggestions from beneficiaries for improvement of the programs
- What were the constraints or challenges faced in providing the services/ programs?

### **Key Metrics for Evaluation of Project / Program**

1.60 The Social Auditor reviewed the project/program documents to frame the evaluation criteria for assessing impact. Key metrics collated from base-line, mid-line (monthly / quarterly) and end-line assessments were analyzed to effectively understand and evaluate impact.

The baseline measurement is done to establish the starting point in any project/program, which is then used to measure what changed due to the intervention of the entity.

- Assessed the past performance trend of the entity.
- Assessed the highlights and key achievements during the reporting period.
- What would have happened in the absence of the intervention?
- How much has the project contributed to the changes that are evidenced?
- How many unintended negative impacts happened due to the intervention?
- Changes in number of women detected with breast cancer

#### **(a) Changes in use of healthcare facilities (Reach)**

- Patients using MMUs
- Shift from other healthcare providers to MMUs
- Number of patients continuing use of MMUs
- Reduction in medical expenses
- Awareness on breast cancer and its prevention

#### **(b) Quality of MMUs (Depth)**

- Quality of equipments and medicines
- Attitude and behaviour of doctors and medical staff
- Hygiene and cleanliness in MMUs
- Availability during emergencies

#### **(c) Other Healthcare Providers (Inclusion)**

- Referral to other healthcare providers for further treatment
- Reduction in patients visiting other healthcare facilities
- Partnerships for providing medical staff and required medical equipments

### **Assessment of Evaluation Criteria (Illustrative Key Performance Indicators)**

1.70 Following indicators were identified to assess impact of MMUs on various stakeholders:

<b>Sr. No.</b>	<b>Evaluation Criteria</b>
<b>(A)</b>	<b>Quantitative Criteria</b>
1	10000 women in 22 villagers availed facilities of MMUs
3	3,457 villagers have continued with further treatment.
5	60% decrease in average annual medical expenses.
8	15% footfall reduced in private and government hospitals
10	5% attrition in doctors and 7% attrition in other medical staff working with MMUs
<b>(B)</b>	<b>Qualitative Criteria</b>
1	Improved approach towards use of healthcare facilities
2	Changes in behaviour towards better lifestyle eating habits, regular health checkup etc.
3	Regular inspection of medical facilities, equipments provided in MMUs
4	Incentives for doctors and medical staff for efficiently managing patients
5	Effective patient data management system
6	Support from private and government hospitals

### **Section III – Assessment of Challenges, And Limitations**

#### **Challenges/ Areas for improvement**

1.80 Following challenges were faced by stakeholders which were identified during primary data collection:

- Trust in traditional healthcare systems hence not willing to shift to MMUs
- Inability to track health records of villagers who do not continue with MMUs
- Lack of awareness about health issues and available healthcare facilities
- Few doctors or medical staff are not empathetic and helpful.
- Local healthcare providers (community v aids) spreading myths related to various health issues.

#### **Limitations of the assessment**

1.90 Following are the limitations of the assessment:

- Non-availability of baseline data on all indicators especially qualitative indicators
- Inability to capture data on behavioural changes

Differentiating in impact created by MMUs and Healthcare facilities or schemes implemented by other providers.

### **8.3 Case Study on Draft Social Audit Standard (SAS) 400: Promoting gender equality, empowerment of women and LGBTQIA+ communities**

Achala, a for profit social enterprise working for issues on women empowerment and rural livelihood developed a business model to provide sustainable livelihood opportunities in rural Madhya Pradesh. The social intent of Achala is to provide financial stability to women by providing them entrepreneurial skills.

Madhya Pradesh is known for various printing techniques namely hand-block printing using mainly natural colors, batik printing and techniques of tying and dyeing. It is the centre for numerous handicrafts and handloom products that are innovative and creative like metal Dokra ware, Chanderi and Maheshwari fabric, jute craft etc.

Achala focussed on this traditional talent of local women and encouraged rural women to produce these local handicraft and handloom products.

Through this business model the organisation provided employment opportunities to over 35,000 women in rural Madhya Pradesh from 2018 to 2020. Achala has set up shops in different cities under the brand name of 'Craft Culture' and provided their members backward and forward linkages, capacity building, market support and quality control.

Achala provided raw material, training, designs to rural women and helped them to sell their products under the brand name of 'Craft Culture' at fair prices. Over a period of eight years the organisation invested about 1.25 Cr. in the project.

#### **Section I - Introduction**

##### **Objective and Scope**

1.10 Madhya Pradesh is hub for a variety of fabrics, handloom and handicraft products. It has a varied and rich culture which is evident through its local art. Achala made use of this traditional art to provide sustainable livelihood support to rural women. This project was implemented across 913 villages in Madhya Pradesh and gave livelihood support to over 35,000 women. Women were provided capacity building and market support to sell their products to earn dignified living. This step was taken to develop an income generating model for the organisation along with social and financial empowerment of rural women. Under this project Achala brought various handicraft and handloom products to the national market by setting up shops in all metro cities. They also ensured that rural women get fair prices for their talent and hardwork in all the hand made traditional products.

## **Section II – Evaluation of Social Impact**

### **Data Collection**

1.20 The stakeholders that have been approached for obtaining data include:

- ✓ Direct beneficiaries - Rural Women.
- ✓ Employees of Achala
- ✓ Families of Rural Women who participated in the project
- ✓ NGOs operating in these fields of local art and culture
- ✓ Investors/ Funding organisations
- ✓ Customers of Craft Culture

The data collection tools i.e. interview schedules and questionnaires were designed and conducted. Since Achala does not have in-house expertise and resources for conducting social impact assessment, an external agency with expertise and experience in social impact assessment was approached. This agency conducted a social impact assessment study by designing data collection tools, actual data collection, data analysis and submitted a final report on the same. Out of the total population of the project 10% sample was selected from direct beneficiaries. The sample was selected by categorizing handloom and handicraft products in different categories. Then the data was collected through focused group discussions. Interviews were conducted for representatives of the rest of the stakeholders to understand their contribution to the programme and indicators of impact.

### **Desk Review**

1.30 A desk review of existing documents was conducted to gain further insight into the evaluation procedure and impact assessment. These documents cover organisation's policies, values, activities towards women empowerment and rural livelihood:

- National policy on Women Empowerment
- Government schemes for women empowerment and rural livelihood
- Annual Reports of Achala
- Data maintained on Craft Culture Shops
- Photographs of training and workshops conducted by Achala
- Data on improved family income
- Case studies or success stories documented

### **Inspection and Personal Interviews**

1.40 Besides desk review, the Social Impact Assessment Team (SIAT) visited rural women producers as well as Craft Culture shops to understand the functioning and



effect of this project. Focused group discussions were conducted for direct beneficiaries to understand social and financial impact on them. Personal interviews were also conducted with selected stakeholders to understand the social and economic impact of the Craft Culture project.

### **Evaluation Questions**

1.50 Evaluation questions were also reviewed by the SIAT to assess the responses received from various stakeholders and to understand what has changed.

This would help the Social Auditor in forming his views on the following aspects:

(a) Composition of Beneficiaries:

- What is the age group and social background of rural women selected for this project?
- What is the traditional art selected for the project?

(b) Quality of Project:

- Are women participants satisfied with the operations of Achala?
- Are women participants satisfied with resources, training and support provided by Achala?
- Are women participants getting fair prices for their products?
- Are customers of Craft Culture satisfied with the quality, pricing and service provided by Achala?

(c) Impact of the Project:

- How many rural women received sustainable livelihood?
- Has there been an increase in the productive resources and assets of women?
- How much is the increase in annual income of rural women with participation in the Craft Culture project?
- Has the project changed the social status of women among their family members and community?
- Has there been a change in standard of living of beneficiaries?
- Is there any change in employment opportunities in the villages covered?
- Has the project helped in sustaining local art and culture?
- What are the social issues that are addressed through this project?

(d) Suggestions:

- What are the challenges faced by rural women in participating in this project?
- What are the challenges faced by Achala staff in implementing this project?
- What are the suggestions provided by customers in improving quality, designs and service of Craft Culture products?
- What are the expectations of rural women in the project?

## Key Metrics for Evaluation of Project / Program

1.60 Key Metrics was designed based on baseline and endline assessment to understand, evaluate and report change effectively. Achala had conducted a need assessment and baseline study prior to implementing this project to understand skillsets of these women, demand for handloom and handicraft products, willingness of women to start income generating activity and availability of resources.

### (a) Demography (Inclusion)

- Financial and Social Background of the beneficiaries -- Age, Occupation, Family Income, Sources of Income, Caste/ Religious Background

### (b) Outreach

- Total number of rural women participated in the project
- Number of Women with different skills sets
- Number of villages covered
- Areas covered under capacity building
- Types of products covered

### (c) Impact on Beneficiaries (Depth)

- Increase in income
- Increase in standard of living
- Improved efficiency
- Changes in financial status of women
- Changes in social status of women
- Changes in employment pattern in the villages

## Assessment of Evaluation Criteria (Illustrative Key Impact Indicators)

1.70 Following are the quantitative and qualitative indicators identified by the SIAT to capture social and environmental impact of IWMP.

Sr No	Evaluation Criteria
(A)	<b>Quantitative Criteria</b>
1	35,000 women participated in Craft Culture Project
2	Over 32 handloom products and 44 handicraft products were introduced in the market through Craft Culture shops
3	22,300 women attended the training programme on skill development, packaging and branding of products.

4	28,300 women attended training programme on financial literacy and business development.
5	Average 18% annual increase in family income of women participants
6	67% women reported improvement in standard of living
7	12% increase in employment opportunities in villages
8	52% women have their own savings and are actively involved in financial transactions
9	Annually average 16% increase in sale of Craft Culture
10	82% customers of Craft Culture reported satisfactory quality and designs of the products.
<b>(B)</b>	<b>Qualitative Criteria</b>
1	Improvement in living conditions of rural women
2	Enhanced confidence and self-esteem of rural women
3	Improved decision making capacities of rural women
4	Better understanding of business, market trends, designs and so on.
5	Improved awareness about various skills and arts in the regions
6	Availability of new employment opportunities for packaging, transport, branding and raw material supplies etc.
7	Increase in Financial sustainability of the organisation
8	Increase in Investment Opportunities
9	Changes in migration pattern
10	Participation in other social and political activities by rural women

### **Section III– Assessment of Challenges, And Limitations**

#### **Challenges/ Areas for improvement**

1.80 Following challenges were faced by stakeholders which were identified during primary data collection:

- Difficulty in understanding market trends, production requirements etc.

- Lack of family support for few participants
- Inability to maintain consistency in quality and designs like factory production
- Lack of awareness, financial and operational management by rural women
- Challenges in adopting digital practices for financial transaction and inventory management
- Competition with other brands on handloom and handicraft products

### **Limitations of the assessment**

1.90 Following are the limitations of the assessment:

- Getting quantitative data from illiterate women participants
- Capturing data on behavioral changes among rural women

### **8.4 Case Study on Draft Social Audit Standard (SAS) 1300: Promotion of Financial Inclusion**

CP LLP a for profit Social Enterprise launched a project called E-Diksha with the social intent to provide financial and digital literacy to poor and marginalized population in three States Madhya Pradesh, Jharkhand and Haryana.

Financial inclusion is an intrinsic part of economic and social development. There are various reasons for financial exclusion like social barriers, poverty and lack of education. Financial and digital literacy helps address social and infrastructural constraints for financial inclusion.

CP LLP has covered over 2.5 lakh population in these 3 States. Workshops were conducted giving information on various financial products services offered by formal financial institutions, Central and State Government schemes for financial inclusion, digital platforms for online financial services and operating digital tools. Its main objective is to increase awareness about financial products, educate decision-making ability regarding financial products, provide access to financial products through digital tools and to develop a sustainable financial system.

The organisation invested about 3.45 Cr. in E-Diksha Project.

### **Section I - Introduction**

#### **Objective and Scope**

1.10 E-Diksha project is operational in the three States; Madhya Pradesh, Jharkhand and Haryana. This project got a boost post demonetisation and Covid19 in India as there was a significant shift from traditional financial transactions to digital financial transactions. Formal education and mere availability of banking services do not completely educate people on financial literacy. Mostly people rely on someone else

to take their financial decisions and carry out these transactions. E-Diksha project aims at educating rural as well as urban people about financial and banking services and tools. It also focuses on building trust about formal financial institutions amongst these people. This project delivered financial and digital literacy sessions to over 2.5 lakhs population. The company invested about 3.45 Cr. in this project. Following components of financial and digital literacy were covered under various sessions conducted:

- Opening and using bank account
- Using ATM cards
- Access to various financial product: loans, savings, insurance etc
- Netbanking and Mobile Banking
- Digital Payment Apps - BHIM/UPI/PayTM
- Basic aspects of financial management
- Central and State Government schemes for financial inclusion and digital literacy

## **Section II – Evaluation Social Impact**

### **Data Collection**

1.20 The stakeholders that have been approached for obtaining data include:

- ✓ Direct beneficiaries - Participants of E-Diksha project.
- ✓ Implementing team of CP Limited
- ✓ Resource persons for conducting sessions
- ✓ NGOs and financial institutions who have partnered with CP LLP for this project
- ✓ Financial products and services providers - Banks, NBFCs etc.

The data collection tools i.e. interview schedules and questionnaires were designed and conducted by a market research company.

Out of the total population 8% sample was selected from direct beneficiaries from all three States. Google forms were prepared to collect data from representatives of the rest of the stakeholders to understand their contribution to the programme and indicators of impact.

### **Desk Review**

1.30 Secondary data was also collected to get better insight into the evaluation procedure and impact assessment. These documents cover organisation's policies, values, activities towards social and economic development:

- Annual Reports
- Baseline study report documented prior to E-Diksha Project
- Feedback from participants of E- Diksha Project
- Photographs of Financial and Digital Literacy sessions conducted

- Data on Government Schemes like Jan Dhan Yojana etc
- Data on financial inclusion published by RBI
- Data on National Digital Literacy Mission
- Details of plans, programmes held and to be held future under E-Diksha Project
- E-Diksha Project Progress Reports
- Partnership documents and communication between CP LLP and partnering NGOs and financial institutions

### **Inspection and Personal Interviews**

1.40 Besides desk review, personal interviews were conducted with participants of the E-Diksha project to understand the social and financial impact. Primary data was also collected through questionnaires from other stakeholders. Representatives from the Consulting Agency also attended a few financial and digital literacy sessions to understand the effectiveness and operations of these sessions and level of understanding and active participation of people attending these sessions.

### **Evaluation Questions**

1.50 Evaluation questions were also reviewed by the auditor to assess the responses received from various stakeholders and to understand what has changed.

#### **a. Composition of Participants:**

- What is the educational background of participants?
- How many participants were involved in financial transactions prior to E-Diksha Project?
- Are participants availing any benefits of any schemes for financial inclusion?
- Are participants digitally literate and what are the digital activities in which participants are actively involved?

#### **b. Quality of E-Diksha Project:**

- What are the components of financial and digital literacy which are covered in the project?
- What is the methodology used in training sessions?
- Are the resource persons conducting sessions helpful and proactive in teaching with innovative methods?
- What is course material shared with participants?
- What are digital tools that are used during the session?
- How does the company ensure that the participants have effective learning and participate in the formal financial system and use digital tools post sessions?

c. Impact of E-Diksha Project:

- How many participants are using various financial products after attending sessions?
- How many participants are using netbanking, mobile banking or online payment apps?
- How many participants have availed government schemes related to financial inclusion?
- Is there any shift from non-formal financial institutions to formal financial institutions?
- How did this project affect the business of formal financial institutions?
- How did this project affect the business of non-formal financial sources?
- Is there any shift from cash transactions to digital transactions?

d. Challenges & Feedback:

- What are the challenges faced by participants in using formal financial products and services?
- What are the challenges faced by the participants in using digital tools?
- What are the areas of financial and digital literacy that need to be introduced in the future sessions?

**Key Metrics for Evaluation of Project / Program**

1.60 The Social Auditor reviewed the project/program documents to frame the evaluation criteria for assessing impact. Key metrics collated from base-line, mid-line (monthly / quarterly) and end-line assessments were analysed to effectively understand and evaluate impact. The following aspects are covered concerning direct beneficiaries:

(a) Composition

- Financial and Social Background of the beneficiaries -Age, Gender, Occupation, Education, Family Income, Sources of Income

(b) Outreach of project

- Total Number of sessions conducted
- Number of participants
- Age wise and education wise distribution of participants
- Number of participants who were already using formal financial and digital tools
- Number of participants shifted from non-formal to formal financial tools

(c) Impact

- Increased use of different types of financial products
- Increased use of digital tools/apps

- Increased confidence on formal financial system
- Improved participation in government schemes on financial literacy and digital literacy
- Increased awareness on financial management systems
- Increased confidence to use online platforms

(d) Impact on financial sector (Inclusion)

- Increase in number of bank accounts and other financial products
- Decrease in financial transactions with non-formal sources
- Shift from cash to digital transactions
- Shift to formal financial institutions

**Assessment of Evaluation Criteria (Illustrative Key Impact Indicators)**

1.70 Following are the quantitative and qualitative indicators identified by the Social Auditor to capture social and economic impact of E-Diksha Project.

Sr No	Evaluation Criteria
(A)	<b>Quantitative Criteria</b>
1	2.5 lakhs people attended financial and digital literacy sessions
2	About 9,500 sessions were conducted in 3 States.
3	Number of bank accounts increased by 7%
4	ATM use increased by 10%
5	88% participants have started saving with bank rather than chit funds or non-formal sources
6	72% participants have borrowed loans from formal financial sources/ banks
7	63% participants are using mobile banking
8	32% participants are using netbanking
9	78% participants are using digital app like paytm, gpay etc
10	27% participants have enrolled for Government schemes related to financial inclusion
11	74% participants are confident to manage their own finances



12	59% participants are able to use mobile phones more effectively
13	48% participants are able manage their financial books effectively
<b>(B)</b>	<b>Qualitative Criteria</b>
1	Improvement in habits related to financial transactions
2	Increased savings and investments as result of changes in saving habits
3	Improved standard of living with increased annual income
4	Increased confidence in taking financial decisions
5	Increased interest in learning advanced financial and digital practices
6	Improved social status with more awareness
7	Increased confidence to use mobile phones, internet and other digital tools
8	Better ability to deal with financial crisis
9	Better communication and trust with banks and other financial institutions
10	Better understanding of financial terms and concepts

### **Section III – Assessment of Challenges, and Limitations**

#### **Challenges/ Areas for improvement**

1.80 Following challenges were faced by stakeholders which were identified during primary data collection:

- Difficulty in understanding financial concepts and terms due to lack of education
- Inability to understand digital tools and fear of frauds or errors in digital transactions
- Lack of trust on formal financial institutions and better connect with non-formal financial sources like moneylenders
- Difficulty in using formal financial products due to more documentation and longer time
- Staff of formal financial institutions or banks not being supportive and empathetic

#### **Limitations of the assessment**

1.90 Following are the limitations of the assessment:

- Participants not able to communicate their learnings in effective way

- Accurate data on non-formal financial sources is limited
- Differentiating impact created by E-Diksha project and other Government and Non-Government efforts towards financial inclusion

### **8.5 Case study on Affordable Housing on Draft Social Audit Standard (SAS) 1100: Slum area development, affordable housing and other interventions to build sustainable and resilient cities**

Swagruha is a not for profit organization based in Mumbai servicing marginalized communities for construction, repair and maintenance of affordable housing facilities. Swagruha was set up with a social intent of contributing to sustainable and resilient cities by addressing the housing needs of the vulnerable sections of the society living in slums. Swagruha also identified beneficiaries who can be enrolled under Pradhan Mantri Awas Yojana for subsidy on housing to provide better housing facilities. This project impacted over 11,000 people in Maharashtra.

Safe housing is crucial for everyone as it is a basic measure to deal with challenges and uncertainties especially during disasters.

Swagruha initiated a project called Niwas. Under Niwas project they repaired the homes of 1,265 families living in the slums of Mumbai. The beneficiaries were from informal sectors like domestic helpers, waste pickers, vegetable vendors, and laborer's living in temporary structures in the slums.

Swagruha activities include repairing cracks, plastering, painting, door and roof repairs, and construction or repairs of toilets. It also includes providing safe drinking water supply through construction of overhead tanks or water filtration plants.

The company spent about 4.67 Cr on Niwas project from Jan 2019 to Dec 2022.

#### **Section I - Introduction**

##### **Objective and Scope**

1.10 Project Niwas was launched by Swagruha to provide safe homes to the marginalized group of people living in slums of Mumbai. Under Niwas project 1,265 families were provided with better housing facilities.

The company invested about 4.67 Cr in this project from Jan 2019 to Dec 2022

#### **Section II – Evaluation of Social Impact**

##### **Data Collection**

1.20 Primary data was collected from following stakeholders:

- ✓ Direct beneficiaries of Niwas Project
- ✓ Project team from Swagruha
- ✓ Local Contractors carrying out repair work
- ✓ Local Suppliers of housing material
- ✓ Concerned Department/ Office of Local Government

Primary data collection was carried out by Swagruha with designing of data collection tools i.e. interview schedules and questionnaires.

Out of the total population 15% sample was selected from direct beneficiaries and personal interviews were conducted to collect data on impact created. The Evaluation Team also interviewed randomly selected stakeholders from other categories to understand their role in the project and the impact of the project.

### **Desk Review**

1.30 Various documents were scrutinized as a part of desk review to understand the context, implementation, progress and impact of the project. Following documents were analyzed:

- Annual Reports and Sustainability Reports
- Need assessment study for Niwas project
- Feedback from participants on Niwas Project
- Photographs of housing conditions pre and post Niwas project
- Data on Pradhan Mantri Awas Yojana
- Project documents maintained by Swagruha
- Details of plans, programmes held and to be held in future under Niwas Project
- Niwas Project Progress Reports
- Success stories or case studies documented
- Survey reports of the local NGO's working in the area
- Documents on National Slum Development Program (NSDP)
- Documents on Integrated Housing & Slum Development Programme

### **Inspection and Personal Interviews**

1.40 Personal interviews were conducted of beneficiaries of Niwas project to understand their opinions on Niwas project, housing aid provided to them and impact of this project. Primary data was also collected through questionnaires from other stakeholders asking them about their role, challenges and recommendations. Swagruha Team personally visited these houses which were repaired under Niwas project to see the quality of work, social change and impact created on beneficiaries.

### **Evaluation Questions**

1.50 Evaluation questions were also reviewed by the auditor to assess the responses received from various stakeholders and to understand what has changed.

This would help the Social Auditor in forming his views on the following aspects:

- a. Housing conditions of beneficiaries:
  - What is the occupation and family income of the beneficiary?
  - How was the housing condition of the beneficiary before the Niwas project?
  - What are the challenges faced by beneficiaries due to damaged housing conditions?

- How much is total fund spent on Niwas project and what is beneficiary wise expenditure?
  - How much is the annual repair cost spent by the beneficiary before Niwas project?
  - How many people received support in repair of housing conditions?
- b. Quality of Niwas Project:
- What are the different housing repair works carried out?
  - What is the quality of material used in repair work?
  - How many people feel that their living conditions have been improved?
  - Are housing conditions post Niwas project sustainable?
  - Are the houses repaired or reconstructed as per the requirements of the beneficiaries?
- c. Impact of Niwas Project:
- How many beneficiaries received rebuilt houses?
  - How many beneficiaries received new toilets?
  - Is there a change in living area, per capita space?
  - Did beneficiaries contribute financially or in-kind in the project?
  - How many people feel more secure and safe?
  - How did Niwas project impact on women members of the beneficiary families?
  - Has this project created more employment opportunities for local people?
  - Are the capacities of beneficiaries to deal with disasters improved?
  - Has the quality of life of beneficiary families improved?
- d. Challenges & Feedback:
- What are the challenges faced by different stakeholders in implementation of Niwas project?
  - What are the areas of improvement in the housing facilities provided under Niwas project?
  - What other housing related aspects should be incorporated in this project in the future?

### **Key Metrics for Evaluation of Project / Program**

1.60: The Social Auditor reviewed the project/program documents to frame the evaluation criteria for assessing impact. Key metrics collated from base-line, mid-line (monthly / quarterly) and end-line assessments were analysed to effectively understand and evaluate impact. The following aspects are covered concerning direct beneficiaries:

#### **(a) Demography [Reach]**

- Financial and Social Background of the beneficiaries—Occupation, Family Income, Number of Family Members
- Selection criteria for providing houses
- Housing condition of beneficiaries before Niwas Project
- Housing facilities available for beneficiaries

**(b) Outreach of project**

- Number of families that received new houses
- Number of families that received repairs to their older houses
- Number of families that received toilets
- Number of families that received drinking water facility
- Number of contractors who got employment
- Types and sizes of houses provided

**(c) Impact (Depth)**

- Improved quality of life
- Availability of basic facilities (safe drinking water, adequate sanitation, energy for cooking, heating, lighting etc.)
- Increased feeling of being safe
- Improved ability to deal with disasters
- Decrease in crimes like theft, burglary
- Improved sanitation conditions
- Improved health condition with better shelter facility
- Decrease in expenses related to house repair

**(d) Impact on housing sector (Inclusion)**

- Increase in number of beneficiaries enrolled for Pradhan Mantri Awas Yojana
- Improved standard of living
- Awareness on cleanliness and sanitation
- Enhanced social status
- Clean and improved city conditions

**Assessment of Evaluation Criteria (Illustrative Key Impact Indicators)**

1.70 Following are the quantitative and qualitative indicators identified by the Social Auditor to capture social and economic impact of Niwas Project.

Sr No	Evaluation Criteria
<b>(A)</b>	<b>Quantitative Criteria</b>
1	1,265 families received housing facilities through Niwas project
2	62% of families living in damaged houses are waste pickers

3	75% of beneficiaries now have improved toilet facilities
4	23% of beneficiaries received subsidy from Government for improving their housing conditions
5	Beneficiaries are able to save annually about average Rs. 10,000 which was earlier spent on repair work of housing facilities
6	35% decrease in crime rate in the area
7	32% of members of beneficiaries received employment opportunities in construction and repairs of houses
8	83% of beneficiaries now have safe drinking water supply
9	95% of families feel more safe
10	93% of families feel confident to deal with disasters
<b>(B)</b>	<b>Qualitative Criteria</b>
1	Improvement in standard of living of beneficiaries
2	Increased savings of beneficiaries
3	Improved social status
4	Increased health condition and productivity
5	Improved cleanliness and quality of neighbourhood
6	Swagruha developing better relationship and building trust with beneficiaries
7	Swagruha able to achieve their social objectives

### **Section III – Assessment of Challenges, and Limitations**

#### **Challenges/ Areas for improvement**

1.80 Following challenges were faced by stakeholders which were identified during primary data collection:

- Beneficiaries having illegal housing structures
- Getting permissions from local government for rebuilding houses
- Lack of sufficient area
- Attitude of beneficiaries towards availing free housing facilities

### **Limitations of the assessment**

1.90 Following are the limitations of the assessment:

- Beneficiaries not willing to share information related their financial status
- Beneficiaries not comfortable without community workers of Swagruha

**Based on Case study 05 a sample Social Audit Report is prepared as under:**

### **Social Audit Report<sup>65</sup>**

To  
Managing Director,  
Swagruha Social Enterprise,  
XYZ Street,  
Mumbai – 000000,  
Maharashtra.

#### **Section I**

- **Context<sup>66</sup>**

Swagruha, a social enterprise – NPO – vide registration No XXX was set up with the primary social intent of contributing to sustainable and resilient cities by addressing the housing needs of the vulnerable sections of the society living in slums.

Swagruha initiated a project called Niwas to provide safe homes to the marginalized group of people living in slums in Mumbai. Under Niwas project, 1,265 families were provided with better housing facilities. The company spent about 4.67 Cr on Niwas project from Jan 2019 to Dec 2022.

The Responsible Party --‘Swagruha’, agrees to the following responsibilities:

- Ensuring that all key processes, systems, internal controls and supporting documentation affecting social audit reporting objectives are audit ready.
- Maintaining open communications and coordinating with one another.
- Establishing common expectations in writing.
- Providing additional system and financial information within agreed upon timeframes.

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<sup>65</sup> The template of social audit report provided in Chapter 6 has been used to illustrate preparation of a social audit report. Candidates are advised to read case studies on impact assessment to gain an in-depth understanding in writing various sections (elements) of a social audit report. Here is only a brief representation of a social audit report. It may be noted that a social audit report may be expanded and tailored according to the area specific circumstances (social audit standards). The social auditor can write this portion on his own.

<sup>66</sup> As per the template, Section 1 (Context) should cover following information --about the project, responsibilities of reporting entity and social auditor and confirmation of standards.

- Providing access to subject matter experts or contractors supporting those organizations.
- Abiding by the timeframes.
- Working together to discover and correct audit impediments
- Establishing a common, detailed understanding of the method for obtaining assurance

We as a social audit firm undertake the following responsibilities of:

- establishing extent of the audit programme according to the relevant objectives and known constraints.
- determining external and internal issues; risks and opportunities that can affect the audit programme, and implementing actions to address them, integrating these actions in all relevant auditing activities, as appropriate;
- ensuring the selection of audit teams and the overall competence for the auditing activities by assigning roles, responsibilities and authorities, and supporting leadership, as appropriate;
- establishing all relevant processes including processes for:
  - coordination and scheduling of all audits within the audit programme;
  - establishment of audit objectives, scope(s) and criteria of the audits, determining audit methods and selecting the audit team
- monitoring, reviewing and improving the audit programme;
- communicating the audit programme to the audit client and, as appropriate the relevant interested parties

The following report conforms to the guidance available in Social Audit Standards: SAS 1100: Slum area development, affordable housing and other interventions to build sustainable and resilient cities

*The Social Auditor vide registration number (SRO Registration Number: 117366W/W-18ZU8) confirms the application of the code of conduct issued by SRO)*

## **Section II**

### **• Scope of the social audit**

The Swagruha's Niwas project started in 2019. This social audit scope covers the activities of Niwas project from 2019 to 2022 in the geographical boundaries of Dharavi Slum Phase 2. The project beneficiaries were 1,265 families living in the slums on Mumbai.

Swagruha activities included repairing cracks, plastering, painting, door and roof repairs, and construction or repairs of toilets. It also includes providing safe drinking water supply through construction of overhead tanks or water filtration plants.



- **Approach & Methodology**

Project Niwas selected beneficiaries based on two criteria - people working in the informal sector with very low income levels and living in damaged or dilapidated housing conditions in Mumbai. For data collection the sample was selected randomly from a total 1,265 families. Total 190 families were interviewed for primary data collection.

Primary beneficiary (recipients of housing facilities), Project Team of Swagruha, Contractors and Concerned Local Municipal Authorities were interviewed to understand the effectiveness and impact of the project.

Primary data was collected from selected stakeholders for which interview schedules were designed and personal interviews were carried out.<sup>67</sup> Various documents related to Niwas Project maintained by Swagruha were reviewed by the auditing team.<sup>68</sup>

The limitation about the approach is that though primary beneficiaries shared their opinions about Niwas project, they were not willing to share information related to their income, savings and other financial indicators. Since they had better connect with Swagruha community workers, they were not comfortable interacting directly with the social audit team.

### **Section III**

- **Key Findings**

- Out of the total beneficiary families 50% of the beneficiaries are waste pickers who live in dilapidated and kaccha houses, 20% beneficiaries are domestic helpers and remaining from other informal work places.
- 90% of the houses required repair work mainly in the area of roof repair, construction of toilets and access to water supply.
- About 875 families with damaged housing facilities could not be included in the project due to lack of proper documents and residing in illegal structures.
- 30% of respondent families mentioned that the quality of material used for repair work is not good and durable.
- It was also identified during social audit that in some cases selection of contractors for carrying out repair work was biased and based on personal contacts. It was not carried out with the proper selection process.
- It was observed that there is significant improvement in the cleanliness and hygiene levels in housing areas. Beneficiary families are satisfied with the services offered by Swagruha.

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<sup>67</sup> Hint: For detailed understanding candidates can refer to *section 1.50 of Impact Assesment Case-study*.

<sup>68</sup> Hint: For detailed understanding, candidates can refer to *Section 1.30 Desk Review of Impact Assessment*.

- **Gaps/Challenges**

Following are the gaps identified in the design and implementation of the Niwas project.

- Poor people living in illegal structures or lacking proper documentation were completely excluded from the project.
- There have been cases where beneficiaries arranged fake documents to avail these services and the implementing team took time to identify these cases.
- There is a limitation in terms of funds allocated to every beneficiary hence the houses which required major repair work or reconstruction of house had to be excluded.

- **Recommendations**

Following are suggestions provided by social audit firm:

- There should be a proper selection process or tendering process for selecting contractors to carry out repair work.
- Swagruha along with any financing firm/ bank develop a savings scheme where beneficiaries can save for future repairs and maintenance where the current funds are insufficient. This can ensure that the beneficiaries can partly fund their house related expenditure in the future.

- **Case studies/ Stakeholders speak**

Savitri, domestic helper residing in slums in Mumbai stated, *“I’ve lived here for more than 15 years with my family. Every year, leaks resulted from the wall’s fissures and the roof’s damage. With this repair work, we feel that we are living in a brand-new house. Now we have a clean water supply and toilets which was a basic need we were struggling for.”*

Rajshree, a waste picker from Mumbai mentioned, *“I have three daughters and considering the housing conditions, I was always worried for their safety. But now having a proper roof on my head and a secured house, I can leave them at home and go to work without any worry.”*

#### **Section IV**

- **Annexures (if any)**

*Inherent Limitation: This report in no way should be construed as an opinion, attestation, certification or other forms of assurance. The procedures performed as part of the social audit do not constitute an examination or a review in accordance with generally accepted auditing standards or attestation standards.*

The assessment has been undertaken by:

XYZ LLP

Chartered Accountants Firm /Social Audit Firm/ Independent social Auditor

SRO Registration Number: 117366W/W-18ZU8

Vikas Dhawan

Partner

Membership Number: 60408

Mumbai- 000000

MM/DD/YYYY

## Chapter 8: Sample Questions

### Case 1

XYZ is a for profit organisation providing skill development training to youth in Bhopal. This was set up to provide opportunities for skilling to the unemployed and underprivileged youth of Madhya Pradesh and provide skilled manpower to the various industries. They are providing training in 20 different areas to create employment opportunities for the youth. A number of short-term courses are offered under the project like construction industry trades (plumbing, masonry, carpentry, welding, etc.) housekeeping & hospitality, food & beverages, sewing machine operator, electrician, BPO/Voice calling, general duty assistant, etc. They have also developed network of industries to provide placements to these participants of the programme. Till March 2022, they have trained 8,624 youth in Madhya Pradesh and the organisation has spent Rs. 1.20 cr for this project.

**Based on the given case, answer the following questions:**

**1. Which amongst the following could be the drawback(s) of conducting social impact of this project through documenting case studies narrated by participants?**

- A. Personal experiences of the participants can be captured.
- B. Covers only achievement of social mission at individual stakeholder level.
- C. Logical change in the social impact cannot be captured.
- D. Gaps in implementation of the project can be identified.

- a. Only A and B
- b. Only B and C**
- c. Only A and C
- d. Only B and D

**Explanation:** Point A is an advantage and not a drawback. Point D is also not relevant as case studies do cover gaps identified by the beneficiaries. Answer is B and C because the Point B does not cover change that happens over a period of time, it only covers their experiences and their social mission achievements at individual level and not at the project level. Further Point C, indicates that the documentation of case studies capture information only after implementation of the project and does not cover progress at every stage of the project, hence logical change over a period of time is not captured.

2. **If XYZ integrates social impact assessment as an integral part of its procedure, the organisation will face which of the following challenge?**
- a. It will require setting benchmarks for tracking the progress of the project.
  - b. It will have a more standardized format of reporting.
  - c. **It will not have flexibility to change indicators as per the situation.**

**Explanation:** Once Social Impact Assessment is incorporated in the system of the organisation, it is difficult to change the indicators or methodology depending on the requests of funders or other stakeholders or based on the type of project or activity.

3. **Which of the following statement represents challenge in conducting social impact assessment?**
- a. **Unavailability of accurate data on status of employment post completion of training programme.**
  - b. Lack of interest among youth to continue the programme.
  - c. Participants unable to get suitable jobs.
  - d. Quality of content covered in training programme is of poor quality.

**Explanation:** Once the trainees are out of the programme many times it is difficult to track them and get accurate data on their status of employment or income levels. It is due to their lack of willingness to participate or due to inability to contact them.

4. **Which of the following is an incorrect indicator while assessing impact of training program of XYZ?**
- a. Youth attends training program regularly.
  - b. **Education background of family members.**
  - c. Change in attitude towards employment opportunities Availability of employment opportunities in the market.

**Explanation:** Once the training is provided, impact of the training programme does not get affected by the education of other family members. It is affected by the willingness, skills, opportunities for trainees.

5. **Which of the following is the constraint that restricts the impact of the project?**
- a. Participants are unable to explain the benefits of the programme.
  - b. **Demand for specific skill sets in the market and supply of trained members under this project do not match.**

- c. Lack of enough data on alumni members to trace their employability and income status
- d. Impact indicators are restricted to the employability of the participants.

**Explanation:** Impact of the project will get affected by demand and supply in the employment market. Rest constraints are related to challenges in conducting SIA.

## **Case 2**

Smiles project was launched by a non profit organisation in rural Karnataka which aims to spread awareness among children about correct oral habits, basic hygiene and diet, to reduce the prevalence of dental caries. Children between the age group of 6 to 14 years studying in primary schools are taught good oral hygiene habits, the right techniques of brushing with the use of a tooth model and a toothbrush. The significance of brushing at night through an interactive module where the importance of a good mouth cleaning regimen is strongly instilled in them. At the end of the program, each child is given a 'Dental Gift Box' consisting of a toothpaste and a basic toothbrush, along with attractive charts depicting valuable oral care information in order to encourage these children to brush twice a day and take care of their oral care hygiene. This project has impacted 67,238 children in the State.

**Q.1 Which of the SIA approach is difficult to use for this project considering the target population and type of activity?**

- A. Quantitative
- B. Qualitative
- C. Behavioral
- D. Monetization**

**Explanation:** Monetary impact on oral care cannot be seen at such a young age. Change in oral care habits can be captured while using the other three approaches. Dental issues normally arise at a later age hence monetary approach in terms of expenses incurred for dental treatment cannot be covered.

**Q.2 Which of the following data collection methods would be difficult to use for primary beneficiary of the project?**

- A. Personal Interviews
- B. Questionnaires**
- C. Observations
- D. Unstructured Interviews

**Explanation:** Primary beneficiaries are children. It is possible to have personal interviews or interaction in the form of unstructured interviews is possible with small

children. It is also possible to observe changes in their oral care habits. However, it would be difficult to administer Questionnaires to them considering their age group as questionnaires are filled in by the respondents.

**Q.3 Which of the following aspects can be excluded by the Social Auditor while deciding sample for data collection?**

- A. Dental issues faced by the children before implementation of the Smile Project.
- B. Health records maintained by the schools
- C. Changes in the sale of dental products.**
- D. Expressiveness of children in answering data collection tools

**Explanation:** Changes in the sale of dental products could be an impact indicator if the sales data is taken into consideration. It is not an indicator to select sample for data collection. The other 3 indicators can be criteria for selection of sample and data collection tool.

**Q.4 Which of the following can be objective of conducting SIA for Smile?**

- A. To prevent childhood tooth decay.
- B. To understand reduction in oral health issues amongst the children.**
- C. To help prevent bad breath, tooth decay and gum disease.
- D. All of the Above.

**Explanation:** Answer is B as it can be an objective to assess impact. Other options are objectives for implementing the Smile project.

**Q.5 Conducting social impact assessment of Smile project would help parents of children in following ways.**

- A. To publicize the efforts of the Smile Team.
- B. To monitor change in oral care habits of children.
- C. To bring in required changes in the Smile Project Strategy.
- D. To motivate school representatives, children and other parents to implement similar projects.

- 1. Only A and B
- 2. Only B and C
- 3. Only A and D
- 4. Only B and D**

**Explanation:** Answer is B & D as parents can observe the changes in the habits of children and can coordinate with other parents and school to implement similar projects. Option A & C is a benefit for Management of the organisation.

## CHAPTER 9: DISCLOSURE NORMS, REPORTING REQUIREMENTS BY SOCIAL AUDITORS AND PENALTIES

### Learning Objectives

After studying this chapter, you should know about:

- Disclosure requirements as per ICDR Regulations
- Disclosure requirements as per LODR Regulations
- Penalties as per SEBI Act,1992
- Books of accounts to be maintained under SC(R)R

### Introduction

Social enterprises (both NPOs and FPEs) that are listed on the Social Stock Exchanges (SSEs) are required to disclose social impact reports, which shall cover several aspects such as strategic intent, planning, approach, impact scorecard etc. NPOs that are either registered or listed on SSE shall have to disclose on general, governance and financial aspects. In addition to social impact reporting requirements, FPE's that have listed their equity/debt instruments are required to comply with the disclosure requirements according to their applicable segment such as on main board, on small and medium enterprises (SME) platform, on Innovators Growth Platform (IGP) etc. Each of these disclosure requirements are discussed in the subsequent sections.

### 9.1 Disclosures as per SEBI ICDR Regulations

#### 9.1.1 Disclosure norms for NPOs on SSE

Minimum Initial Disclosure Requirement for NPOs raising funds through the issuance of Zero Coupon Zero Principal Instruments in terms of Regulation 292K (1) of the ICDR Regulations

- 1) SSE under the guidance of SSE Governing Council (SGC) shall mandate the structure of the draft fundraising document/ final fundraising document. SSE shall host such requirements on its website.
- 2) SSE shall ensure that the documents contain the following minimum disclosures:
  - a. Vision  
Organisation's activities, interventions and programmes are in line with aims and objects stated in its constitution.
  - b. Target Segment  
Organisation has defined its target segment and reach to accomplish its planned activities. Clear identification and understanding of the target segment (those affected by the problem and how are they affected) The NPO must disclose how its approach intends to improve Inclusion for its customers / recipients
  - c. Strategy



Strategy formulation towards accomplishing vision should take into account capabilities and learning from challenges.

- d. Governance  
Organisation has a governing body and details of its governing body, composition, dates of board meetings held (key items covered).
- e. Management  
Details of key managerial staff such as those in charge of Programmes, Fundraising, Marketing, Communication, Finance, HR. Organisation discloses whether it provides letters to staff and volunteers defining roles and responsibilities, has a periodic performance appraisal process etc.
- f. Operations  
The organisation has a physical existence, is operational and shares its address for visits.
- g. Finance  
Disclosure of financial statements for last three Financial Years in accordance with guidelines for NPOs issued by Institute of Chartered Accountants of India (ICAI).
- h. Compliance  
Organisation makes available, annual accounts duly audited for the latest three financial years and there are no material qualifications or material irregularities reported by its auditor. Compliances w.r.t. Income Tax, notices received etc.
- i. Credibility  
Documents such as Registration, Trust Deed/ MoA and AoA, Address Proof, IT PAN, 12A/12AA/12AB Certificate, FCRA certificate and returns, remuneration to governing members.
- j. Social Impact  
Details of past social impact in terms of parameters as stipulated by SEBI.
- k. Risks  
Disclose (i) risks that the NPO sees to its work and how it proposes to mitigate these (ii) unintended consequences that the NPO sees from its work and how it proposes to mitigate these.

## **9.2 Disclosures norms under SEBI LODR Regulations**

### **9.2.1 Disclosures by For Profit Social Enterprise**

For Profit Social Enterprise whose designated securities are listed on the Stock Exchange(s) shall comply with the disclosure requirements contained in these regulations with respect to issuers whose specified securities are listed on the Main Board or the SME Exchange or the Innovators Growth Platform, as the case may be.

### **9.2.2 Disclosures by a Not for Profit Organization**

A Not for Profit Organization registered on the Social Stock Exchange(s), including a Not for Profit Organization whose designated securities are listed on the Social Stock Exchange(s), shall be required to make following annual disclosures to the Social Stock Exchange(s) on matters specified by the SEBI, within 60 days from the end of the financial year.

#### **1) Disclosures on General aspects:**

- i. Name of the organization (legal and popular name)
- ii. Location of headquarters and location of operations
- iii. Vision / Mission / Purpose
- iv. Organizational goals, activities, products and services
- v. Outreach of organization (Type and number of direct, indirect and institutional beneficiaries / stakeholders reached)
- vi. Scale of operations (Including Employee and Volunteer strength)
- vii. Details of top donors or investors of organisation - List of Top 5 donors or investors (budget wise)
- viii. Details of top 5 programs in disclosure period - List of Top 5 interventions/programs (budget wise)

#### **2) Disclosures on Governance aspects:**

- i. Ownership and legal form
- ii. Governance Structure (outlines board and management committee structures, mandates, membership, charters, policies and internal controls)
- iii. Details of governing body including names of the members of the body
- iv. Executives with key responsibilities
- v. Number of meetings by governing body and other committees formed by them along with attendance and the process of performance review
- vi. Organisation level potential risks and mitigation plan.
- vii. Reporting of related party transactions.
- viii. Mechanisms for advice and concerns about ethics, along with conflict of interest and communicating other critical concerns
- ix. Remuneration Policies
- x. Stakeholder grievance, process of grievance redressal and number of grievance received and resolved
- xi. Compliance management process and statement of compliance from senior decision maker
- xii. Organisation registration certificate and other licenses and certifications (12A, 80G, FCRA, GST, etc.)

**3) Disclosures on Financial aspects:**

- i. Financial Statement (Balance Sheet, Income statement and Cash Statement).  
Also program wise fund utilization for the year
- ii. Auditors report and auditor details

**4) SSE may specify additional parameters that may be required to be disclosed by NPO on an annual basis.**

**5) A guidance note in respect of the above aspects is provided in Annexure 4.**

**9.2.3 Intimations and disclosures by Social Enterprise of events or information to Social Stock Exchange(s)**

- 1) A Social Enterprise whose designated securities are listed on the Social Stock Exchange(s) or the Stock Exchange(s), as the case may be, shall frame a policy for determination of materiality, duly approved by its board or management, as the case may be, which shall be disclosed on the Social Stock Exchange(s) or the Stock Exchange(s).
- 2) The board and management of the Social Enterprise shall authorize one or more of its Key Managerial Personnel for the purpose of determining materiality of an event or information and for the purpose of making disclosures to the Social Stock Exchange(s) or the Stock Exchange(s), as the case may be, under this regulation and the contact details of such personnel shall also be disclosed to the Social Stock Exchange(s) or the Stock Exchange(s).
- 3) A Social Enterprise whose designated securities are listed on the Social Stock Exchange(s) or the Stock Exchange(s), as the case may be, shall disclose to the Social Stock Exchange(s) or the Stock Exchange(s) where it is registered or has listed its specified securities, as the case may be, any event that may have a material impact on the planned achievement of outputs or outcomes.
- 4) The disclosure referred in sub-regulation (3) shall be made as soon as reasonably possible but not later than seven days or within such period as may be specified by SEBI, from the occurrence of the event and shall comprise details of the event including the potential impact of the event and the steps being taken by the Social Enterprise to address the same.
- 5) The Social Enterprise shall provide updates on a regular basis along with relevant explanations in respect of the disclosures required in sub-regulation (3) till the time the concerned event remains material.
- 6) The Social Enterprise shall provide specific and adequate reply to all queries raised by the Social Stock Exchange(s) or the Stock Exchange(s), as the case may be, with respect to any events or information:

- Provided that the Social Stock Exchange(s) or the Stock Exchange(s), as the case may be, shall disseminate the information and clarification as soon as reasonably practicable.
- 7) The Social Enterprise may suo moto confirm or deny any reported event or information to Social Stock Exchange(s) or the Stock Exchange(s), as the case may be.
  - 8) The Social Enterprise shall disclose on its website all such events or information which have been disclosed to the Social Stock Exchange(s) or the Stock Exchange(s), as the case may be, under this regulation.

#### **9.2.4 Disclosure of Annual Impact Report by all Social Enterprises**

A Social Enterprise, which is either registered with or has raised funds through a Social Stock Exchange or a Stock Exchange, shall be required to submit an annual impact report to the Social Stock Exchange or the Stock Exchange in the format specified by SEBI from time to time. The annual impact report shall be audited by a Social Audit Firm employing a Social Auditor. The Social Stock Exchange(s) may specify parameters, in addition to those specified by SEBI, which shall be required to be disclosed by a Social Enterprise on an annual basis.

Disclosure of Annual Impact Report by all Social Enterprises, which have registered or raised funds using SSE in terms of Regulation 91E of the LODR Regulations include the following:

1. All Social Enterprises (SEs) will have to provide a duly audited Annual Impact Report (AIR) to SEE within 90 days from the end of Financial Year.
2. The AIR shall capture the qualitative and quantitative aspects of the social impact generated by the entity and where applicable, the impact that is generated by the project or solution for which funds have been raised on SSE.
3. In case an NPO is only registered without listing any security, the AIR must cover the NPO's significant activities, intervention, programs or projects during the year and the methodology for determination of significance must be explained. Additionally, if there is an activity, intervention, program or project covered under a listed security, it will qualify as a significant activity, intervention, program or project.
4. For a Social Impact Fund where the underlying recipients of funds are SEs which have registered or raised funds using SSE, must disclose an overall AIR for the fund covering all investee/grantee organizations where the fund is deployed.
5. The AIR should, at a minimum, cover the aspects described below.
  - a. Strategic Intent and Planning
    - What is the social or environmental challenge the organization and/or the instrument listed is addressing? Has this changed in the last year?

- How is the organization attending to the challenge or planning to attend to the challenge? Has this changed in the last year?
- Who is being impacted (target segment)? Has this changed in the last year?
- What will be the outcomes of the activities, intervention, programs or project? Disclosure should include positive and potential unintended negative outcomes.

**b. Approach**

- What is the baseline status / situation analysis / context description at the start of the activity/intervention/programs or project and at the end of the last reporting period?
- What has been the past performance trend? (if relevant)
- What is the solution implementation plan and the measures taken for sustainability of activity/intervention/programs or project outcomes? Has there been any material change in your implementation model in the last one year?
- Please brief out alignment of solutions to Sustainable Development Goals (SDGs)/national priorities/state priorities/ developmental priorities.
- How have you taken into consideration stakeholder feedback in this reporting period?
- In the last year, what have you seen as the biggest risks to the achievement of the desired impact? How are these being mitigated?

**c. Impact Score Card**

- What are the metrics monitored and what has been the trend?
  - Briefly include narratives of impact on target segment(s) in the reporting period.
  - Beneficiary/Stakeholder Validation through surveys and other feedback mechanisms
6. SSE may specify additional parameters that may be required to be disclosed by SE in its AIR.
  7. The AIR shall be audited by Social Auditors and the SEs shall disclose the report of the Social Auditor along with AIR
  8. A guidance note in respect of the above aspects is provided at Annexure 5.

**9.2.5 Statement of Utilisation of funds in terms of Regulation 91F of the LODR**

**Regulations:**

A listed Not for Profit Organization shall submit to the Social Stock Exchange(s) the following statement in respect of utilisation of the funds raised, on a quarterly basis:-

- (a) category-wise amount of monies raised;
- (b) category-wise amount of monies utilised;
- (c) balance amount remaining unutilised.

These statements shall be given till the time the issue proceeds have been fully utilised or the purpose for which they were raised, has been achieved.

The un-utilised amount shall be kept in a separate bank account and shall not be commingled with other funds.

Listed NPO shall submit a statement of utilisation of funds to SSE, as mandated under Regulation 91F of the LODR Regulations, within 45 days from the end of quarter.

### 9.3 Penalties as per the SEBI Act, 1992

SEBI Act empowers SEBI to impose penalties and initiate adjudication proceedings against intermediaries who default on the following grounds such as failure to furnish information, return etc. or failure by any person to enter into an agreement with clients etc. failing to comply with any of these will lead to penalties and adjudication proceedings.

<u>Section</u>	<u>Applicable to an intermediary when they fail to</u>	<u>Minimum Penalty</u>	<u>Maximum Penalty</u>
<u>15A - Penalty for failure to furnish information, return etc.</u>	a) Furnish any document, return or report to SEBI or who files false or incorrect or incomplete information, return, report, books or other documents b) File any return or furnish any information, books or other documents within the time specified in the regulations or files false or incorrect or incomplete information, return, report, books or other documents c) Maintain books of account or records, fail to maintain the same.	Shall not be less than one lakh rupees but may extend to one lakh rupees for each day during which such failure continues	one crore rupees

### 9.4 Different books to be maintained as per SC(R)R, 1957

Under Rule 15(1) every member of a recognized stock exchange is required to maintain and preserve the following books of account and documents for 5 years:

- Register of transactions (Sauda book).
- Clients' ledger.
- General ledger.
- Journals.
- Cashbook.

- Bank pass-book.
- Documents register showing full particulars of shares and securities received and delivered.

Rule 15(2) requires every member of a recognized stock exchange to maintain and preserve the following documents for a period of 2 years:

- Member's contract books showing details of all contracts entered into by the member with other members of the same exchange or counterfoils or duplicates of memos of confirmation issued to such other members.
- Counterfoils or duplicates of contract notes issued to clients.
- Written consent of clients in respect of contracts entered into as principals.

## **Annexure 4: Guidance notes for listed/registered NPOs on disclosures of general, governance financial aspects:**

### **General disclosures**

1. Name of the organization (legal and popular name):  
The reporting organization shall report on the legally registered name and also any popular names the organization is known by among stakeholders.
2. Location of headquarters and location of operations:  
Headquarter refers to the address that the organization has used in registering with the respective regulatory body and also the organization's administrative center, from which it is controlled or directed. In case the locations are different, it needs to be specified. Location of operations shall cover the name of the locations where the organization has significant operation. Significant shall be defined to the scope of this document.
3. Vision/Mission/ Purpose:  
It is important to understand the intent behind the disclosure and respond accordingly. Purpose in this context is why the organization exists and explaining why the cause taken up by the organization matters. The Mission will explain how you are working in the context of the purpose and the Vision in the context of this disclosure will be about where the organization is headed and what will the organization achieve. It is possible that all organizations may not have all the 3 (Vision, mission and purpose) as a stated document.
4. Organizational goals, activities, Products and Services:  
The reporting organization shall mention objectives of the overall organization or program listed. It shall also describe the organization activities, including any products and services which the organization provides.
5. Outreach of organization:  
Organization to mention type and number of direct, indirect and institutional beneficiaries/ stakeholders reached across different programs and geographies.
6. Scale of operations (Including Employee and Volunteer strength):  
The scale of the operations shall be explained by net turn-over/annual budget/annual spent in the last 3 years, number of beneficiaries, number of locations of operations and number of employees and volunteers. Total number of employees shall be disclosed separately as permanent employees, temporary employees and employees on contract. The nature and scale of activities performed by volunteers shall be disclosed. The organization shall disclose the scale of operations either at a national level or at a state or district level as may be useful for stakeholders.



7. Top donors or investors of organisation - List of Top 5 donors or investors (budget wise)

Sl. No.	Donor/Investor	Geography	Total program cost (INR)	Expenditure in current year (INR)	Cumulative expenditure (INR)	Total outreach (Direct, Indirect, Institutional)	SD Goal or target	Alignment with national/schemes or priority
1								
2								
..								

8. Details of top 5 programs in disclosure period - List of Top 5 interventions/programs (budget wise)

**Governance Disclosures**

1. Ownership and legal form:

The organization shall explain the nature of ownership and the legal form on the entity specific to India operations.

Sl. No.	SD Goal or target	Geography	Total program cost (INR)	Expenditure in current year (INR)	Cumulative expenditure (INR)	Total outreach (Direct, Indirect, Institutional)	Names of Donors or investors	Alignment with national/state schemes or priority
1								
2								
..								

2. Governance Structure:

The governance structure will start from the highest governance body, the committees / subcommittees (standing/ad hoc) under the highest governance body and the organization hierarchy for decision making. It outlines board and management committee structures, mandates, membership, charters, policies and internal controls.

3. Details of highest governing body including names of the members of the body:

The organization shall explain the role of the highest governance body, the competence available and the identification of the members including name. Also the name and designation of the senior decision maker may be provided.

4. Executives with key responsibilities:

The disclosure will highlight the key executive positions and their role in the organization.

5. Number of meetings by highest governing body and other committees formed by them along with attendance, and the process of performance review:  
The process to acquire the necessary information and data by the highest governance body to review the performance of the organization shall be explained. The disclosure shall also bring out the number of such meetings held by the highest governance body, during the course of the reporting period.
6. Organisation level potential risks and mitigation plan:  
The organization to describe potential risks and mitigation plans addressing the same for the organization and proposed program/solution.
7. Reporting of related party transactions:  
Although this is disclosed as part of 10A, it is recommended to report as part of annual reporting requirements by the organisation.
8. Mechanisms for advice and concerns about ethics, along with conflict of interest and communicating other critical concerns:  
A description of the organization's internal and external mechanisms for seeking advice about ethical and lawful behavior and organizations integrity. It will also include the identification of who in the organization is assigned the responsibility for this mechanism. The concerns related to any conflict of interest and other concerns raised by the mechanism above shall be disclosed along with the actions the organization has taken.
9. Remuneration policies:  
Remuneration policies for the highest governing body and the senior executive of the organization shall be reported. This shall include all kinds of fixed pay, variable pay and performance linked payments. It can also include any termination payments and claw backs. It is also important to bring out how performance of the organization is linked to remuneration.
10. Stakeholder concern, process of grievance redressal and number of concerns raised and resolved:  
Apart from concerns related to ethics, the organization shall report on what is the organization's process to seek any stakeholder concerns or grievances. How many such concerns were reported and how the organizations handled the same.
11. Compliance management process and statement of compliance from senior decision maker: This disclosure requires the organizations to explain how the organization manages to monitor its compliance against all regulatory and legal requirements. There shall be a statement on the compliance status by the senior decision maker, which shall be the chair, CEO or equivalent senior position.
12. Organisation registration certificate, and other licenses and certifications (12A, 80G, FCRA, GST, etc.).

### **Financial Disclosures**

ICAI shall notify the uniform accounting and reporting framework for NGO. However, the following disclosures shall be made by the NPO in respect of Financial Aspects.

#### 1. Financial Statement:

- Balance Sheet
- Income statement
- Cash Statement
- Program wise fund utilization certificate
- Percentage of organizational budget this 'issue' represents
- Breakup of organizational budget and expenditure
- Split of the budget across partners of the project/initiative is being jointly executed

#### 2. Auditors Report and details of the auditors

## **Annexure 5: Guidance notes for all Social Enterprises (SEs) on AIR**

### **a. Strategic Intent and Planning**

1. What is the social or environmental challenge the organization or the instrument listed is addressing?

The problem statement, the challenge, its extent, causes and consequences, and the part of the problem statement the organization and the instrument are trying to address must be well explained.

2. How the organization is planning to attend to the challenge or attending to the challenge?

The approach the organization or the specific instrument will be using or already using needs to be explained. The organization shall also explain what the change is resulting for the targeted beneficiary and what proportion of the target group are experiencing the change.

3. Who is being impacted (target segment)?

The target beneficiaries / stakeholders to cover various kinds of target groups. Include the organization'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.

Also, bring out possible deviations that might have occurred in the reporting period.

4. What will be the outcomes of the solution/program? Coverage should include positive and potential unintended negative outcomes.

Describe the Theory of change / logic model framework (defining input, output(s), outcome(s)) for the solution proposed. While identifying the targeted impact segment, both positive and potential unintended negative impacts need to be identified.

### **b. Approach**

1. What is the baseline status / situation analysis / context description at the start of the project/program?

The baseline measurement is done to establish the starting point in any project/program. The measurements give the depth of the challenge and/or the

spread of the challenge. The organization will establish the right kind of measurements keeping the end or what the organization or instrument wants to achieve since the baseline will be used to measure what actually changed due to the intervention. In absence of baseline study, a detailed situation analysis to be mentioned.

2. What has been the past performance trend?

For the on-going project/program explain the key past performance trends and for proposed project/program the narrative should explain the experience of similar programs in similar situations.

3. What is the solution implementation plan and the measures taken for sustainability of program outcomes?

Detailed implementation plan to be mentioned capturing all the essential activities. The interventions can be either perennial support or time bound support. In case of time bound support, the organization shall explain the exit strategy and how it ensures that the outcomes achieved will be sustained. In case of perennial support also, the organization can explain how it ensures sustainability of the project/program. Also, bring out possible deviations that might have occurred in the reporting period.

4. Please brief out alignment of solutions to SDGs/national priorities/state priorities.

Explain the alignment of program/solution to respective SDGs and national/state priorities and schemes.

5. How have you taken into consideration stakeholder feedback in this reporting period?

The organization to mention how they have mapped and prioritized the key stakeholders for the engagement. The reporting shall include the list of stakeholders engaged, their feedback and how the organization used the feedback.

6. In the last year, what have you seen as the biggest risks to the achievement of the desired impact? How are these being mitigated?

Mention the key potential risks pertaining to the organization or the specific instrument that could hamper/hinder the achievements of desired intended outcomes in the last year and the steps or strategies taken by organization to mitigate the same.

### **c. Impact Scorecard**

1. What are the metrics monitored and what has been the trend?

The trend in performance shall be explained through the trend of the data across the output, outcome and impact metrics that are established by the organization. The metrics will capture the reach of the program as well as the level of inclusiveness of impact being generated (direct, indirect, extended). This shall help evaluate the delta change that has occurred in the lives of various target

stakeholders (including environment) due to the solution. The metrics monitored shall target to cover the reach, depth and inclusion.

**Reach** - 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 organization`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.

**Depth** - The depth of impact on the median individual (of the target segment(s))

- Surveys (1% of the customers/recipients, or at least 200 respondents per organization) 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.

**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 organization. The organization can self-select ‘Low’, ‘Medium’, or ‘High’.
- Theme 2: Diversity and Inclusion: 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: 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.

2. What are the highlights or achievements in the reporting period?

The organization to mention key highlights, achievements, challenges and/or disappointments faced during the reporting period.

### 3. Beneficiary / Stakeholder validation

It is utmost necessary to capture the perspective of stakeholders for the program to draw a holistic picture of impact/change that has been achieved by the program. The stakeholder voices would also help in capturing information that will help validate the impact claims. This can establish a check and avoid over claiming. The validation process shall answer the following questions.

- What would have happened in the absence of this activity, intervention, program or project?
- How much the activity, intervention, program or project contributed to the changes that are evidenced?
- How much unintended negative impacts happened due to the activity, intervention, program or project?

## Chapter 9: Sample Questions

1. Which of the following are the components of disclosures on general aspects?
  - I. Scale of operations
  - II. Organizational goals, activities, products and services
  - III. Organisation level potential risks and mitigation plan
  - IV. Remuneration Policies
  - a. Only II and III
  - b. Only I and II**
  - c. Only III and IV
  - d. Only I, II and III
  
2. Which of the following should be at least covered under Annual Impact Report?
  - I. Strategic Intent and Planning
  - II. Impact Score Card
  - III. Approach indicating areas like baseline status, past performance trend etc.
  - a. Only I and II
  - b. Only II and III
  - c. Only I and III
  - d. I, II and III**
  
3. Under Rule 15(1) every member of a recognized stock exchange is required to maintain and preserve the books of account and documents for a period of \_\_\_\_\_.
  - a. 2 Years
  - b. 3 years
  - c. 5 years**
  - d. 7 years
  
4. What is the maximum penalty imposed when any intermediary files false or incorrect or incomplete information, return, report, books or other documents?
  - a. One crore rupees**
  - b. Five crore rupees
  - c. One lakh rupees
  - d. Ten lakh rupees



## CHAPTER 10: TAXATION

### Learning Objectives

After studying this chapter, you should know about:

- Securities Transaction Tax
- Capital Gains Tax
- Deductions under Section 80G
- Exemption for Social Enterprise

### Introduction

Social Stock Exchange (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 fund raising mechanisms and create a vibrant, deep and liquid market for social investments, it will be paramount to provide certain tax incentives to investors making investments for various social causes.

NPOs take a variety of legal forms such as societies, trusts and not-for-profit companies. All NPOs must be registered under Section 12AB 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. Funding for these organisations majorly comes from four sources: (a) individual donations, (b) contributions made under the Foreign Contribution (Regulation) Act, 2010 (FCRA), (c) CSR grants, and (d) grants availed from government schemes.

Both NPOs and FPEs need to incentivize its investors to kickstart activities on the SSE. Various taxation aspects applicable for Social Sector are discussed in the following sections.

### 10.1 Securities Transaction Tax

The securities transaction tax (STT) is a tax levied on sale/ purchase of securities (other than debt securities or debt mutual fund) on a stock exchange platform. Every recognised stock exchange or trustee of a mutual fund or lead merchant banker (in case of IPO) are required to collect the STT from purchaser or seller of the securities, as the case may be, and, subsequently, remit the same to the Central Government.

STT is charged on any transaction (other than the transaction in debt securities or debt mutual fund) carried out through a stock exchange in India. The rates of STT are as follows:

Transaction	STT rate	Payable on	Payable by
Purchase and sale of equity shares or units of business NPO(Delivery based)	0.1%	Sale/Purchase price	Buyer and Seller
Purchase and sale of equity shares or unit of an equity oriented mutual fund or units of business NPO(Intraday)	0.025%	Sale Price	Seller
Sale/Redemption of units of equity-oriented mutual fund	0.001%	Sale Price	Seller

## 10.2 Capital Gains Tax

A capital asset is defined under Section 2(14) of the Income-tax Act. It includes every property held by the assessee, whether movable or immovable. It is bifurcated into short-term capital asset and long-term capital asset on the basis of the period of holding and type of asset. This distinction is made because the incidence of tax is higher on short-term capital gains as compared to long-term capital gains.

The applicable holding period of securities listed on a recognized stock exchange to be classified as long-term capital asset and short-term capital asset are as follows:

Type of Securities	Long-Term Capital Asset	Short-Term Capital Asset
Equities/ Equity-oriented Funds	Held for more than 12 months	Held for 12 months or less
Debt/ Debt-oriented Funds	Held for more than 36 months	Held for 36 months or less

Any profit or gain arising from the transfer of a capital asset is taxable on an accrual basis under the head 'capital gains' in the previous year in which such transfer takes place. The mechanism for computation of capital gain from transfer of a short-term capital asset is different from the one applicable in case of long-term capital asset. In case of a long-term capital asset, the indexation benefit is allowed, except in a few cases.<sup>69</sup>

### 10.2.1 Tax on Short-term Capital Gains

Short-term capital gain is chargeable to tax at the rate of 15% *plus* surcharge and cess if such capital gain arises from transfer of securities, being equity shares, units of an equity-oriented fund, or units of business trust; and such transaction is chargeable to

<sup>69</sup> Indexation means that the cost of acquisition or the cost of purchase is adjusted upwards to reflect the impact of inflation. The Central Board of Direct taxes (CBDT) every year announces a number, known as the Cost Inflation Index (CII). There is one index number for each financial year.

Securities Transaction Tax (STT). If STT is not applicable (i.e. for securities other than equities), the short-term capital gain shall be taxable at the applicable marginal rate.

### **10.2.2 Tax on Long-term Capital Gains**

Long-term capital gain in excess of INR 1 lakh shall be chargeable to tax at the rate of 10% *plus* surcharge and cess if such capital gain arises from transfer of securities, being equity shares, units of the equity-oriented fund, or units of business trust; and such transaction is chargeable to STT. If STT is not applicable (i.e. for securities other than equities), the long-term capital gain shall be taxable at the rate of 20% *plus* surcharge and cess. However, for the specified securities the assessee shall have an option to pay tax at the rate of 10% without claiming the benefit of Indexation or Indexation and foreign fluctuations, as the case may be.

This option to pay tax at the rate of 20% (with indexation) and 10% (without indexation) is available only in respect of the following securities:

- a) Listed Securities other than units (i.e., equity shares, debentures, govt. securities, etc.); and
- b) Zero-Coupon Bonds.

Further, benefit of indexation is also not available in respect of transfer of unlisted securities by non-resident assessee, and tax on capital gains shall be computed without considering the benefit of currency translation.

### **10.3 Deduction under section 80G of Income Tax Act**

Section 80G of the Income Tax Act allows taxpayers to claim deductions for various contributions made as donations. The deductions under the Act is available for contributions made to the specified relief funds and charitable institutions.

Under Section 80G, the amount donated is allowed to be claimed as a deduction at the time of filing the assessee's income tax return. Deduction under Section 80G can be claimed by individuals, partnership firms, HUF, company and other types of taxpayers, irrespective of the type of income earned. NPOs and institutions registered under Section 80G are provided with a registration number by the Income Tax Department and donors should ensure their receipt contains this number. This registration number needs to be valid on the date of a particular donation. If the donation is made while the Section 80G registration is not valid, then the donation would not be eligible for deduction.

Donations paid towards eligible trusts and charities are subject to certain conditions to qualify for tax deductions. Donations under Section 80G can be broadly classified into four categories:

- **Donations with 100% deduction (Available without any qualifying limit)**  
Donations made under this category can obtain a 100% tax deduction on the donated amount and are not subject to the requirement to achieve any qualification criterion. Donations to the National Defence Fund, Prime Minister's

National Relief Fund, PM CARES Fund, National Foundation for Communal Harmony, National/State Blood Transfusion Council, etc. qualify for such deductions.

- **Donations with 50% Deduction (Available without any qualifying limit)**

Donations made under this category can obtain a 50% tax deduction on the donated amount. Donations to the Prime Minister's Drought Relief Fund, Indira Gandhi Memorial Fund, etc. qualify for 50% tax deduction on the donated amount.

- **Donations with 100% deduction (Available up to 10% of adjusted gross total income)**

Donations made to local authorities or government to promote family planning and donations to Indian Olympic Association qualify for deductions under this category. In such cases, only 10% of the donor's adjusted gross total income is eligible for deductions.<sup>70</sup>

- **Donations with 50% deduction (Available up to 10% of adjusted gross total income)**

Donations made to any local authority or the government to be utilised for any charitable purpose (other than the purpose to promote family planning) qualify for deductions under this category. In such cases, only 10% of the donor's adjusted gross total income are eligible for deductions.

IT Act, 1961 further specifies that no deductions are allowed in respect of donation of any sum exceeding Rs. 2000, unless such sum is paid by any mode other than cash. Deduction under section 80G once claimed and allowed for any assessment year cannot be claimed again for deduction, for the same or any other assessment years, under any other provisions of the IT Act.

### **Documents required for claiming a Deduction**

Taxpayers claiming deduction under Section 80G must have the donation receipt to support the claim. It is mandatory to have a donation receipt issued by the NPOs or Charitable organisations which received the donation. This receipt must include the following details to be valid:

- Date of receipt and number of receipt
- Name and address of the NPO
- Name and address of the Donor
- Amount donated (mentioned in words and figures)

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<sup>70</sup> Adjusted Gross Total Income is the gross total income as reduced by the portion of income on which income tax is not payable and any amount eligible for deduction under provisions of Income Tax Act. Gross Total Income being the summation of income under various heads prior to providing any tax relief.

- Registration number of the Trust, as given by the Income Tax Department under Section 80G, along with the date of issuance of registration and period of validity
- PAN of Donor and Donee
- Financial year in which donation was received
- Type of donation

#### **10.4 Exemptions for Social Enterprises**

Social Enterprises which are not for profit are required to obtain registration under section 12AB to enjoy exemptions under various sections of the income tax. All charitable institutions, which are currently registered under section 12AA, as well all new entities, are required to apply for a fresh registration under section 12AB.<sup>71</sup> However, the registration procedure, power and scope of verification/examination under the new section remain similar. Initially, temporary registration is granted to the NPOs, valid for a maximum period of 3 years, and subsequent registration is for 5 years.

Post registration NPOs are required to comply with the following:

1. Maintain proper books of accounts and other documents as prescribed by law
2. File Income Tax return within prescribed time period and get books of accounts audited by Chartered Accountant
3. Strictly follow the guidelines subject to which registration has been granted
4. Furnishing of required details as per Rule 18AB of Income Tax Rule for each financial year
5. Issue certificate to the donor in Form 10 BE

The income of a not for profit social enterprise (NPO) is exempt from tax, subject to certain conditions.<sup>72</sup> The primary condition for getting income exempt under these sections is that the charitable organisation should be established in accordance with law and its object should fall within the definition of the term “Charitable Purpose” as per Section 2(15) of Income Tax Act.

Section 11 of Income Tax Act provides an exemption for income derived from property held by NPO. The NPO is required to apply 85% of its income earned during the year towards its objectives. In case the application of income is below 85%, it can be accumulated for the purpose of application within the maximum period of 5 years. If the application is below 85% of income, because income is not received or for any other reason, it can also accumulate for the application to be made in the year in which

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<sup>71</sup> CBDT has issued Income Tax (6th Amendment) Rules 2021 vide notification dated 26th March, 2021.

<sup>72</sup> <https://incometaxindia.gov.in/Pages/i-am/trust.aspx?k=Exemptions>

income is received or in the year immediately following the year in which income is received.

In case NPO exercises its option to accumulate income, it is required to file specific forms on or before the due date of filing a return of income. Further, such an accumulated amount is required to be invested in specified investments. NPO can claim expenditure only when sums are paid and not otherwise. Donations received with a specific direction that they shall form part of the corpus fund are exempt. However, such donations are required to be invested in specified investments.

Exemption provisions shall not apply in relation to any income of a NPO with respect to earning of the profits and gains from business, unless the business is incidental to the attainment of the objectives of the NPO or institution, and separate books of accounts are maintained by such NPO or institution in respect of such business.

In case the objective of the NPO is that of the advancement of any other object of a general public utility, if it involves the carrying on of any activity in the nature of trade, commerce or business, or any activity of rendering any service in relation to any trade, commerce or business, for a cess or fee or any other consideration, irrespective of the nature of use or application, or retention, of the income from such activity, unless—

- such activity is undertaken in the course of actual carrying out of such advancement of any other object of general public utility; and
- the aggregate receipts from such activity or activities during the previous year, do not exceed 20% of the total receipts, of the NPO or institution undertaking such activity or activities, of that previous year;

Capital gains arising on the transfer of the capital assets would be exempt provided such capital gains are invested in other capital assets. Anonymous donation (i.e. the identity of the donor is not available) received by the charitable NPO or institution (other than a charitable NPO or institution established wholly for religious purposes) shall be taxable at the flat rate of 30%.

NPO loses exemptions in the following cases:

- Income (wholly or partly) or property is applied for the benefit of specified persons i.e. author or founder of the NPO; substantial contributor to the NPO (Rs 50,000 or more at the end of financial year); trustee or manager of NPO; relative of a trustee
- NPO is converted into any form which is not eligible for grant of registration under the Income-tax Act including when registration is cancelled for non-compliance with the provisions
- NPO is merged with an entity which is not having similar objectives and is not registered under the Income-tax Act

- NPO, upon dissolution, failed to transfer all its assets to any other NPO or institution registered or approved under the Income-tax Act within 12 months from the end of the month in which the dissolution takes place.

## Chapter 10: Sample Questions

1. Who pays the STT in an intra day trade of equity shares?
  - a. Purchaser
  - b. Seller**
  - c. Both purchaser and seller
  - d. None of the purchaser and seller
  
2. Holding period of listed debt securities to be classified as long-term capital asset is \_\_\_\_\_.
  - a. More than 1 year
  - b. More than 2 years
  - c. More than 3 years**
  - d. More than 1.5 years
  
3. The maximum limit of donation paid in cash to qualify for deduction under Section 80G of Income Tax Act is \_\_\_\_\_.
  - a. Rs. 2000**
  - b. Rs. 5000
  - c. Rs. 10000
  - d. Rs. 4000
  
4. In case of a/an\_\_\_\_\_, any capital gain arising on the transfer of the capital assets are exempted provided such capital gain are invested in other capital assets.
  - a. FPSE
  - b. NPO**
  - c. Social Enterprise
  - d. All of the given options



## CHAPTER 11: KEY REGULATIONS

### Learning Objectives

After studying this chapter, you should know about:

- Various regulations relevant for the knowledge of social auditors

### 11.1 Securities Contracts Regulation Act (SCRA 1956)

Securities Contracts (Regulation) Act, 1956 is an Act to prevent undesirable transactions in securities by regulating the business of dealing therein by providing for certain matters connected therewith. It provides for direct and indirect control of virtually all aspects of securities trading and the running of stock exchanges. It gives the Central Government the regulatory jurisdiction over (a) stock exchanges through a process of recognition and continued supervision, (b) contracts in securities, and (c) listing of securities on stock exchanges. A transaction in securities between two persons is essentially a contract and this law that specifically applies in the case of a securities contract.

### 11.2 SEBI Act 1992

The SEBI Act of 1992 was enacted upon “to provide for the establishment of a Board to protect the interests of investors in securities and to promote the development of, and to regulate, the securities market and for matters connected therewith or incidental thereto”.

The SEBI Act in the broader sense performs the functions as stated in the above para, however, without any prejudice to the generality, the Act also provides for the following measures:

- a) Regulating the business in stock exchanges and any other securities markets;
- b) Registering and regulating the working of the stock brokers, share transfer agents, bankers to an issue, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisers and such other intermediaries who may be associated with the securities market manner in any manner;
- c) Registering and regulating the working of the depositories and its participants, custodians of securities, foreign portfolio investors, credit rating agencies and such other intermediaries as notified by the SEBI;
- d) Registering and regulating the working of Venture Capital Funds and other Collective Investment Schemes, including mutual funds;
- e) Promoting and regulating self-regulatory organisations;
- f) Prohibiting fraudulent and unfair trade practices relating to securities markets;
- g) Promoting investors’ education and training of intermediaries of securities markets;
- h) Prohibiting insider trading in securities;
- i) Regulating substantial acquisition of shares and take-over of companies;

- j) Calling for information from, undertaking inspection, conducting inquiries and audits of the stock exchanges, mutual funds, other persons associated with the securities market, intermediaries and self-regulatory organisations in the securities market;
- k) Performing all such functions and exercising such powers under the provisions of the Securities Contracts (Regulation) Act, 1956 as may be delegated to SEBI by the Central Government;
- l) Levying fees or other charges for carrying out the purposes of this section;
- m) Conducting research for the above purposes;
- n) Calling from or furnishing to any such agencies, as may be specified by SEBI, such information as may be considered necessary by it for the efficient discharge of its functions;
- o) Performing such other functions as may be prescribed.

SEBI Act also empowers SEBI to impose penalties and initiate adjudication proceedings against intermediaries who default on the following grounds such as failure to furnish information, return etc. or failure by any person to enter into agreement with clients etc.

### **11.3 Depositories Act, 1996**

The Depositories Act enables the setting up of multiple depositories in the country. This was to ensure that there is competition in the depository services and more than one depository is in operation. The Depositories Act facilitated the establishment of the two depositories in India viz., National Securities Depository Limited (NSDL)<sup>73</sup> and Central Depository Services (India) Limited (CDSL)<sup>74</sup>.

The Depositories Act, 1996, ushered in an era of efficient capital market infrastructure, improved investor protection, reduced risks and increased transparency of transactions in the securities market. It also immensely benefited the issuer companies, in terms of reduced costs and the effort used in managing their shareholder populace. Due to the introduction of the depository system, the investors are able to enjoy many benefits like free and instant transferability in a secured manner at lower costs, free from the problems like bad deliveries, odd-lots etc.

A depository established under the Depositories Act can provide any service connected with recording of allotment of securities or transfer of ownership of securities in the record of a depository. A depository however, cannot directly open accounts and provide services to clients. Any person willing to avail of the services of

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<sup>73</sup> NSDL is the first depository to be set up in India by well-known financial institutions such as IDBI, UTI and the National Stock Exchange of India Limited. Incorporated on December 12, 1995, it commenced operations on November 8, 1996.

<sup>74</sup> CDSL promoted by leading Indian banks and Bombay Stock Exchange (erstwhile The Stock Exchange, Mumbai) was registered in February 1999. It commenced operation on March 22, 1999.

the depository can do so by opening a demat account through any Depository Participant of a Depository and need to acknowledge the 'Rights and Obligation Document' provided by the Depository Participant<sup>75</sup>. The rights and obligations of depositories, depository participants, issuers and beneficial owners are spelt out clearly in this Act, SEBI (Depositories and Participants) Regulations, 2018 and the By-laws of the Depository.

#### **11.4 SEBI (Stock Broker) Regulation, 1992**

The SEBI (Stock Brokers) Regulation, 1992 lays down the rules and regulation for registration of Stock Brokers including deposit and net worth criteria. It also prescribes the fees applicable to be paid to SEBI on grant of registration certificate from SEBI and the general code of conduct by the stock broker holding certificate of membership. The schedule II, regulation 7 of the SEBI (Stock Broker) regulation provided code of conduct for stock brokers. It states that the stock broker shall --

- “Maintain high standards of integrity, promptitude and fairness in the conduct of all his business.
- Act with due skill, care and diligence in the conduct of all his business.
- Not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumors with a view to distorting market equilibrium or making personal gains.
- Not create a false market either singly or in concert with others or indulge in any act detrimental to the investors' interest or which leads to interference with the fair and smooth functioning of the market”.

In its duty to the investor, the stock broker, in his dealings with the clients and the general investing public shall faithfully execute the orders for buying and selling of securities at the best available market price. The broker as per the regulation shall issue without delay to his client a contract note for all transactions in the form specified by the exchanges.

This regulation also prescribes the brokers to maintain the different books of accounts, records and documents.

#### **11.5 SEBI (Prohibition of Insider Trading) Regulations, 2015**

Insider Trading essentially denotes dealing in a company's securities on the basis of confidential information relating to the company which is not published or not known to the public (known as unpublished price sensitive information), used to make profits or avoid loss.

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<sup>75</sup> The term Beneficial Owner-Depository Participant Agreements has been replaced with a common document “Rights and Obligations of the Beneficial Owner and Depository Participant” vide SEBI Circular Ref. No. MIRSD/12/2013, dated 4-12-2013.

Insider Trading is considered as an offence and is hence prohibited as per the SEBI (Prohibition of Insider Trading) Regulations, 2015. These regulations came into force with effect from May 2015.

Any dealing/trading done by an insider based on information which is not available in public domain, gives an undue advantage to insiders and affects market integrity. This is not in line with the principle of fair and equitable markets. Thus, in order to protect the integrity of the market, the SEBI (Prohibition of Insider Trading) Regulations have been put in place. The Regulations lay down the definition of 'Insiders'; restrictions on communication and trading by insiders; disclosures of trading by them; and the systemic provisions which need to be laid down and followed by a listed company, proposed to be a listed company as well as intermediaries.

Regulation 2(g) of the SEBI Insider regulations, defines an 'insider' any person who is:

- (i) a connected person (regulation 2(d)); or
- (ii) in possession of or having access to unpublished price sensitive information

### **11.6 Prevention of Money-Laundering Act, 2002**

Money laundering involves disguising financial assets so that they can be used without detection of the illegal activity that produced them. Through money laundering, the launderer transforms the monetary proceeds derived from criminal activity into funds with an apparently legal source.

The Prevention of Money-Laundering Act, 2002 (PMLA), is an act to prevent money-laundering and to provide for confiscation of property derived from, or involved in, money-laundering and for related matters.

**Chapter II, Section 3** of the PMLA describes the offence of money-laundering:

"Whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime including its concealment, possession, acquisition or use and projecting or claiming it as untainted property shall be guilty of offence of money-laundering."

- (i) a person shall be guilty of offence of money-laundering if such person is found to have directly or indirectly attempted to indulge or knowingly assisted or knowingly is a party or is actually involved in one or more of the following processes or activities connected with proceeds of crime, namely (a) concealment; or (b) possession; or (c) acquisition; or (d) use; or (e) projecting as untainted property; or (f) claiming as untainted property, in any manner whatsoever.
- (ii) The process or activity connected with proceeds of crime is a continuing activity and continues till such time a person is directly or indirectly enjoying the proceeds of crime by its concealment or possession or acquisition or use or projecting it as untainted property or claiming it as untainted property in any manner whatsoever.

**Section 12 of PMLA** stipulates that every reporting entity (i.e. a banking company, financial institution, intermediary or a person carrying on a designated business or profession) shall—

- (a) maintain a record of all transactions, including information relating to transactions in such a manner as to enable it to reconstruct individual transactions. The records shall be maintained for a period of five years from the date of transaction between a client and the reporting entity.
- (b) furnish to the Director within such time as may be prescribed, information relating to such transactions, whether attempted or executed, the nature and value of which may be prescribed;<sup>76</sup>
- (c) maintain record of documents evidencing identity of its clients and beneficial owners as well as account files and business correspondence relating to its clients. The records shall be maintained for a period of five years after the business relationship between a client and the reporting entity has ended or the account has been closed, whichever is later.
- (d) Every information maintained, furnished or verified, save as otherwise provided under any law for the time being in force, shall be kept confidential.

The Central Government may, by notification, exempt any reporting entity or class of reporting entities from any obligation.

**Section 12AA of PMLA** stipulates enhanced due diligence by reporting entities.

1. Every reporting entity shall, prior to the commencement of each specified transaction, —
  - (a) verify the identity of the clients undertaking such specified transactions by authentication under the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016 (18 of 2016) in such manner and subject to such conditions, as may be prescribed. Provided that where verification requires authentication of a person who is not entitled to obtain an Aadhaar number under the provisions of the said Act, verification to authenticate the identity of the client undertaking such specified transaction shall be carried out by such other process or mode, as may be prescribed.
  - (b) take additional steps to examine the ownership and financial position, including sources of funds of the client, in such manner as may be prescribed.
  - (c) take additional steps as may be prescribed to record the purpose behind conducting the specified transaction and the intended nature of the relationship between the transaction parties.

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<sup>76</sup>means a Director or Additional Director or Joint Director, as the case may be, appointed under sub-section (1) of section 49 (Appointment and powers of authorities and other officers)

The information obtained while applying the enhanced due diligence measures shall be maintained for a period of five years from the date of transaction between a client and the reporting entity.

2. Where the client fails to fulfil the above conditions, the reporting entity shall not allow the specified transaction to be carried out. Specified transaction means:
  - any withdrawal or deposit in cash, exceeding such amount;
  - any transaction in foreign exchange, exceeding such amount;
  - any transaction in any high value imports or remittances;
  - such other transaction or class of transactions, in the interest of revenue or where there is a high risk of money-laundering or terrorist financing, as may be prescribed.
3. Where any specified transaction or series of specified transactions undertaken by a client is considered suspicious or likely to involve proceeds of crime, the reporting entity shall increase the future monitoring of the business relationship with the client, including greater scrutiny or transactions in such manner as may be prescribed.

### **11.7 SEBI Prevention of Fraudulent and Unfair Trade Practices Regulations, 2003**

SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 prohibit fraudulent, unfair and manipulative trade practices in securities. Fraud is defined as inclusive of any act, expression, omission or concealment committed to induce another person or his agent to deal in securities. There may or may not be wrongful gain or avoidance of any loss. However, that is inconsequential in determining if fraud has been committed. Some of the instances cited are as follows:

- a) A wilful misrepresentation of the truth or concealment of material fact in order that another person may act, to his detriment.
- b) A suggestion as to a fact which is not true, by one who does not believe it to be true.
- c) An active concealment of a fact by a person having knowledge or belief of the fact.
- d) A promise made without any intention of performing it.
- e) A representation, whether true or false, made in a reckless and careless manner.

## Chapter 11: Sample Questions

1. The \_\_\_\_\_, ushered in an era of efficient capital market infrastructure, improved investor protection, reduced risks and increased transparency of transactions in the securities market.
  - a. SEBI Act 1992
  - b. Depositories Act, 1996**
  - c. SEBI (Stock Broker) Regulation, 1992
  - d. SEBI (Prohibition of Insider Trading) Regulations, 2015
  
2. \_\_\_\_\_ stipulates that every reporting entity has to maintain a record of all transactions, in such a manner as to enable it to reconstruct individual transactions.
  - a. SEBI (Stock Broker) Regulation, 1992
  - b. Prevention of Money-Laundering Act, 2002**
  - c. SEBI Prevention of Fraudulent and Unfair Trade Practices Regulations, 2003
  - d. SEBI (Prohibition of Insider Trading) Regulations, 2015
  
3. The \_\_\_\_\_ provided code of conduct for stock brokers.
  - a. SEBI Prohibition of Insider Regulations
  - b. PMLA
  - c. Securities Contracts Regulation Act
  - d. SEBI (Stock Broker) Regulation**
  
4. \_\_\_\_\_ provides for direct and indirect control of virtually all aspects of securities trading and the running of stock exchanges.
  - a. Securities Contracts Regulation Act (SCRA 1956)**
  - b. SEBI Act 1992
  - c. Depositories Act, 1996
  - d. SEBI (Stock Broker) Regulation, 1992

## About NISM

National Institute of Securities Markets (NISM) is an educational institution established by the Securities and Exchange Board of India (SEBI), the securities market regulator, in 2006. The Institute was established in pursuant to the Union Finance Minister's proposal, in his 2005-06 Budget Speech, to set up an institution 'for teaching and training intermediaries in the securities markets and promoting research'.

NISM is committed to its vision 'to lead, catalyze and deliver educational initiatives to enhance the quality of securities markets'. The Institute conducts a wide range of capacity building programmes in securities markets - from basic financial literacy to full-time post-graduation programmes. The Institute's six Schools of Excellence, viz., School for Certification of Intermediaries, School for Securities Education, School for Investor Education and Financial Literacy, School for Regulatory Studies and Supervision, School for Corporate Governance and School for Securities Information and Research upholds NISM's vision and works in synergy towards professionalizing the markets.

NISM is mandated by SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007 to conduct certification examinations and continuing professional education programs for associated persons engaged by an intermediary. NISM also conducts certification examinations for other regulators like IBBI and PFRDA. NISM's certifications establish a single market-wide knowledge benchmark for different functions in the Indian securities market and enable the associated persons to advance their knowledge and skills.

## About the Workbook

This workbook has been developed to assist candidates in preparing for the National Institute of Securities Markets (NISM) Social Auditors Certification Examination. NISM-Series-XXIII: Social Auditors Certification Examination seeks to create common minimum knowledge benchmark for the persons to become Social Auditors. The examination aims to create a pool of social auditors who would assess the impact of social interventions of various social enterprises who raise funds through the Social Stock Exchange platform.

The book covers important topics to aware candidates about myriad aspects of Social Stock Exchange and Social Auditing. It covers wide range of topics related to social sector organisations, enterprises and interventions, social audit, social audit techniques, social audit standards, social impact assessment and reporting etc. It will be immensely useful to all those who want to have a better understanding of Social Auditing.

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