

CSR & Social Governance

(Chapter 9)

(Total= 20 marks)

Time - 1 Hr

Answer the following question.

Case Study 1

Social Enterprises (SE) are commonly known as Non-Governmental Organisation who acts as a bridge between the government and the society. Government initiative, if not found to be sufficient, SEs play a significant role in assigning various issues to the government. Non-Governmental Organisations (NGOs) play an important role in community development by assisting communities in developing their social, capital, and human resources; enhancing knowledge and skills; encouraging people to take part in activities; and acting as a link between communities and systems. Some of the major functions of NGOs are: Human rights and child rights Poverty eradication Animal Rights Prevent Social Injustice Conservation of Environment Aged people care routine Empowerment of women Disease Control and others Health and Nutrition plans Conservation of Wildlife Hygiene and Sanitation conditions While NGOs are generally considered as SEs, there are many business enterprises, as well, who do not function only with profit motive but their activities have placed a greater positive impact on the society. SEBI has classified these enterprises as FPSE (For Profit Social Enterprise) and the hard-core social organisations as NPO (Not for Profit Organisation).

Questions:

(5 marks each)

1. What are the conditions under which an entity becomes ineligible for raising funds?

Answer

As per Regulation 292H of the SEBI (ICDR) Regulations, a Social Enterprise shall not be eligible to register or raise funds through a Social Stock Exchange or Stock Exchange, as the case may be:

- (a) if the Social Enterprise, any of its promoters, promoter group or directors or selling shareholders or trustees are debarred from accessing the securities market by the Board;
- (b) if any of the promoters or directors or trustees of the Social Enterprise is a promoter or director of any other company or Social Enterprise which has been debarred from accessing the securities market by the Board;
- (c) if the Social Enterprise or any of its promoters or directors or trustees is a wilful defaulter or a fraudulent borrower;
- (d) if any of its promoters or directors or trustees is a fugitive economic offender;
- (e) if the Social Enterprise or any of its promoters or directors or trustees has been debarred from carrying out its activities or raising funds by the Ministry of Home Affairs or any other ministry of the Central Government or State Government or Charitable Commissioner or any other statutory body.

2. What is the procedure for public issuance of Zero Coupon Zero Principal Instruments by a Not-for-Profit Organization?

Answer

Under Regulation 292K of the SEBI (ICDR) Regulations, a Not for Profit Organization shall file the draft fund raising document with the Social Stock Exchange where it is registered along with the fees as specified by the Social Stock Exchange and an application seeking in-principle approval for listing of its Zero Coupon Zero Principal Instruments on the Social Stock Exchange.

Social Stock Exchange shall specify the details to be incorporated in the fund raising document and SEBI shall specify the minimum disclosure requirements in respect of the fund raising document from time to time.

The draft fund raising document shall be made available on the website of the Social Stock Exchange and the Not for Profit Organization for a period of at least 21 days for public comments.

The Social Stock Exchange shall provide its observation on the draft fund raising document to the Not for Profit Organization, within 30 days from the filing of the draft fund raising document or receipt of clarification, if any, sought by the Social Stock Exchange from Not for Profit Organization, whichever is later.

The Not for Profit Organization shall incorporate the observations of the Social Stock Exchange in draft fund raising document and file the final fund raising document with the Social Stock Exchange prior to opening the issue

Case Study 2

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

Subsequently, SEBI, in September, 2019 constituted a working group (WG) to inter-alia, make recommendations w.r.t possible structures and mechanism within securities market domain. The working group consisted of representatives of stakeholders active in the space of social welfare, social impact investing, representatives from Ministry of Finance, the stock exchanges and NGOs. The working group had a series of consultations with various stakeholders including voluntary organizations, social enterprises and philanthropic organizations in order to assess the difficulties faced by them in raising funds/ donating funds.

Questions:

(3 marks each)

1. How does the termination of listing affect the accountability and reporting obligations of the issuing organization?

Answer

Regulation 292P of the SEBI (ICDR) Regulations states that the listing of Zero Coupon Zero Principal Instruments of a Not for Profit Organization on the Social Stock Exchange shall terminate in the following events:

- (a) The object for which the funds were raised has been achieved and a certificate to this effect is submitted to the Social Stock Exchange; or
- (b) The tenure to achieve the object for which the funds were raised as provided in the fund-raising document has expired.

2. What specific financial aspects must an NPO report when raising funds through the Social Stock Exchange?

Answer

1. Financial Statement:

- i. Balance Sheet
 - ii. Income statement
 - iii. Cash Statement
 - iv. Program wise fund utilization certificate
 - v. Percentage of organizational budget this 'issue' represents
 - vi. Breakup of organizational budget and expenditure
 - vii. Split of the budget across partners of the project/initiative is being jointly executed.
2. Auditors Report and details of the auditors.

Q3. (4 marks)
Sanjeevani Foundation, a not-for-profit organization working in rural healthcare, undertakes a Social Audit of its community health programs. The audit evaluates financial records to ensure proper fund utilization, assesses the real-world impact of mobile health clinics, and gathers feedback from beneficiaries. Based on the audit findings, Sanjeevani restructures its underperforming maternal care project and scales up its telemedicine initiative, which showed greater effectiveness. What are the key financial and social benefits and advantages of conducting a Social Audit for a Social Enterprise?

Answer

- **Financial data on social activities/ programs/ interventions:** Social Audit assesses the source of funding, its utilisation and appropriate reporting to the Governing Body of the Social Enterprise.
- **Encourage for social performance:** Social Audit assesses the impact of the activities undertaken and brings the social point of view to the attention of the management, and thus encourages the Social Enterprise to perform better.
- **Improve relationships with Stakeholders:** By Implementing the auditors' recommended improvements, it helps the Social Enterprise to meet stakeholder expectations, enabling it to build a good relationship with them in the long term.
- **Comparison of different activities:** The Social Audit provides data for comparing effectiveness of different types of social welfare programmes undertaken and this further enables to assess which activity has better social impact.
- **Enhances Social Reputation:** Social Audit helps the organization to build up the image and reputation of the organization in the minds of the public.
- **Sense of Social Responsibility among Shareholders and Community as a whole:** Social Audit helps shareholders as well as other stakeholders realize the importance of socially beneficial programmes and extend their cooperation to the Social Enterprise's programmes of social welfare and development.

BEST OF LUCK