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Upcoming IPOs in 2024

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Moving from charity to social investment: listing of not-for-profit organisations

The market would discover prices of social shares which would exert pressure on non-profit organisations to perform and disclose

Written by MS Sahoo

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The Companies Bill, 2012, mandates specified companies to spend at least 2% of their net profits towards corporate social responsibility (CSR). The CSR would include activities relating to eradication of hunger and poverty, empowerment of women, reducing child mortality, combating AIDS, and such other actions. The authors are sympathetic to the view that the state should not be meddling with monies that rightfully belong to the shareholders. Instead, it should more wisely spend the enormous amount of resources at its disposal collected as taxes to further these social objectives. However, the CSR proposal is the result of a unanimous decision of the Parliamentary Standing Committee and accepted by the government and subsequently approved by the Lok Sabha. Hence, this is the legislative will and one, therefore, has to look ahead and think of measures to implement this sensibly and effectively.

The legal obligation created by the Bill is to spend. A company may discharge the obligation either by creating structures within itself to undertake these activities or by contributing money to not-for-profit organisations (NPOs), which are engaged in the specified activities. The first option is impractical because the company may not have the competence in any of the specified activities, and fluctuating profits may not sustain a structure for these activities. More importantly, its profits may not permit an economic scale of operation. Hence, most companies would prefer to contribute resources under the second option. This is economically and socially desirable and efficient.

Fortunately, we do not have a dearth of NPOs engaged in social activities. As per a CSO publication of 2012, there are 7 lakh NPOs in the country. Even if half of them are discounted as not being up to scale or quality, the balance constitutes a large enough number. Most of them survive on charity from generous individuals and some lucky ones have funding from companies, government and international agencies. Many of them are tiny and have very local operations in view of their resource constraints. The provisions relating to

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Roadways September 4, 2024 17:35 IST

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CSR in the Companies Bill may turn out to be a boon for NPOs, provided there is a mechanism to channel resources from companies to them for social activities and there is an assurance that such resources would be used well for those activities.

Most humans have a desire to serve the society and do so to the extent permissible within their resources. Some donate occasionally to an NPO which carries on activities that they wish to do. But there are a set of people and companies who wish to financially support the activities of NPOs to address the myriad social and economic problems that bedevil India, as they cannot create and maintain the structure to undertake these activities on their own. A person may like to support activities of an NPO by a one-time contribution or extend recurring support every year. She may like to spare resources for a few years or for ever. But she may not be able to find out an NPO which is carrying on the activities she is passionate about. Of late, a few websites have emerged to match prospective donors with different causes of different NPOs but we are still some distance away from a reliable and robust mechanism that allows people to choose from among the NPOs which can carry out social activities of their choice with efficiency and commitment.

Equally, on the other hand, NPOs find it difficult to locate people who are interested to support their activities. They approach the same set of people who have supported them at some earlier point of time. There is no formal mechanism whereby they can convey their credibility to prospective donors and solicit contributions from them. There are a few voluntary initiatives which require NPOs to make certain disclosures about their board members, governance and financial details as also document certain policies to institutionalise good practices. But these are not yet that widespread. This explains why most NPOs do not have a business model and operate below their potential.

The securities market obviates this problem by allowing people to do more with their savings than they otherwise could. It also provides financing that enables people to do more with their ideas and talents than would otherwise be possible. It matches people's savings with the best ideas and talents in the economy. It also provides a market place for purchase and sale of securities which makes it possible to satisfy simultaneously the needs of the enterprises for capital and of investors for liquidity. This market can be leveraged to promote social investments by connecting social investors with NPOs.

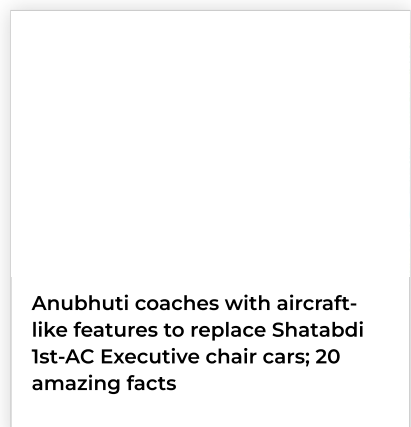
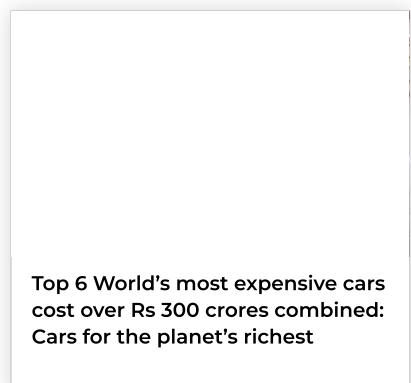
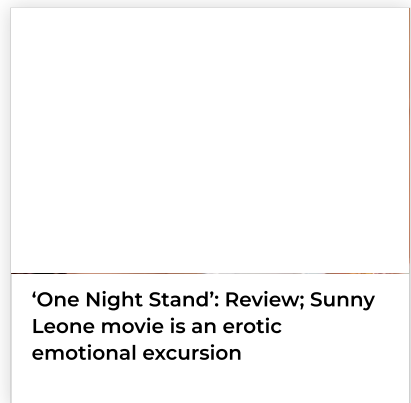
The key to this is listing of social shares of NPOs on a dedicated segment similar to listing of shares of companies on stock exchanges. This along with the rest of the elements of the securities market ecosystem would provide much-needed credibility, transparency and accountability of social investments made in NPOs and a simple, fast, and trustworthy mechanism for philanthropic contributions. A person wishing to invest socially would simply buy the social shares with full confidence that the money will certainly be used for sound social projects. She should have the option to quit by selling the social shares when she needs liquidity.

The market would discover prices of social shares which would exert pressure on NPOs to perform and disclose. Though there is the danger of the short-termism of the equities markets, potentially that can be addressed by the

Name	LTP	Chg
Nifty 50	25,198.70 AD Ratio: 0.61	-81.15 -0.32%
Nifty Bank	51,400.25 AD Ratio: 0.22	-288.85 -0.56%
Nifty Next 50	75,450.55 AD Ratio: 1.20	36.90 0.05%
Nifty 100	26,275.75 AD Ratio: 0.89	-65.95 -0.25%
Nifty 200	14,293.85 AD Ratio: 0.87	-32.95 -0.23%

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design of the market and disclosure and other standards. This would ensure full and efficient utilisation of philanthropic contribution of generous people and also the resources the companies have to commit towards CSR activities and convert NPOs as responsible business entities. Put simply, we would move up from charity to informed social investment.

The authors are former officials with the ministry of finance. Views are personal

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