The role of CSR in funding NGOs

Why in news?

There has been realisation by the corporate sector on what's good for society is good for their business.

What is Corporate Social Responsibility (CSR)?

- Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.
- CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ("Triple-Bottom-Line-Approach".
- All these are done by simultaneously addressing the expectations of shareholders and stakeholders.

What is CSR in Non-governmental Organisations (NGOs)?

- It is the funding and grants process under which NGOs can get financial and other support from the corporate sector.
- Under the Companies Act, 2013 it is mandatory to provide contribution of 2% of the average net profits of companies.
- According to the Act, the CSR provision is applicable for a company having a net worth of rupees 500 crores or more, or a turnover of rupees 1000 crores or a net profit of 5 crore rupees during any financial year.
- The funds provided under CSR are for social developmental issues and make a positive impact on the living standards of the economically poor and disadvantages people of society.

What are the funding archetypes?

- There are three distinct funder archetypes such as program proponents, adaptive funders and organisation builders.
- The three archetypes represent different beliefs in terms of how philanthropy becomes impact.
- And those beliefs manifest in different practices around funding indirect costs and organisational development.
- Programme proponents value programme outcomes above all.

- Adaptive funders are not rigid and support indirect costs and organisational development, if the NGO makes a case.
- Organisation builders see value in investing in stronger organisations in addition to programmes.
- CSR funders, who now represent a fifth of all private giving in India, principally fall under programme proponents.
- They mostly contribute little or no money to organisational development and limit what they pay for indirect costs to a fixed rate often below 5%.
- NGOs' indirect costs range from 5% to 55%, depending on their mission and operating model, much as a corporate's sales and administration costs vary significantly by industry and product.
- These practices are partly a consequence of CSR funders' focus on regulatory compliance, amendments to the CSR law in 2021 include substantial financial penalties for non-compliance.
- Roughly 90% of the CSR funders are relatively small, unlisted companies, and companies that spend less than ₹50 lakh annually on CSR are not required by law to have a CSR committee.
- They generally leave decision-making and action plans to company boards, who may have little to no experience working with NGOs or on social impact.
- Hence, their priorities tend to sway towards risk avoidance, compliance, and cost minimisation.
- Not every company is aware of all the facets of the CSR rules they are complying with.
- For instance, the 5% cap on administrative overhead costs is applicable only to a business' internal CSR operation cost, not to the grantee's administrative costs, as is widely perceived.

How can this be changed?

- The companies can pool their resources with other mission aligned CSR or social sector stakeholders, increasing their collective impact potential.
- The companies can also hire or tap into professionals with experience working with NGOs.
- Since 2020, the number of philanthropic collaborative, such as the Migrants Resilience Collaborative or Revive Alliance have more than doubled.
- The Migrants Resilience Collaborative supports migrant workers and the Revive Alliance finances semi and unskilled workers.

How CSR funding can be learnt from peer organisations?

- CSR funders can learn from peers who view organisational development and indirect costs differently.
- For instance, ASK Foundation, the CSR arm of ASK Group, is working to enable better livelihoods for rural communities.
- Until four years ago, the ASK gave annual programme grants to NGOs, limited indirect cost coverage to between 5% and 10%, and did not provide organisational development expenses.
- Then, it shifted to a multi-year grant making approach and started providing up to 20% support for indirect costs.

- The shift in practice came after the CSR team presented benchmarks of the higher rates paid by peer CSR organisations and the beneficial effects of a stronger NGO partner on its programme outcomes.
- These peer examples and impact stories were instrumental in ASK getting board approval for changing its NGO funding policy.

What is the future?

- The CSR programmes cannot currently contribute to NGO reserves/corpus by law.
- However, by covering indirect costs and organisational development, they still help to relieve financial pressure and make organisations more resilient.
- A corporate that has developed a relationship of mutual trust with an NGO could offer volunteer financial analysis services to help the NGO.
- For example, Edelweiss has a structured employee engagement programme where senior and mid-level professionals voluntarily offer cash flow and financial management.
- The idea is to move beyond signing cheques to recognising that, ultimately, what's good for Indian society is also good for business.

Reference

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