ISDM
INDIAN SCHOOL OF DEVELOPMENT MANAGEMENT

Towards Accountability and Resilience:
A Capacity Needs Assessment on Governance and Compliance for Indian SPOs

Under the Initiative -
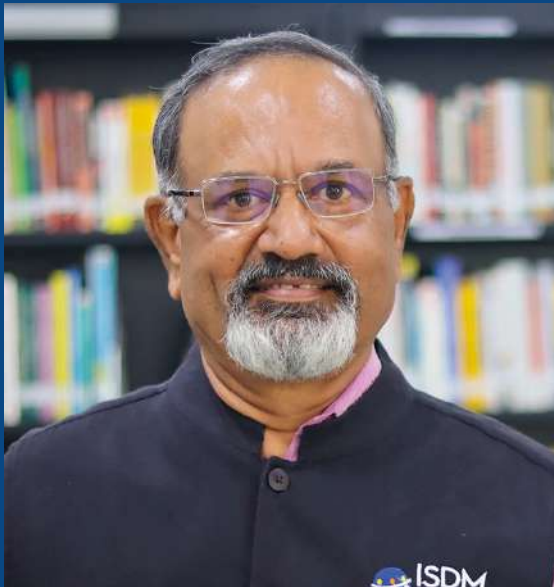## Catalysing Good Governance and Accountability Systems

Supported By

Ford Foundation

Research Partner: Navgraam Development Consulting LLP

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Foreword by

Ravi Sreedharan
President ISDM

We are grateful to the Ford Foundation whose visionary support has been instrumental in making this vital research possible. The Indian School of Development Management (ISDM) together with NAVGRAAM has put together findings from the Needs Assessment Study towards Decoding Good Governance for the Indian Social Sector. Compliance, Sound Governance and Reporting have become critical pillars for the progress and sustainability of the non-profit sector in India. As Social Purpose Organisations (SPOs) work to drive social impact, the legal, financial, and compliance frameworks that these organisations adhere to and integrate become more essential.

As with all our efforts at ISDM, our vision for the study was to understand the Non-profit ecosystem's challenges and barriers and ultimately galvanise donor and enablers' support that can impactfully help SPOs of all sizes and geographies improve their governance and scalability.

There are more than 2.5 lakh Non-Governmental Organisations (NGOs) in India as per figures from October 2024 on NGO

Disclaimer - The findings and insights are emerging from the primary research (KII, IDI, questionnaires) undertaken with respondents (SPO leaders, intermediaries, funders/ donors, etc.)

Darpan, a platform maintained by NITI AAYOG. These organisations work within the social impact universe to address and ameliorate critical humanitarian, ecological and socio-economic challenges. Unsurprisingly, 54% non-profits report that tedious and time-taking compliance processes pose a challenge **(Accelerate Indian Philanthropy, 2022)**. This does not, however, indicate their reluctance to pursue these mandatory requirements, but it does imply that a sizable number of organisations need to allocate resources and grant money towards donor reporting, compliance, and audits.

As a pioneering ecosystem organisation focused on strengthening and

mainstreaming Development Management, ISDM is working towards creating systemic capability of SPOs on good governance and accountability systems to support them to drive sustainable impact at scale. The present study has been able to find insights into the compliance and reporting landscape, focusing on the needs, challenges, best practices, and priorities of SPOs in India from a diverse range of stakeholders. The findings and evidence yield recommendations and strategic capacity-building interventions to enhance the compliance capabilities, leading to good governance in SPOs, enabling sustainable growth of the social impact space.

I hope that the report will also become foundational in

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collective advocacy towards a more inclusive and sector-sensitive governance structures and policies. The implications of good governance for SPOs extend beyond financial requirements alone; it includes POSH and allied requirements as well as organisation's ability to engage and optimise its Board. It would be encouraging for all of us in the social impact sector to witness young talent take up careers in compliance and governance for the sector, as we build a cadre of capable professionals trained and experienced in governance and compliance domains.

ISDM has undertaken programs and modules to disseminate and empower these capacities to organisations in the social impact universe and the findings from this study with NAVGRAAM and the Ford Foundation will continue as part of our engagement to bring more Strategic Capacity Building to the sector as a whole.

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Foreword by

Dr. Basavaraju R Shreshta
*Principal Investigator &
Designated Research Partner*

NAVGRAAM

Social Purpose Organisations (SPOs) play an indispensable role in India's development journey, serving as a bridge to reach the most marginalised and underserved communities. Complementing the initiatives of the Government, SPOs bring forth a uniquely motivated, selfless workforce driven by a passion for societal transformation. Often, these are individuals with a deep conviction to create positive change,

working tirelessly within resource-constrained environments, especially in remote and challenging areas. Across India, countless small and micro SPOs operate silently yet impactfully, delivering services and support in areas where traditional infrastructure and state reach may falter.

As we celebrate the Amrit Kaal of our independence, the Government of India has articulated the vision of a Viksit Bharat– a developed India. True development, however, is only achieved when it is inclusive and community-centric, building both human and social capital. For this reason, SPOs are integral to realizing this vision, taking development to the very last mile. To foster a sustainable development

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trajectory, it is crucial that SPOs operate in an enabling environment. Just as we emphasise the need for "ease of business" for corporations, we must also champion "ease of service" for SPOs, empowering them to focus on impact rather than compliance burdens.

This report, a collaborative effort by the Indian School of Development Management (ISDM) and NAVGRAAM Development Consulting LLP, responds to this need by offering thoughtful, actionable insights into the SPO sector's regulatory landscape. Through the lived experiences of non-profits, this study uncovers the barriers, opportunities, and aspirations that shape the sector. With an evidence-based approach, it highlights the operational

challenges that compliance demands impose on organisations, while also presenting practical recommendations to build resilience and adaptability.

A significant strength of this study is its forward-looking perspective, with a focus on capacity building and technological integration. It underscores the transformative potential of digital tools and specialised training, in empowering SPOs to navigate compliance efficiently. Additionally, the report emphasises the need to sensitise key stakeholders to the unique challenges SPOs face, encouraging a collaborative approach to strengthening the non-profit ecosystem. By proposing holistic solutions, this research provides a roadmap for reshaping

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compliance practices, to enable SPOs to prioritise their social impact over administrative constraints.

In an era where accountability is paramount, it is essential that compliance frameworks support, rather than inhibit, the mission of SPOs. This report reflects a commitment to bolstering the foundations of the non-profit sector, ensuring that it thrives within a regulatory framework that values and facilitates its vital contributions to India's progress. It may serve as a guide for policymakers, funders, and non-profits alike, offering a vision for streamlined compliance practices that preserve the sector's integrity and vibrancy.

Through this research, we aim to pave the way for a strengthened non-profit sector—one that is empowered to continue its critical work in advancing India's inclusive development agenda.

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List of Abbreviations

ABBREVIATION	MEANING
AIP	Accelerate Indian Philanthropy
AML	Anti Money Laundering
AOC- 4	Annual Return of Companies (Form AOC-4)
CA	Chartered Accountant
CAP	Certified Accounting Professional
CBO	Community-Based Organisation
CFO	Chief Financial Officer
CO	Charitable Organisation
CSR	Corporate Social Responsibility
CXO	Chief Experience Officer
CPP	Child Protection Policy
DM	District Magistrate
ESI	Employee State Insurance
EPF	Employees' Provident Fund
FCRA	Foreign Contribution Regulation Act
FGD	Focus Group Discussion
FMSF	Financial Management Service Foundation
GST	Goods and Services Tax
HR	Human Resources

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ABBREVIATION	MEANING
ICAI	Institute of Chartered Accountants of India
IDI	In depth interview
ISDM	Indian School of Development Management
KII	Key Informant Interview
MCA	Ministry of Corporate Affairs
M and E	Monitoring and Evaluation
MGT – 7	Annual Return of Companies (Form MGT-7)
NGO	Non-Governmental Organisation
NPO	Non-Profit Organisation
PAN	Permanent Account Number
POSH	Prevention of Sexual Harassment
PSU	Public Sector Unit
SDG	Sustainable Development Goals
SPO	Social Purpose Organisation
SRO	Securities & Exchange Board of India (SEBI) Registered Officer
SOP	Standard Operating Procedures
TDS	Tax Deducted at Source
TSO	Third Sector Organisation
UN SDGs	United Nations Sustainable Development Goals
VANI	Voluntary Action Network India
VO	Voluntary Organisation

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Operational Definitions

NPO/SPO
Non-Profit Organisations and Social Purpose Organisations have been used interchangeably.

Small SPO
Org size from ₹50 lakh to ₹5 crore

Large SPO
Org size greater and more than ₹5 crore - 30 crore Governance and compliance: The terms have been used interchangeably and though governance is a very broad term, for the purpose of this study the focus is on governance for compliance and reporting.

Governance
A decision making process to ensure greater accountability

Compliance
Adhering to all rules, laws, agreements and regulations as may be applicable to the organisation and the stakeholders

Ecosystem Enabler
These are organisations that support and strengthen an ecosystem by providing essential resources, knowledge, and networks to other entities within a sector. They work to create favourable conditions for growth and collaboration, facilitating access to funding, mentorship, capacity building, policy advocacy, and other services. Ecosystem enablers play a critical role in empowering organisations, fostering innovation, and driving sector-wide impact. Eg. ARIA,Dhwani, Azim Premji foundation etc

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Executive Summary

Good governance, accountability, and transparency are essential for SPOs, especially as they navigate increased scrutiny and compliance challenges. SPOs must manage funds from governments, corporations, and the public responsibly, ensuring resources reach those in need. Transparent reporting along with clear organisational goals and compliance structures, strengthens credibility and public trust. By prioritising strategic planning, governance capacities, and adapting to changing regulatory landscapes, SPOs can achieve greater sustainability and long-term impact, ultimately reinforcing their value in society.

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The Indian economy remains one of the fastest-growing globally, with social sector expenditure rising **13%** annually to reach **INR 23 lakh crore (8.3% of GDP)** in **FY 2023**. Social Purpose Organisations (SPOs) play a crucial role in addressing societal challenges. They operate under a governance framework that has distinct legal factors, including the **Income Tax Act, 1961 ("IT Act")4; the Foreign Contribution (Regulation) Act, 2010 ("FCRA"); and the Companies Act, 2013 ("Companies Act")** for Section 8 companies.

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Ensuring compliances for good governance within these laws can be an overwhelming task specifically when it comes to small SPOs operating in remote areas. Ignorance of these compliances could be to an extent that it may lead to cancellation of their operating licences (Rishi, R. et al, 2023) .

This study by ISDM and NAVGRAAM Development Consulting LLP highlights key governance hurdles faced by SPOs and presents actionable solutions aimed at simplifying processes, enhancing capacity, and fostering technology adoption. The study gathered quantitative and qualitative data from total of **234 stakeholders based on** interviews and focus group discussions with SPO leaders of varying sizes across different regions and sectors, funders from Corporate Social Responsibility (CSR) initiatives and philanthropic foundations, as well as experts in compliance, finance, and legal reporting. These insights provided valuable sector-specific perspectives for compliance experts, and funders. This mixed-methods approach enabled a comprehensive understanding of compliance challenges, best practices across different organisational sizes, themes, and locations.

[1] *Rishi, R., Salvi, M., & Kanuga, S. (2023, September 30). Navigating governance challenges: Strengthening non-profit organisations in India. Nishith Desai Associates.*

Key Findings

The study highlights that the challenges of good governance through compliance management shape the way SPOs operate to impact communities and maintain credibility with funders. The study findings reveal the following :

Challenges in Compliance regulations

Small SPOs (113) **Large SPOs (23)** **Over all (136)**
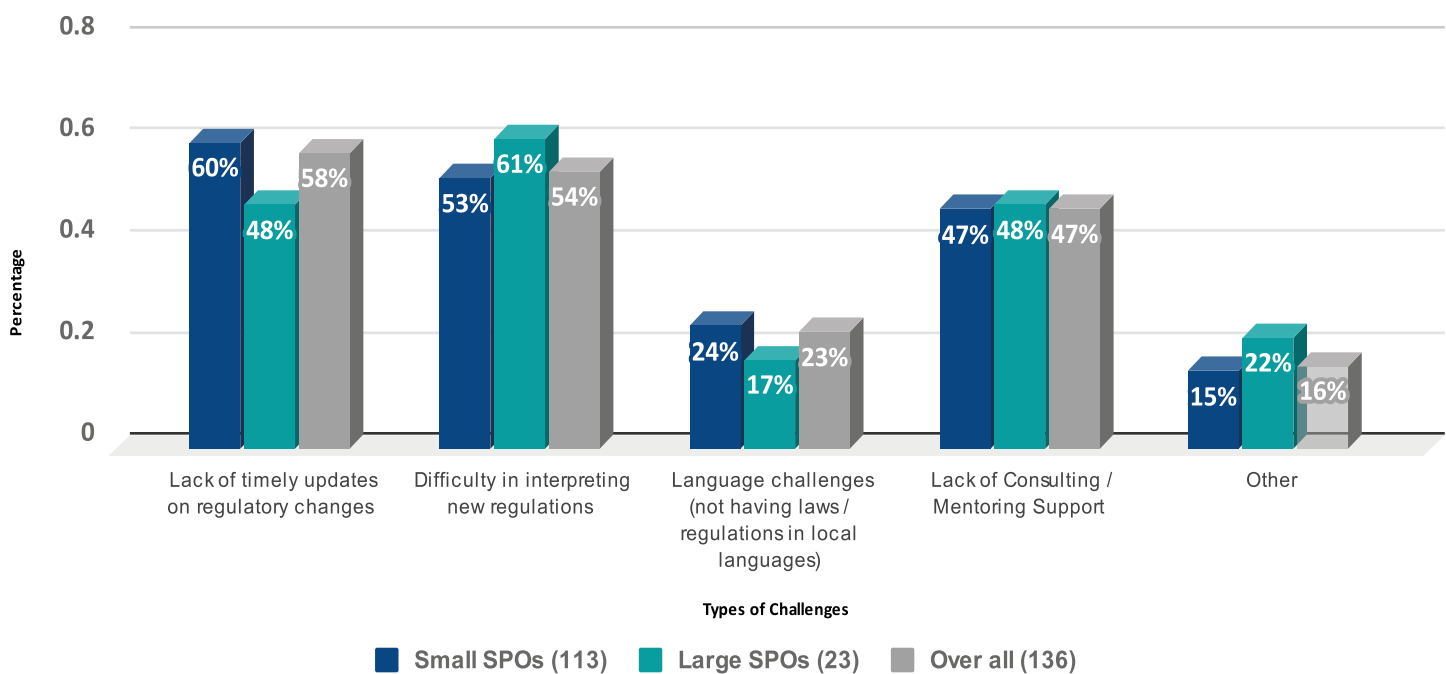
Note: Respondent SPOs highlighted more than one challenge

Mandatory Compliance registrations

SPOs navigate a complex maze of more than 15 mandatory registrations and over 25 compliance filings—obligations that span statutory requirements, internal governance protocols, donor-specific mandates, and project-related filings. These requirements are comparatively higher for Section 8 companies than trusts or societies. These complex layers of regulatory frameworks, coupled with the high stakes of transparency, create an intricate web that SPOs must continuously work to unravel.

The survey data on mandatory compliance registrations for both small and large SPOs indicate that adhere to essential compliance such as PAN, TAN, and 12A registrations, with 100% compliance in these areas.

80G registration is also highly common, particularly in larger-budget SPOs, reflecting the emphasis on tax exemption benefits. Compliance with CSR registration and foreign funding regulations (FCRA) shows variability, with higher compliance in large SPOs.

GST registration and specific state-level compliances show less frequent adherence, highlighting differences in compliance requirements based on budget scale and operational focus.

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Mandatory Compliance registrations

Registration	Small SPOs (113)	Large SPOs (23)
Others (Based on the Applicability)	5%	0%
Trade License (if engaging in commercial activities)	3%	4%
Gratuity registration (If Applicable)	5%	57%
Shops and Establishments Act Registration (if applicable,	13%	30%
Goods & Service Tax (GST) (If Applicable)	19%	43%
ESI (Employee State Insuranc Registration (If Applicable)	23%	70%
EPF (Employee Provident Fun Registration (If Applicable)	30%	91%
Professional Tax (PT) (If Applicable)	36%	87%
FCRA License: For receiving foreign contributions	40%	91%
Tax deduction at source (TDS)	61%	100%
CSR 1	83%	100%
NGO Darpan registration	96%	100%
Annual Financial Audit & ITR	100%	100%
PAN (Permanent Account Number)	100%	100%
Section 12A Registration for Income Tax Exemption	100%	100%
Section 80G Certificate for donor tax benefits	100%	100%
IT Registration	100%	100%

Small SPOs (113)   **Large SPOs (23)**

Compliance Awareness

For many SPO leaders, a recurring theme is the sheer challenge of staying informed. **Lack of awareness about regulatory requirements affects 59% of small SPOs** and 48% of large SPOs leaving them vulnerable to potential penalties and operational setbacks.

"We don't know what we need to know about compliances"

SPO Leader from Andhra Pradesh, participant in the FGD, represents the understanding of grassroot NPOs about compliance.

Lack of Financial and Human Resources

Limited resources, both financial and human, are the top issue, impacting 74% of large SPOs and 70% of small SPOs.

With limited in-house expertise, they often **lack trained staff with specialised knowledge** of the nonprofit sector's unique compliance requirements. Inadequate training and expertise are cited by 48% of small SPOs and 26% of small SPOs.

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Many rely on external consultants for essential tasks, such as tax filings and statutory reports, which, while necessary, inflate operational costs significantly.

"A lot of the problem is at the service provider level itself, as there are very few CAs who are well-versed in matters related to NGOs''

Compliance Expert

For smaller SPOs, the high costs of external consultancy and audit fees are challenging.

"The operational costs related to compliance have become a significant burden, especially for smaller organisations. We spend anywhere between 2% to 3% on our turnover to take care of various compliances and the CXO level person needs to invest around 3 to 4 days in a month to take care of compliance reporting."
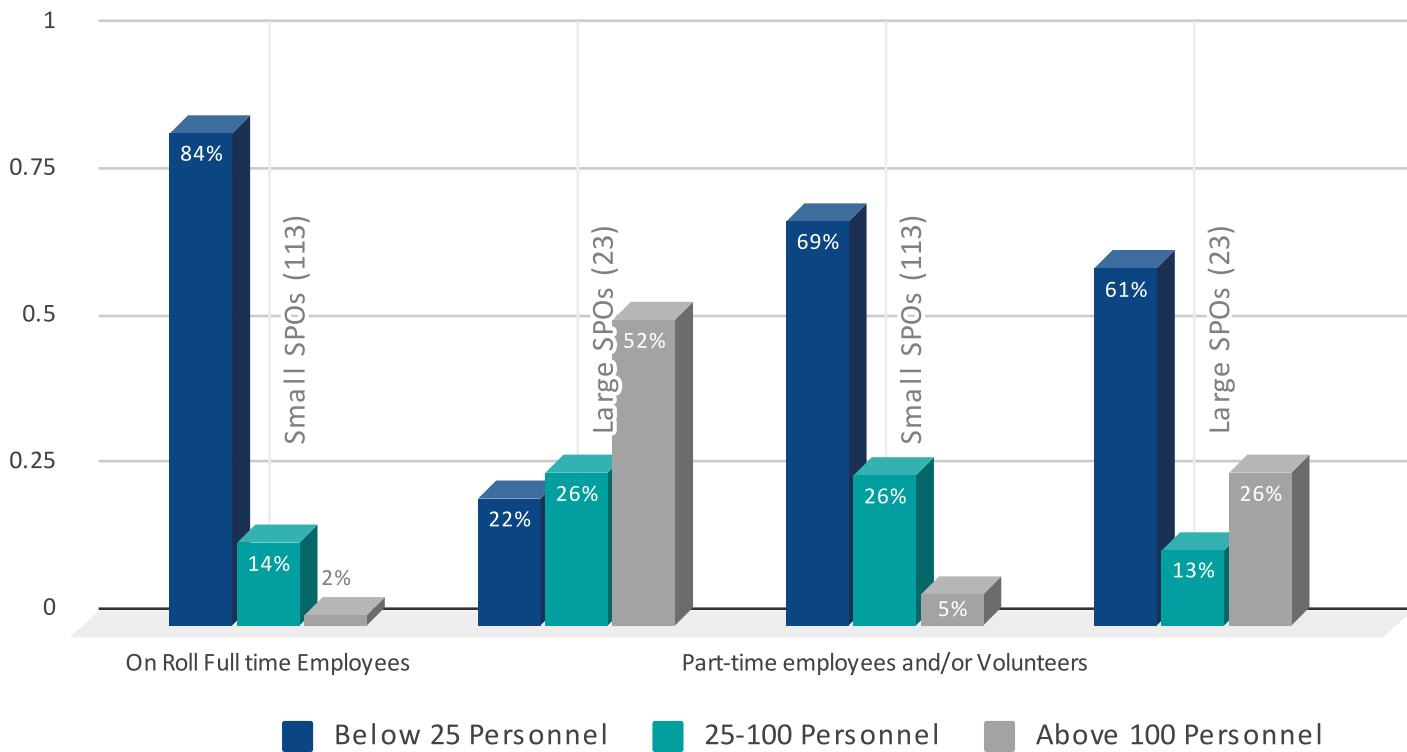
Compliance Expert

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Personnels across organisational sizes

The participating SPOs in the survey indicate that small SPOs have fewer than 25 personnel, while larger SPOs are more likely to have over 100 personnel, especially in full-time roles. This highlights that higher-budget SPOs tend to have larger staff sizes, both in full-time and part-time capacities. This could also mean that smaller budget organisations are less likely to invest in human resources specifically for compliance related tasks.

Organisation size-wise percentage of different types of Employees

On Roll Full time Employees | Part-time employees and/or Volunteers

Small SPOs (113): On Roll Full time - 84% (Below 25), 14% (25-100), 2% (Above 100)
Large SPOs (23): On Roll Full time - 22% (Below 25), 26% (25-100), 52% (Above 100)
Small SPOs (113): Part-time - 69% (Below 25), 26% (25-100), 5% (Above 100)
Large SPOs (23): Part-time - 61% (Below 25), 13% (25-100), 26% (Above 100)

Legend: ■ Below 25 Personnel   ■ 25-100 Personnel   ■ Above 100 Personnel

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Lack of Standardisation

The lack of standardised compliance formats presents additional challenges to SPOs. Funding bodies, government agencies, and regulatory authorities often require reports in varied formats and according to distinct timelines.

> **"The fragmentation of these requirements has led to inefficiencies across the sector, particularly for small SPOs that lack the resources to meet these demands efficiently."**
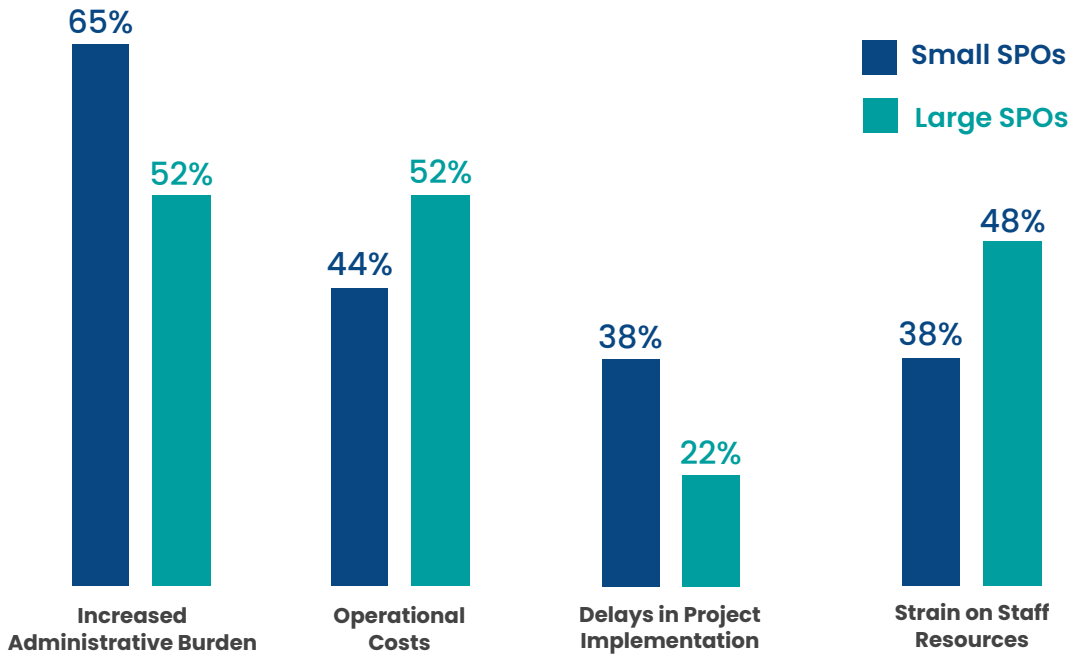>
> SPO Leaders

Leaders emphasise that the absence of a cohesive framework complicates the navigation of compliance requirements, underscoring an urgent need for a standardised system that would allow SPOs to channel more energy into their core missions.
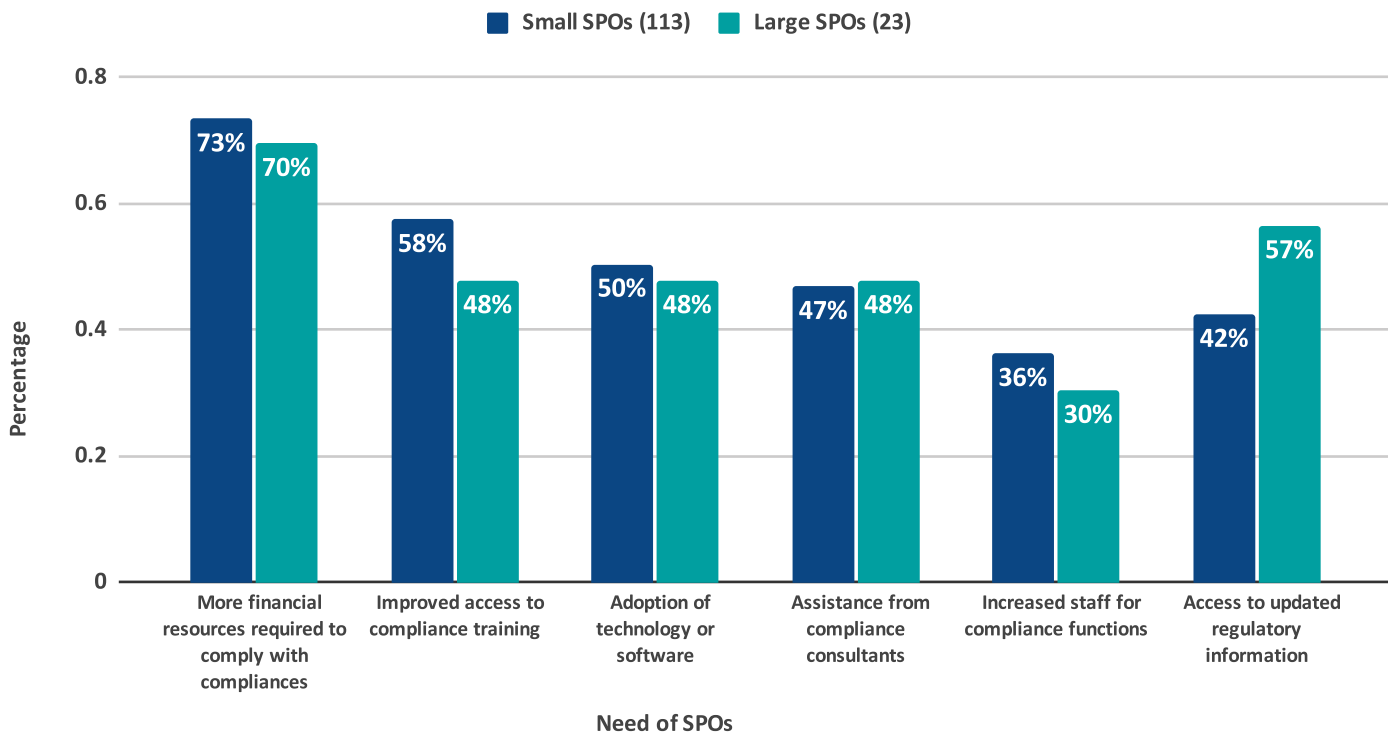
Impact of compliance challenges on SPOs

Increased administrative burden was reported more by small SPOs (65%) while 52% reported in the case of large SPOs. This challenge was also found to have some implications on the operational costs as well, that emerged as equally major challenge with large SPOs at 52% while with small SPOs, it emerged as the second major challenge at 44%. Delays in project implementation were notably higher in smaller SPOs at 38%, compared to only 22% for larger SPOs. Additionally, 48% of large SPOs

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SPO COMPLIANCE AND REPORTING STUDY copy.pdf   22   19-11-2024   19:07:49

experienced strain on staff resources, in contrast to highlighted by 38% of small SPOs.

65% **52%** **44%** **52%** **38%** **22%** **38%** **48%**

Legend: Small SPOs, Large SPOs

- Increased Administrative Burden
- Operational Costs
- Delays in Project Implementation
- Strain on Staff Resources

Needs Highlighted by SPOs for Improved Compliance Management

Small SPOs (113)   Large SPOs (23)

Percentage

Need of SPOs	Small	Large
More financial resources required to comply with compliances	73%	70%
Improved access to compliance training	58%	48%
Adoption of technology or software	50%	48%
Assistance from compliance consultants	47%	48%
Increased staff for compliance functions	36%	30%
Access to updated regulatory information	42%	57%

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22   SPO COMPLIANCE AND REPORTING STUDY

Practices by large SPOs

Robust financial controls:
dual sign-off for expenses and regular audits

Technology : Compliance management software such as tally, zoho etc.

Accreditations by third parties:
GuideStar and GiveIndia

Organisational size impact:
Larger organisations excel in

- Robust organisational governance policies **(83%)**
- External audits **(78%)**
- Transparent reporting **(74%)**
- Training **(61%)**

Recommendations from the Study

The report offers a pathway forward as suggested by respondents during interviews, recommending tailored actions for SPOs, government bodies, funders, and ecosystem enablers.

SPOs

- Invest in continuous staff training on compliances (tax laws, financial management, etc.) to reduce reliance on consultants, improve governance, and boost self-sufficiency.

- Annually map skill gaps to seek targeted support from donors.

- Maximise the use of software like Tally or Zoho Books to standardise processes and ensure error-free, transparent, and easy compliance.

- Enhance board members' capacity in legal and financial compliance to boost their involvement in audits and policy development.

Government Agencies

- Establish a dedicated regulatory body to streamline processes for SPOs, enabling greater impact by ensuring compliance and reducing administrative burden.

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Use SPOs' annual financial filings with the Income Tax Department as a basis for renewal, eliminating redundant processes and linking systems (like PAN and bank accounts) for efficient compliance.

Foster a national registration process for SPOs with a localised grievance mechanism to ensure clear operations and smooth compliance.

Funders, CSR donors, and philanthropists

Adopt a unified due diligence checklist and accept third-party accreditations (e.g., GuideStar, Credibility Alliance) to promote uniformity and reduce administrative burdens on SPOs.

Budget for compliance and administrative expenses in projects to help SPOs meet regulatory requirements alongside program delivery.

Offer grants or financial incentives to help SPOs build internal compliance systems, invest in technology, and hire qualified staff for better regulatory adherence and operational efficiency.

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Ecosystem enabler

Establish an online platform for SPOs sharing best practices, resources, and templates for compliance and reporting.

Offer targeted training programs in compliance, reporting standards, and financial management, particularly for smaller SPOs, to strengthen sector-wide compliance skills.

Work with regulatory bodies to develop streamlined, standardised compliance policies.

Encourage sector-wide dialogue and partnerships to identify key pain points and drive practical policy adjustments enabling SPOs to meet compliance requirements.

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Introduction to the Study

Background

The Indian economy continues to be one of the fastest-growing major global economies, boasting a GDP growth rate of 7.5% in FY 2023. Over the past five years, total social sector expenditure in India has increased by an impressive 13% annually, reaching approximately INR 23 lakh crore in FY 2023 (8.3% of GDP) (Dasra & Bain India Philanthropy Report, 2024). The social sector organisations, or the Social Purpose Organisations (SPOs), play a critical role in addressing pressing social, environmental, and economic challenges.

However, SPOs themselves face numerous critical challenges in meeting the growing expectations of their stakeholders, such as addressing complex regulatory, financial, and governance compliance responsibilities that can strain their limited resources. Smaller SPOs, in particular, feel the burden of these requirements more acutely, which can detract from their core mission and limit their impact in the communities they serve.

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This Needs Assessment Study on Compliance & Reporting for Social Purpose Organisations (SPOs) in India, conducted by the Indian School of Development Management (ISDM) in partnership with **NAVGRAAM,** seeks to explore the current state of compliance in the SPO sector. It identifies key challenges faced by SPOs of varying sizes and across different sectors. The study aims to assess their compliance capabilities, examine their capacity gaps, and propose holistic solutions that support sustainable growth for these organisations.

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Objectives of the Study

The objective of this study is to understand the compliance and reporting challenges faced by SPOs in India and provide actionable recommendations that improve their ability to meet regulatory standards. Specifically, the study seeks to:

Assess the needs, challenges, and priorities of SPOs related to compliance and reporting.

Identify best practices that can be adopted by SPOs to enhance their good governance mechanisms.

Provide tailored recommendations for specific stakeholders.

Engage with key stakeholders to ensure the recommendations are holistic and practical.

[2]*Jagtiani, T. (n.d.). The laws that govern India's nonprofits: 10 things you should know about the current legal framework.*
[3] *International Center for Not-for-Profit Law (ICNL). (2022, March). The regulatory regime debilitating India's nonprofit sector: Death by a thousand cuts.*

Study Goals

The goals of this study are aligned with the broader mission of improving governance and accountability capacities in the non-profit sector in India. The specific goals are

Capacity Building
To identify the training and development needs of SPO related to governance and compliance.

Technology and Resources
To explore the potential of technology adoption in improving good governance, policies, and practices.

Strategic Recommendations
To offer a framework for SPOs, government entities, funders and ecosystem enablers that promotes governance and accountability systems.

Stakeholder Engagement
To facilitate conversations ensuring all perspectives are considered in building an ecosystem conducive to SPO success.
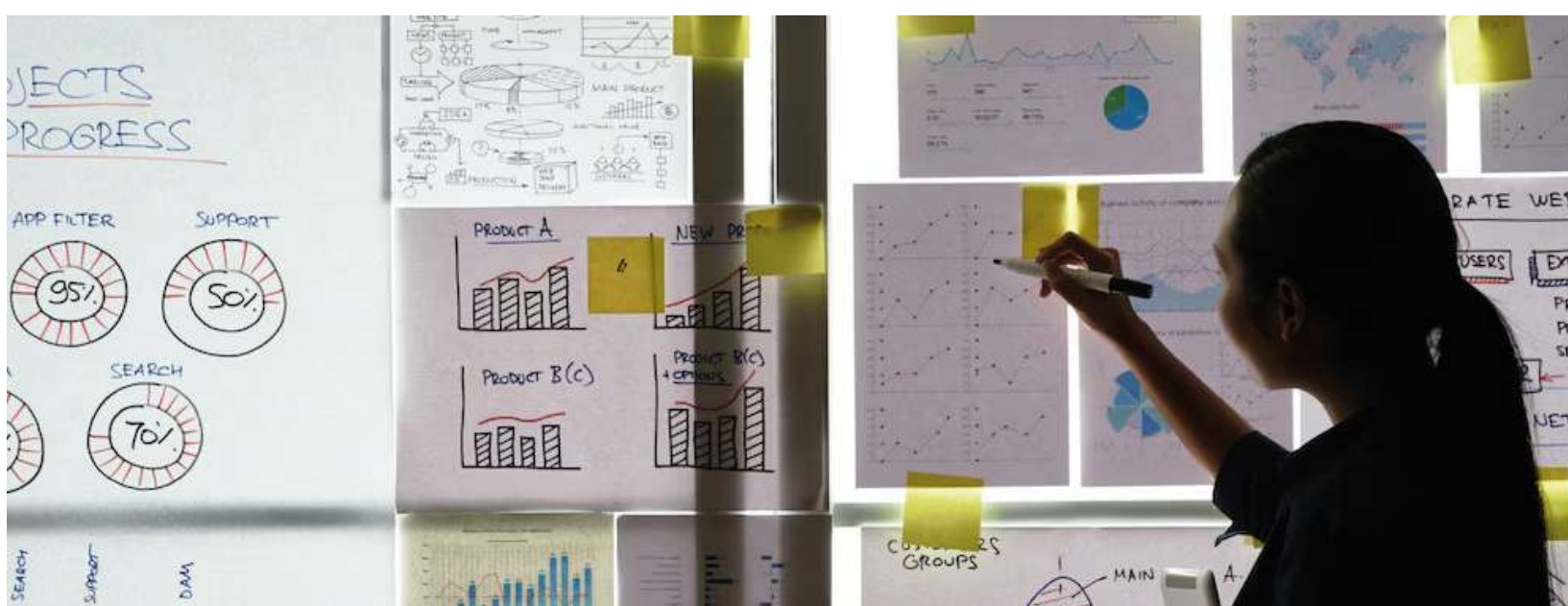
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Research Methodology

A mixed-methods approach was utilised, combining quantitative and qualitative data collection including both primary and secondary data from various public portals and reports to provide in-depth insights into the compliance and governance landscape of the SPO sector. .

To ensure a diverse and representative sample of SPOs across India, the NGO Darpan database of Niti Aayog was used as the basis for selecting SPOs across different zones and states. However, as no specific data on SPO size, thematic focus, or registration type was available from authentic sources, a purposive sampling strategy was employed. This approach enabled the inclusion of a wide variety of SPOs, to the greatest extent possible, based on criteria such as geographical location, organisational size, and thematic focus.

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The country was divided into six zones (North, South, East, West, Central, and North-East) to ensure regional representation, and SPOs were categorised by size: small (₹50 lakh to ₹5 crore),and large (above ₹ 5 crore and above). The sample also included organisations working in diverse thematic areas which are covered under the United Nations Sustainable Development Goals (UN SDGs).

Methodology Limitations

While the study provides valuable insights, it also presents some limitations due to constraints in available resources and time. The sample size of 136 is not statistically significant for broader generalisations, and although purposive sampling aimed to ensure diversity, it may limit generalizability

Limited geographical representation may underrepresent certain regions, and the lack of active participation from large-scale SPOs (with revenues above ₹30 crore), although a few did participate, narrowed the respondent pool primarily to small and mid-sized SPOs

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Data collection and analysis

Stakeholder ecosystem

Stakeholders who participated in the surveys included -

SPO leaders
from various sectors and regions

Funders
such as CSR agencies, philanthropies

Government Bodies

Compliance experts

Ecosystem enablers
capacity-building intermediaries and consultants

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Quantitative Data Collection

The study involved a survey of 136 SPOs from across India, capturing a diverse range of organisations based on their size, operational scale, thematic focus, and geographical distribution. The data was collected through a combination of online and telephonic surveys, ensuring participation from regions with limited internet access.

136	Google KoboToolbox
Total SPOs Surveyed	Survey Platform

Survey Focus

Regulatory and statutory compliance, internal governance, donor/project compliance, and capacity-building needs

Qualitative Data Collection

In parallel, qualitative data was collected through in-depth interviews and Focus Group Discussions (FGDs) with key stakeholders to gain insights into the operational challenges and compliance mechanisms of SPOs.

The SPOs were selected using **purposive sampling** to ensure participants had relevant compliance and governance experience, with representation from diverse organisational sizes and regions to capture a wide range of perspectives on operational challenges.

Focus Group Discussions (FGDs) were conducted at the zonal level to gather region-specific insights and challenges faced by SPOs.

Total Qualitative Interviews: 50

23 In-depth interviews with *SPO Leaders*	**15** Qualitative interviews with *Experts*
6 Qualitative interviews with *Funders*	**6** Focus group discussions, 1 FGD each in each zone

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SPO Survey Participation Overview

The participating SPOs were classified based on their geographical location, budget size, and thematic focus.

SPO Registration Types

- **58%** SPOs in India constituting the majority are registered under the Societies Registration Act of 1860.

- Registrations under the Indian Trusts Act of 1882 are **(24%)** and as Bombay Public Trust Act are **(8%)**

Budget Size

SPOs were categorised into two main budget categories

Small SPO
Below ₹5 crore: 113 SPOs

Large SPO
Above ₹5 crore: 23 SPOs

Zone-wise Participation

Southern India accounts for the highest proportion of SPO survey responses, contributing approximately **37%** to **39%,** followed by the Northern zone at **26%.**

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SDG Priorities

SPOs predominantly prioritise Sustainable Development Goal (SDG) 4 (Quality Education) and SDG 1 (No Poverty). They also exhibit considerable engagement with SDG 8 (Decent Work) and SDG 3 (Good Health and Well-being).

- **SDG 4 - Quality Education: The most common thematic area, with 77% of SPOs engaging in education-focused activities.**

- **SDG 1 - No Poverty: 65% of SPOs focused on livelihoods.**

- **SDG 8 - Decent Work and Economic Growth: 64% of SPOs emphasised skill development and employment.**

Budget Influence on SDGs

Larger SPOs (with budgets exceeding ₹5 crore) display increased involvement in SDG 13 (Climate Action) and SDG 6 (Clean Water), whereas smaller SPOs tend to concentrate their efforts on gender equality and livelihoods.

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SPO Size by Employees

- Small SPOs employ fewer staff, whereas larger SPOs tend to have a higher number of both, full-time and part-time personnel

- SPOs employing over 100 employees are more frequently found in large SPOS reflecting the organisational scale and resource capacity of larger SPOs.

Total Stakeholders Engaged

136
SPOs as part of the Quantitative Survey

06
Zonal Focused group discussion included more than 54 SPO leaders

06
Funders and donors' qualitative interviews

15
Compliance experts' qualitative interviews

23
SPO Leaders as part of the qualitative interviews

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Data Analysis

After data collection, the analysis was conducted using tools appropriate for the type of data:

Quantitative Data Analysis

The survey data was analysed using Excel to identify trends, patterns, and compliance gaps. The data was cleaned, coded, and summarised in tabular and graphical formats to highlight key findings.

Qualitative Data Analysis

The interviews were analysed using Delve software, which allowed the research team to conduct thematic analysis. This helped in identifying recurring challenges, best practices, and innovative solutions used by SPOs to meet compliance requirements.

The combined analysis offered a detailed and comprehensive understanding of the compliance landscape for SPOs, resulting in specific recommendations for SPOs, government agencies, and ecosystem enablers.

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Findings and Discussions

In the study on 'Good Governance and Accountability Systems' through compliance and reporting, the research focused on the following three broad areas:

Statutory and Regulatory Compliances

Internal Governance

Donor/Project-specific Compliances

This section provides a structured analysis of the current governance landscape for Social Purpose Organisations (SPOs), detailing the core challenges they face in compliance and resource management along with effective best practices that can be adopted and replicated by other SPOs.

The findings and insights are drawn from the interviews with SPO leaders, intermediaries, and donors .

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SPO Statutory and Regulatory Compliances

Definition

Regulatory Compliance: This refers to adhering to rules, guidelines, and regulations imposed by government agencies or industry regulators. Regulatory compliance varies by sector and may change as policies evolve. Example: Compliance with the rules set by the Charity Commissioner or any guidelines from the Ministry of Corporate Affairs for NPOs.

Statutory Compliance: This entails mandatory legal obligations imposed by laws and acts of legislation. It typically involves adherence to fixed legal requirements prescribed by the government. Example: Filing tax returns, adhering to the Companies Act, 2013, or Income Tax Act, 1961. Table 3.1 highlights the differentiating features of regulatory and statutory compliances .

Table: Distinguishing features of regulatory versus statutory compliance

CRITERIA	REGULATORY COMPLIANCE	STATUTORY COMPLIANCE
Nature	Guidelines, rules, or regulations by government agencies	Legal obligations from enacted laws
Source	Government agencies or industry regulators	Government-enacted laws and acts
Examples	MCA Guidelines, Charity Commissioner regulations	Companies Act 2013, Income Tax Act, FCRA

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CRITERIA	REGULATORY COMPLIANCE	STATUTORY COMPLIANCE
Enforcement	Regulatory bodies (e.g., MCA, Charity Commissioner, Registrar of Societies)	Legal bodies (e.g., Courts, Tax Authorities)
Penalty for Non-Compliance	Fines, suspension of registration, withdrawal of benefits	Legal action, penalties, fines or imprisonment
Reporting Requirements	Regular reporting based on specific regulations	Mandatory annual filings (e.g., tax returns, FCRA filings)

Regulatory and statutory compliances encompass the legal obligations imposed on SPOs by government bodies. These obligations ensure that SPOs operate within the legal frameworks established to regulate the sector. Compliance in this area is mandatory, and failure to adhere can result in fines, penalties, or legal actions that can disrupt operations.

Insights from the study

Highlights

→ **Nearly all SPOs maintain essential registrations like PAN, TAN, and 12A, with large SPOs excelling in 80G and FCRA compliance**

→ **Complex tasks like audits and tax filings are outsourced**

→ **Simpler tasks like ESIC and gratuity valuation are managed internally**

→ **Despite overall compliance with POSH and CPP, significant gaps exist**

Compliance for critical areas: SPOs exhibit strong compliance with mandatory statutory and regulatory requirements.

Compliance for critical areas such as income tax returns and FCRA filings are nearly 100%.

- This reflects a significant commitment by SPOs to adhere to legal and financial obligations
- The high compliance levels can be attributed to the proactive measures many SPOs have implemented, including regular audits and staff training on compliance matters.

Disclaimer - The findings and insights are emerging from the primary research (KII, IDI, questionnaires) undertaken with respondents (SPO leaders, intermediaries, funders/ donors, etc.)

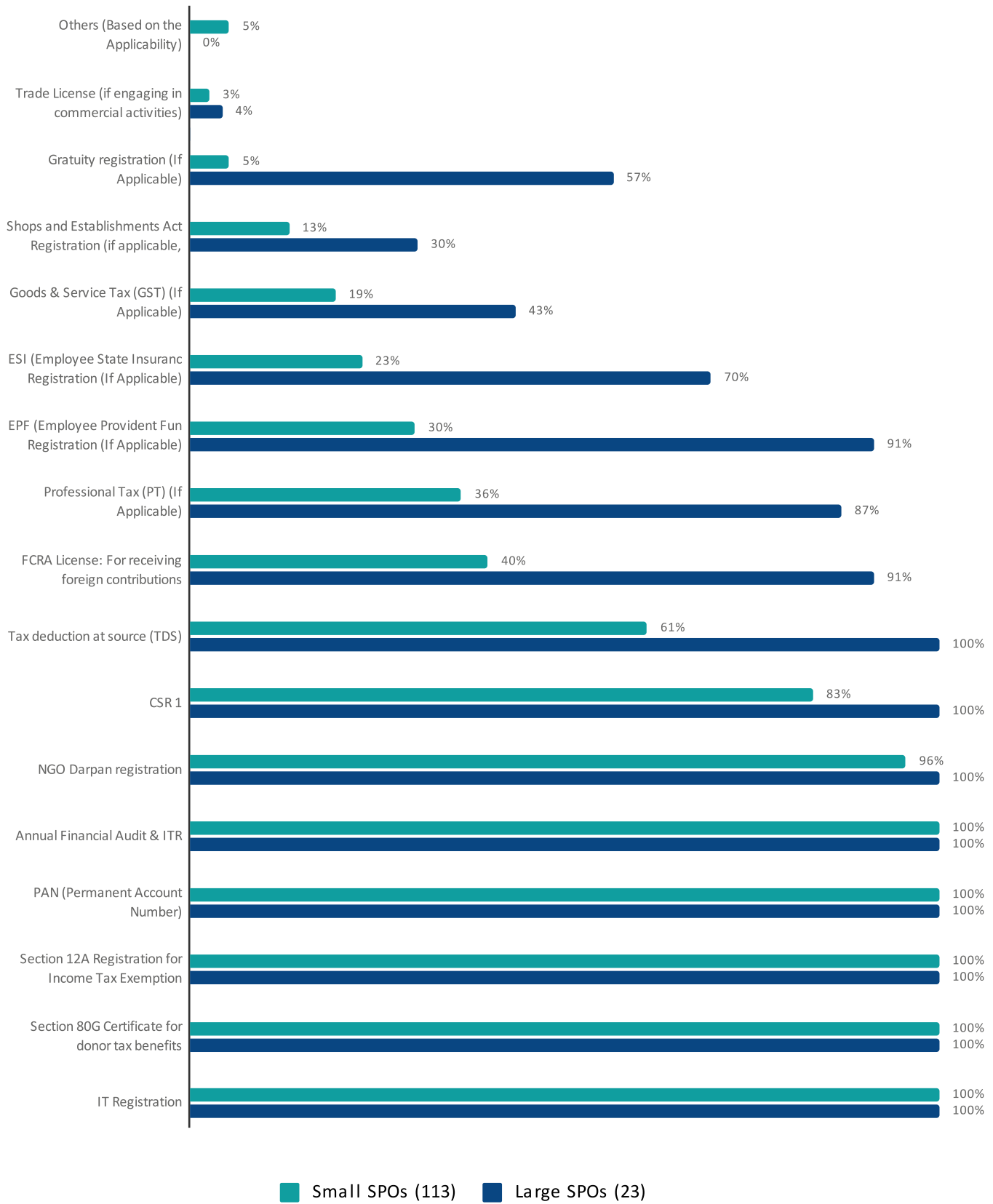## Compliance rates vary significantly by organisational budget size.

- larger SPOs achieve higher compliance due to greater resource availability.

- smaller SPOs encounter challenges such as resource constraints and lack of awareness on regulatory complexity.

Patterns of Compliance Across SPO Sizes:

- **Larger SPOs exhibit 100% compliance in essential filings, such as Income Tax and Tax Deducted at Source (TDS) submissions.**

- They also show strong adherence to GST and Gratuity Valuation requirements,- areas where smaller SPOs often struggle. Conversely, smaller SPOS show lower compliance rates in categories like Employees' Provident Fund (EPF), Employees' State Insurance Corporation (ESIC), and Foreign Contribution Regulation Act (FCRA) returns, frequently due to resource and expertise constraints.

- Certain filings, like Income Tax and TDS filings, maintain high compliance overall, underscoring their importance. In contrast, tasks like Gratuity Valuation and ESIC filings report lower adherence, reflecting challenges related to due diligence or limited resources. Management approaches also vary significantly, with complex tasks such as GST and FCRA compliance predominantly outsourced, indicating the need for specialised knowledge.

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Mandatory Compliance Registrations

Category	Small SPOs	Large SPOs
Others (Based on the Applicability)	5%	0%
Trade License (if engaging in commercial activities)	3%	4%
Gratuity registration (If Applicable)	5%	57%
Shops and Establishments Act Registration (if applicable,	13%	30%
Goods & Service Tax (GST) (If Applicable)	19%	43%
ESI (Employee State Insuranc Registration (If Applicable)	23%	70%
EPF (Employee Provident Fun Registration (If Applicable)	30%	91%
Professional Tax (PT) (If Applicable)	36%	87%
FCRA License: For receiving foreign contributions	40%	91%
Tax deduction at source (TDS)	61%	100%
CSR 1	83%	100%
NGO Darpan registration	96%	100%
Annual Financial Audit & ITR	100%	100%
PAN (Permanent Account Number)	100%	100%
Section 12A Registration for Income Tax Exemption	100%	100%
Section 80G Certificate for donor tax benefits	100%	100%
IT Registration	100%	100%

Small SPOs (113)   Large SPOs (23)

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Internal vs. External Compliance Management: A pattern emerges in how SPOs manage compliance obligations-

- Tasks such as audits, income tax returns, and GST filings are often managed externally due to their complexity.

- Tasks like TDS and EPF returns exhibit a more balanced internal-external management approach, suggesting that SPOs select strategies based on familiarity and available resources.

- ESIC and gratuity valuation are usually managed internally, likely due to perceptions of simplicity or a preference among smaller SPOs to handle these tasks in-house.

Compliance outsourcing among organisations is increasingly driven by internal capability gaps, legal ambiguities, and the demand for specialised skills.

- Larger organisations, predominantly outsource compliance to satisfy statutory mandates, while smaller SPOS often cite a lack of internal expertise and a need for specialised knowledge as primary motivators.

- Approximately 44–45% of both small and large organisations struggle with internal competency, suggesting a widespread need for expertise.

- Larger organisations also face greater challenges in navigating ambiguous laws (43% compared to 31% for smaller organisations), likely due to more complex regulatory obligations.

- The need for advanced compliance knowledge and skills is more pronounced in smaller organisations, with half identifying this as a key reason for outsourcing.

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POSH and CPP Policy: SPOs show high levels of compliance with POSH and CPP (Child Protection Policy) policies, though reporting practices and policy visibility on notice boards require improvement.

- Both small and large SPOs report an overall 82% compliance rate in POSH policy availability (91% for larger and 73% for smaller organisations).

- However, adherence to the annual POSH report submission requirement is low, with only 43% compliance, indicating a general lack of awareness (35% of SPOs are unaware of this obligation).

- POSH sensitisation workshops are widely conducted (85% overall), with larger SPOs achieving full compliance (100%) compared to 69% among smaller ones.

- POSH policy visibility through notice boards is similarly strong, with 82% compliance (91% in larger, 73% in smaller SPOs).

- Compliance for CPP policy availability stands at 76% overall (78% for larger and 74% for smaller SPOs), and CPP sensitisation workshops see equal participation across organisation sizes at 78%.

- However, displaying CPP policies on notice boards is the least followed practice, with 54% adherence overall (52% in larger, 57% in smaller SPOs), highlighting a need for improved policy visibility.

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Section 8 companies exhibit strong adherence to core compliance obligations such as AOC-4 and MGT-7 filings (90% compliance), yet smaller SPOs lag in Corporate Social Responsibility (CSR) reporting (50% compliance).

- Larger entities demonstrate near-universal compliance across these areas, reflecting greater resource availability.

- However, a focus on bridging expertise and awareness gaps in smaller organisations could enhance overall compliance rates.

Key Challenges

Complex Tax Compliance:

- Smaller SPOs struggle more due to limited internal expertise in navigating Goods and Services Tax (GST), Tax Deducted at Source (TDS), and income tax regulations.

- Regular changes in tax regulations leads to potential errors and penalties.

- limited access to qualified chartered accountants

  (Please refer to the annexure (Table 5.7))

Outsourcing Preference and Capacity Gaps:

- Smaller SPOs commonly outsourced functions like income tax, GST, TDS, Employees' Provident Fund (EPF), and professional tax filings to consultants.

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- While outsourcing offers specialised expertise, it creates dependency, raising concerns about the long-term sustainability of compliance practices without internal skill development.

Administrative Burden:

- Increasingly complex regulatory requirements demand extensive documentation and data management, placing a significant administrative load on SPOs, particularly those with limited staffing.

Challenges in Larger SPOs:

- Larger SPOs with multi-jurisdictional operations face additional compliance complexities, requiring dedicated resources to meet diverse regulatory standards.

- **Compliance requirements, such as those under the Prevention of Sexual Harassment (POSH) and Code of Conduct (CPP) policies, necessitate a balance between outsourcing tasks and building in-house compliance capacity to ensure sustainable internal governance practices.**

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Resource Constraints in Smaller SPOs:

- Small SPOs face resource limitations that hinder their ability to meet compliance standards.

- Limited funding restricts their ability to develop internal expertise, leaving them vulnerable to lapses in compliance.

Inconsistent Internal Capabilities:

- Many SPOs handle simpler compliance tasks, such as ESIC and EPF filings, internally, but their capacity to standardise processes varies, resulting in inconsistent compliance rates.

- This highlights a need for training and standardised support frameworks across the sector.

Perceived Barrier to Operations:

- Smaller SPOs often view compliance as a significant operational barrier, partly due to concerns over resource limitations and a lack of confidence in managing compliance internally.

- This perception can lead to the neglect of essential compliance tasks, potentially compromising legal standing.

Challenges with SPO Registration:

- Inconsistencies in SPO registration processes across states create legal recognition challenges, while stringent FCRA requirements add to these hurdles, especially for SPOs seeking foreign funding.

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- These obstacles contribute to the perception that the sector operates under heightened scrutiny, complicating SPO efforts to secure resources and establish legal recognition.

Negative Public Perception:

- The sector faces public scepticism, often exacerbated by negative media coverage surrounding FCRA registration cancellations.

- This perception can undermine trust, further complicating relationships with regulatory bodies and increasing scrutiny for affected organisations.

Best Practices

To ensure robust statutory and/or regulatory compliance, larger SPOs adopt several best practices, leveraging internal expertise, technology, and sector support, which include:

Dedicated Compliance Teams and Internal Capacity Building:

- A few large SPOs often maintain dedicated compliance teams responsible for overseeing statutory requirements and maintaining internal control systems.

Internal and External Audits:

- Routine internal and external audits enable a few larger SPOs to proactively identify and rectify compliance gaps

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Technology Utilisation for Regulatory Updates:

- Leveraging technology platforms that offer automatic updates on regulatory changes allows larger SPOS to respond promptly to evolving legal requirements.

- These platforms streamline compliance tracking, minimise administrative burdens, and ensure that teams stay up-to-date with all relevant regulations.

Collaboration with Sector-Specific Forums and Alliances:

- Engagement with sector forums such as VANI, Credibility Alliance, CAP, FMSF and Aria CFO aids in reducing compliance complexity.

- These forums provide educational resources, regulatory updates, and training, empowering larger SPOs to better manage responsibilities

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SPO Internal Governance

Definition

The internal governance policy framework for Social Purpose Organisations (SPOs) in India is characterised by the absence of mandatory internal compliance standards beyond foundational documents required at registration, such as by-laws, trust deeds, or memorandum of association. Commonly maintained policies and guidelines among SPOs illustrate this complex landscape and reveal areas for improvement. Among the most prevalent governance policies are the Board and Management Governance Policy, Conflict of Interest Policy, Code of Conduct and Ethics, Financial Policy, HR Policies, Procurement Policies, Gender Equality and Diversity Policy, Data Privacy and Security Policy, Transparency and Accountability Policies, Child Protection Policy (CPP), Whistleblower Protection Policy, Sexual Harassment Prevention (POSH) Policy, Risk Management and Internal Controls, Anti-Money Laundering (AML) Compliance Policy etc.

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Insights from the study

Highlights

→ **Donor-driven internal compliance management systems often fail to align with the operational needs of SPOs.**

→ **Over one-third of SPOs rely on external voluntary support of policy formulation.**

→ **In the majority (60%) of SPOs, regular employee training on policies is not prioritised.**

→ **A staggering 80% of the SPOs are failing to comply with critical regulations, on Health and Safety policies, employee state insurance, and gratuity payments**

Governing Body Engagement: Active participation of governing body members varies significantly, with larger SPOs showing higher involvement (90%) in tasks like financial reviews and compliance checks, whereas smaller SPOs show limited engagement (below 50%).

Policy Development Capability: Approximately 65% of large SPOs and 57% of small SPOs can independently develop internal policies; however, smaller organisations often seek voluntary

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external expertise. This reveals a significant reliance on external professional support among more than one-third of SPOs, often without formal financial allocation for these services, indicating a potential area for capacity-building within smaller organisations. More than one-third SPO's still heavily depend on external professionals for support in developing their organisational policies.

Internal Audit Practices: A majority of SPOs conduct quarterly (57% of large, 31% of small organisations) or annual audits (50% of small, 17% of large organisations); however, 16% lack regular audit protocols, which impacts overall oversight.

Departmentalisation: Core departments like finance and administration, are widely established in most SPOs (77-79% of SPOs), however, smaller SPOs often lack specialised departments (e.g., IT, research), limiting their capacity for technology integration and advocacy.

HR & Labour Compliance: Larger SPOs demonstrate better adherence to HR compliance (100% for payroll), while smaller SPOs often face constraints, leading to the lowest compliance in gratuity (10%).

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Financial Management Software: Tally is widely used (50%), with some SPOs using various software tools, including Clear Tax, Saral, Zen, GreytHR, Tally, Zoho Books, Quick FMS, LexComply, Compfie, VComply, and Avalara, especially smaller ones seeking cost-effective solutions. About 15% still use manual methods.

Policy Training: Regular training on organisational policies is low (under 40%), with a significant portion conducting these only occasionally, highlighting an area for improvement.

Key Challenges

Technicalities of Compliances: SPOs struggle with more nuanced legal requirements due to lack of awareness, internal capacities, and resources to hire external expertise. Only 21% understand the need for prior approval for modifications to trust deeds/bylaws, and merely 27% comply with filing Form FC-6 under the FCRA. This gap poses compliance risks and potential penalties.

Governing Body Engagement: Smaller SPOs report low engagement from governing bodies, often resulting in "Sleeping Board Members" that delay crucial decisions.

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Resource Constraints: Approximately 80% of SPOs, especially smaller ones, face financial and staffing limitations that hinder effective compliance. Smaller SPOs cite resource constraints as their primary compliance challenge, with 70% identifying this as a critical issue.

Regional Disparities in Compliance Awareness and Costs: Compliance awareness varies by region, with Central and Southern regions showing higher understanding, likely due to better networks and resources. The East and West regions lag behind, with 50% of SPOs in North and East India facing high compliance costs due to reliance on external consultants.

Impact of Non-Compliance: Compliance lapses affect 40-50% of SPOs, leading to financial penalties, interruptions in programs, and a decline in stakeholder trust. Smaller SPOs are more vulnerable, with 50% receiving non-compliance notices compared to 40% of larger SPOs.

Need for Dedicated Compliance Teams: While 30% of larger SPOs have dedicated compliance teams, smaller SPOs generally outsource or assign compliance tasks to staff handling multiple roles. Dedicated teams could significantly improve compliance and reduce risks associated with regulatory requirements.

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Best Practices

Active Governing Body Participation: Approximately 60% of SPOs report active involvement from their governing bodies in budgeting and policy approval, establishing a benchmark for effective governance.

Audit Practices: Regular audits are conducted quarterly or annually, support transparency and risk management, with larger SPOs more likely to conduct quarterly audits.

Board-Led Compliance Oversight: 90% of larger SPOs practise board-led compliance through regular governance meetings.

Structured Board Meetings: Among large SPOs, 91% hold structured board meetings focused on compliance reviews and policy decisions.

Comprehensive HR Compliance: Larger SPOs have robust HR compliance systems for EPF, ESI, and labour law adherence (91% compliance rate), while smaller SPOs typically outsource these funct

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SPO Funder/Donor and Project Compliance

Definition

SPOs are increasingly held to stringent compliance and reporting standards as part of their agreements with donors and funders. These requirements are essential for ensuring transparency, accountability, and the effective use of funds, as they enable donors to monitor the progress, impact, and outcomes of the projects they support. Compliance with these obligations typically spans several critical areas, each crucial for maintaining robust donor relations and securing future funding.

Grant Agreements and Terms: SPOs must adhere to the specific terms set within grant agreements, encompassing financial, operational, and impact-related targets. This often includes submitting periodic progress reports, financial statements, and narrative updates to demonstrate ongoing alignment with donor objectives and expectations.

Financial Reporting and Fund Utilisation: Detailed financial reporting is essential for demonstrating responsible fund utilisation. SPOs are required to provide fund utilisation reports and, in some cases, audited financial statements to document the alignment of expenditures with donor guidelines, thus ensuring fiscal accountability.

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Grant Agreements and Terms: Regular project monitoring is a fundamental requirement, involving the tracking of project outputs, outcomes, and impact metrics. This necessitates the submission of Monitoring and Evaluation (M&E) reports and progress updates to validate the achievement of set objectives, thereby giving donors confidence in the effective execution of their investments.

Sustainability and Exit Strategy: Donors increasingly emphasize the importance of sustainable project outcomes and well-defined exit strategies. SPOs are thus expected to provide sustainability reports and final project evaluations, detailing how initiatives will be maintained post-funding, which is essential for ensuring long-term impact.

Budget Revisions and Approvals: In cases where budget adjustments are necessary, SPOs are typically required to seek donor approval for any changes in fund allocation or project scope. This involves submitting revised budgets and obtaining formal approvals to maintain donor confidence and ensure continued support for project modifications.

Impact Reporting: Donors often require SPOs to provide comprehensive assessments of the social, economic, or environmental impacts of funded projects. This involves submitting annual impact reports and social audit findings,

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offering quantitative and qualitative insights into the project's contribution to broader development goals.

Donor Compliance Audits: Finally, donor-initiated compliance audits serve as a mechanism to assess fund utilisation and project performance. SPOs are expected to fully participate in these audits and financial reviews, allowing donors to verify that their funds have been utilised responsibly and as intended.

Insights from the study

Highlights

→ **Over 50% of small NPOs either compromise on program deliverables or face donor penalties for failing to comply**

→ **Nearly all funders provide restricted or project-based funding, making compliance a constant struggle for SPOs**

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Compliance Complexity and Limited Understanding:

- 56.64% of small SPOs report difficulties in understanding and interpreting complex donor requirements.

- 49.56% struggle with timely submission of necessary reports and documentation.

- 46.9% face resource limitations for effective compliance management.

- Among larger SPOs, 56% experience challenges in managing distinct requirements from multiple donors simultaneously.

Resource Constraints and Operational Gaps:

- Smaller SPOs face greater burdens due to limited resources, resulting in financial penalties, program delays, and higher compliance costs.

- Many smaller organisations cannot afford dedicated compliance teams and often rely on multitasking staff or outsourcing.

Diverse Donor Expectations and Reporting Standards:

- Donors require varied reporting formats for financial statements, progress reports, and impact assessments, leading to inefficiencies.

- Compliance demands vary depending on donor funding sources, adding further complexity.

- Funding conditions differ, with some donors restricting fund allocation to project-specific activities and excluding administrative overheads.

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Impact of Non-Compliance:

- Non-compliance results in penalties, loss of stakeholder trust, and interruptions in funding or project execution, impacting 40-50% of SPOs.

Key Challenges for SPOs

Complex Reporting and Compliance Requirements:

- Varied donor-specific regulations, especially from CSR funders and PSUs, require SPOs to produce extensive documentation, which strains resources and time.

- CSR fund utilisation timelines, particularly with March 31 deadlines, pressure SPOs to align project milestones within restrictive fiscal cycles.

Underfunding of Operational and Compliance Costs:

- Donor funding often prioritises direct project expenses, overlooking necessary operational costs, such as HR and technology, which are crucial for compliance.

- Lack of operational funding limits SPOs' abilities to employ skilled personnel or engage external compliance experts, increasing the risk of non-compliance.

- Inability to compute direct project expenses correctly- e.g. program team salary often does not include EPF/ESI components.

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Dependency on Restricted, Instalment-Based Funding:

- Reliance on instalment-based, restricted funding creates financial insecurity and limits flexibility.

- Fiscal constraints imposed by donors' pressure SPOs to spend funds quickly, even when program needs would benefit from flexibility.

Impact Reporting and Assessment Challenges:

- Stringent impact metrics, especially from CSR donors, place demands on SPOs for quantitative data, which can be challenging for organisations with limited resources.

- Smaller SPOs struggle with generating detailed impact reports, although they may excel in on-the-ground delivery.

Operational Strain from Multiple Audits:

- Multiple audits for various projects, required by different donors, place significant financial and administrative strain on SPOs.

- The lack of standardised accounting practices and varying audit schedules creates logistical and financial challenges for maintaining compliance.

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Best Practices

Despite the challenges, a series of best practices have emerged that funders are adopting to create impactful, accountable, and supportive relationships with Social Purpose Organisation Partners (SPOs). These practices aim not only to streamline compliance processes but also to deepen partnerships, ensuring that projects are effectively managed and produce meaningful, long-term results.

Comprehensive Evaluation Processes:

- Funders are now conducting thorough evaluations of potential SPO partners through multiple stages. This includes peer feedback, direct field visits, and assessments of compliance with donor standards.

- Funders invest time in assessing an SPOs' operational capabilities and credibility, enabling them to tailor support to the organisation's needs.

Implementing Structured Monitoring and Reporting Frameworks:

- By developing structured frameworks for monitoring and reporting frameworks, funders facilitate regular tracking of progress, ensuring that SPOs can meet reporting requirements accurately and efficiently.

- Rather than focusing solely on quantitative metrics, funders now prioritise outcome-based reporting to assess real-world impact.

- This shift allows funders to evaluate the substantive changes that SPO programs bring about in communities, looking beyond numbers to measure social effectiveness.

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Providing Capacity-Building Support for Smaller SPOs:

- Recognizing the unique challenges smaller SPOs face, a few funders offer guidance and capacity-building resources to SPOs

Adopting a Co-Creation Approach in Funding:

- Through collaborative engagement, funders work alongside SPOs in setting goals, refining strategies, and ensuring alignment with community needs..

Engagement Through Regular Best Practices and Town Halls:

- Regular engagement practices, such as quarterly town hall meetings, proactive reporting systems, and structured monitoring frameworks, facilitate open dialogue.

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Study Recommendation

The study highlights the critical need for collaborative efforts among SPOs, the government, and ecosystem enablers to enhance compliance and reporting capacities. Below are tailored recommendations for each stakeholder:

Recommendations for Social Purpose Organisations

- Invest in continuous staff training on compliances (tax laws, financial management, etc.) to reduce reliance on consultants, improve governance, and boost self-sufficiency.

- Annually map skill gaps to seek targeted support from donors.

- Maximise the use of software like Tally or Zoho Books to standardise processes and ensure error-free, transparent, and easy compliance.

- Enhance board members' capacity in legal and financial compliance to boost their involvement in audits and policy development.

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Internal Capacity Building of SPOs:

- Invest in continuous training for staff on compliance-related areas, including tax laws, financial management, and donor reporting. Prioritising internal capacity-building will reduce reliance on external consultants, improve internal governance, and enhance organisational self-sufficiency.

- Focus on skill development within core teams, particularly around statutory requirements (Income Tax, FCRA, GST) to maintain compliance and governance excellence.

- SPOs are required to have the information on the competence they have and competence they need, so that they can request for the support from the donor. Mapping skills and knowledge, understanding the gaps should be an annual exercise.

Adopt Technology Solutions:

- Leverage compliance management software such as Tally, Zoho Books, or other automated tools to streamline financial reporting, statutory filings, and governance processes. Automating these functions will reduce administrative errors, save time, and improve transparency.

- Encourage staff adoption and use of these tools through targeted training, ensuring that the technology integrates seamlessly into daily operations.

Strengthen Governance Practices:

- Regularise board meetings with a focus on compliance and governance oversight. Ensure that board members are actively engaged in

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decision-making around financial and regulatory matters. SPOs may also plan to have different professionals in the board such as law and finance on the board to enable more effective contribution and engagement.

- Conduct frequent internal and external audits to ensure adherence to statutory requirements. Establish internal policies on compliance and governance to standardise operational procedures across the organisation.

- Tailor governance models to fit the size and needs of the SPO, ensuring that even smaller organisations implement effective compliance frameworks.

Establishing a Self-Regulatory Body for SPOs to Address Governance and Compliance Challenges

- An officially recognised self-regulatory authority could play a pivotal role in addressing the sector's ambiguities and governance challenges, offering guidance on compliance standards, operational best practices, and sectoral consistency.

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Recommendations to The Government

- → **Consider establishing a dedicated regulatory body to streamline processes for SPOs, enabling greater impact by ensuring compliance and reducing administrative burden.**

- → **Use SPOs' annual financial filings with the Income Tax Department as a basis for renewal, eliminating redundant processes and linking systems (like PAN and bank accounts) for efficient compliance.**

- → **Foster a national registration process for SPOs with a localized grievance mechanism to ensure clear operations and smooth compliance.**

Defining and Classifying SPOs for Enhanced Support and Sectoral Clarity

- ● In light of recent developments, such as the Social Stock Exchange, SPOs are increasingly expected to operate with an enterprise-like mindset. To adapt to this evolving ecosystem, **establishing a clear and structured framework for defining and classifying SPOs is essential.**

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Establishing an Authority or A Department for SPO Facilitation and Support

- This authority could streamline processes, provide clarity on statutory requirements, and serve as a go-to resource for SPOs navigating the regulatory landscape.

- By providing targeted support and advocating for policies that recognise the contributions of SPOs, a dedicated authority would significantly ease operational burdens and promote a more enabling environment.

Streamlining Registration Renewal: Leveraging Existing Compliance to Reduce Burden on SPOs

- The shift from lifetime registration to tenure-based renewals for SPOs, intended to validate their existence and continuity, has inadvertently increased compliance burdens and costs. For instance, SPOs in Assam now need to renew their registration every three years, in Odisha, it is every five years and, in some North,-Eastern states, they must obtain annual revalidation/renewal from the District Magistrate (DM) via SDO office and local police stations. The presence of all the board members required the District Magistrate's (DM's) office.

- An alternative approach could streamline this process without compromising accountability. If SPOs are already mandated to file an Annual Financial Report with the Income Tax Department, this filing could serve as a reliable indicator of their activeness and functioning. The government could consider cancelling the registration of organisations that fail to file this report for three consecutive years.

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- Additionally, leveraging existing technology and linked systems—such as PAN, bank accounts, and income tax registration—could simplify and automate verification processes, significantly easing the compliance load on SPOs while ensuring their accountability. The same may be adopted for 12A and other certification renewals.

- As the best practices of SPOs have to be replicated, and they need to work in multistate, a National Act and authority to register SPOs may be introduced. This will also help to streamline many other compliances and practices without burdening SPOs with added compliances.

- Given the importance of this initiative, NITI Aayog could take the lead in facilitating the establishment of such an authority. Government recognition and support would be essential to ensure legitimacy and provide a foundation for the SPO sector to self-regulate effectively, promoting transparency and strengthening accountability across SPOs nationwide.

Name Registration for SPOs:

- A **unified, national-level registration** process—similar to that used for companies—would streamline SPO registrations, ensuring that each organisation operates under a distinct and identifiable name across the country.

Enhancing Grievance Redressal Mechanism for FCRA-Compliant SPOs

- A localised grievance redressal mechanism would empower SPOs to navigate FCRA requirements more effectively, ensuring smooth and transparent operations in line with regulatory standards.

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Revitalising and Updating the National Policy on the Social Sector

- An updated policy framework would provide a comprehensive roadmap for promoting an enabling environment, ensuring SPOs receive the support, recognition, and resources necessary to maximise their impact. This renewed focus on the National Policy would not only clarify roles and responsibilities but also help streamline the regulatory landscape, making it more conducive for SPOs to contribute effectively to India's development agenda.

Simplify Regulatory Frameworks:

- Introduce standardised national guidelines for SPO compliance, particularly in areas such as tax filings, FCRA regulations, and labour laws. A unified framework will simplify the compliance landscape and ease administrative burdens on SPOs.

- Create streamlined, less burdensome regulatory requirements for smaller and rural-based SPOs, ensuring they can meet compliance expectations without excessive costs or complexity.

Capacity-Building Programs:

- Establish government-sponsored training initiatives for SPOs, especially focusing on compliance with tax laws, FCRA, and labour regulations. These programs should be tailored to smaller and rural-based SPOs that often lack access to such resources.

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- Create outreach programs in local languages, ensuring that training and compliance updates are accessible to all SPOs, regardless of geographic location or scale.

- Implement training programs for government officials to enhance their skills and knowledge in effectively engaging with SPOs. These programs should cover strategic planning, impact assessment, and partnership building to strengthen public-sector collaboration with SPOs, fostering a more responsive and sustainable social impact ecosystem.

Develop Centralised Compliance Portals

- Introducing centralised, user-friendly online portals where SPOs can receive real-time updates on regulatory changes. These portals should provide comprehensive details of all compliance needs and guidelines, enabling knowledge and awareness to compliance processes.

Advancing SPO Compliance and Reporting Excellence: Developing Dedicated SPO Rating Standards

- The emergence of the Social Stock Exchange in India aims to incorporate compliance measures, such as impact assessment standards, into a tailored rating system. This approach will enable SPOs to meet evolving regulatory expectations and better prepare them for the demands of a rapidly changing social investment landscape. However, this framework is only applicable to organisations listed on the Social Stock Exchange.

- It is imperative for the sector to establish dedicated rating standards that empower all stakeholders to strengthen the SPO ecosystem through compliance and reporting excellence, while addressing the primary intent of fostering social and environmental impact.

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Recommendations to Funders, CSR Donors, and Philanthropists

- **Adopt a unified due diligence checklist and accept third-party accreditations (e.g., GuideStar, Credibility Alliance) to promote uniformity and reduce administrative burdens on SPOs.**

- **Budget for compliance and administrative expenses in projects to help SPOs meet regulatory requirements alongside program delivery.**

- **Offer grants or financial incentives to help SPOs build internal compliance systems, invest in technology, and hire qualified staff for better regulatory adherence and operational eficiency.**

Standardising Due Diligence Requirements and Recognizing Accreditation for SPOs

- The due diligence processes conducted by CSR entities and international foundations often pose challenges for Social Purpose Organisations (SPOs), as each donor has its own protocols and checklists. This results in a continually evolving list of policy and Standard Operating Procedure (SOP) expectations, placing additional compliance burdens on SPOs. To streamline these processes, it is essential to establish a common compliance checklist and standardised policy expectations that are agreed upon across donor agencies.

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- Furthermore, donors should recognise and accept established third-party accreditations, such as those provided by GuideStar, Credibility Alliance, and other independent rating bodies. SPOs invest in these accreditations to demonstrate adherence to good governance and transparency practices. By acknowledging these certifications, donor agencies can simplify due diligence, allowing SPOs to focus more on their mission-driven work and less on repetitive administrative requirements.

Financial Support for Compliance Costs

- Inclusion of specific funding for compliance and administrative expenses in project budgets, ensuring SPOs have the resources needed to meet regulatory requirements without compromising on the program delivery.

Providing grants or financial incentives to help SPOs build internal compliance systems, invest in technology, or hire qualified staff for compliance management

- SPOs can be supported by being provided with financial resources that would enable them to strengthen their internal capacity to manage compliance effectively. The lack of dedicated resources in many SPOs often results in compliance-related challenges like, non-adherence to regulatory standards or inefficient reporting practices. Through provision of grants, financial incentives, funders can help SPOs address these gaps and establish more robust compliance systems.

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Recommendations to Ecosystem Enablers and Support Agencies

➜ **Establish an online platform for SPOs sharing best practices, resources, and templates for compliance and reporting.**

➜ **Offer targeted training programs in compliance, reporting standards, and financial management, particularly for smaller SPOs, to strengthen sector-wide compliance skills.**

➜ **Work with regulatory bodies to develop streamlined, standardised compliance policies.**

➜ **Encourage sector-wide dialogue and partnerships to identify key pain points and drive practical policy adjustments enabling SPOs to meet compliance requirements.**

Facilitate Knowledge Sharing

- Organise workshops, webinars, and forums for SPOs to share best practices, lessons learned, and innovative approaches to compliance and reporting.

- Create a knowledge repository or online platform where SPOs can access resources, tools, guidelines, templates, and case studies related to compliance and reporting.

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Enhance Capacity Building

- Offer capacity-building programs focused on compliance management, reporting standards, and financial management for SPOs, especially smaller organisations that may lack resources.

- Partner with academic institutions to provide training and certifications in compliance and reporting for SPO professionals.

- Providing training and technical support to smaller SPOs, ensuring they can maximize the benefits of technology in meeting their compliance obligations.

Support Networking and Collaboration

- Foster collaboration among SPOs, funders, and other stakeholders to develop joint initiatives aimed at improving compliance and reporting practices.

- Create networks or coalitions of SPOs that can collectively address compliance challenges and share resources.

Advocate for Policy Change

- Work with regulatory bodies to advocate for policies that simplify compliance requirements and promote uniform reporting standards across the sector.

- Engage with stakeholders to raise awareness about the challenges faced by SPOs in compliance and reporting, engaging them to develop conducive regulatory frameworks.

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- Encourage ecosystem collaboration to invest in platforms that make compliance and reporting processes smoother and more accessible for SPOs of all sizes.

Develop Tailored Support Programs

- Create customised support programs for different types and sizes of SPOs, recognising their needs and requirements.

- Implement mentorship programs pairing experienced SPOs with those facing compliance challenges, facilitating knowledge transfer and support.

Annexure

List of SPO leaders interviewed

List of Experts Interviewed

Study Graphs and tables

Survey Questionnaire

Link to the Annexure -
https://drive.google.com/file/d/13FC_HB51ZcgRfhqsVygcIg6_Hn7yobfY/view

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