Policy Formulation and Social Entrepreneurship in India: Governance Practices in the Non-Profit Sector

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Abstract

This paper examines how India's evolving policy architecture—spanning corporate social responsibility (CSR), foreign contributions regulation (FCRA), the Social Stock Exchange (SSE), tax-exempt registration, and transparency portals—shapes governance practices in non-profit social enterprises (NPOs). We synthesize statutory and regulatory developments and propose a governance framework that links policy levers to board oversight, financial probity, disclosure, and impact assurance. We find that: (i) policy formalization has deepened compliance and transparency, (ii) fund-raising avenues have diversified through SSE and CSR partnerships, and (iii) capability gaps in research, measurement, and social audit remain binding constraints. The paper closes with actionable recommendations for regulators, boards, and donors.

Keywords: social entrepreneurship, India, governance, CSR, FCRA, Social Stock Exchange, Section 8 company, 12AB, 80G, NGO-DARPAN

1. Introduction

Trusts, societies, and Section 8 enterprises that aim to provide public value while also achieving financial resilience are all examples of social entrepreneurs in India. In contrast to regimes in other nations that have a singular "social enterprise law," India's structure is multi-statute and multi-regulator, creating both room for creativity and a great deal of regulation complexity. Previous research shows that there is a wide variety of legal structures and supporting tools in India's social enterprise area, which is both developed and unregulated [1]. British Councilijmra.us

In recent years, entrepreneurship policy has emerged as a central theme in public policy across the globe, with governments increasingly acknowledging its potential to stimulate inclusive growth and employment generation [2]. A broad body of international research underscores the critical role of entrepreneurs in advancing national economies and enhancing competitiveness [3]. Empirical evidence further demonstrates that knowledge-intensive entrepreneurial activity is particularly beneficial for developing economies such as India, offering opportunities to leapfrog stages of industrial development and integrate more effectively into the global economy [4]. Studies also confirm that improvements in entrepreneurship ecosystems and innovation indices are strongly correlated with per capita income growth and long-term productivity [5]. Simultaneously, global policy initiatives and reports have advanced recommendations to accelerate entrepreneurial activity, strengthen ecosystems, and align policy support with innovation-driven development [6]. In the Indian context, the past decade has witnessed a decisive policy shift towards innovation and entrepreneurship as cornerstones of the national development strategy. Flagship initiatives such as **Start-up India (2016)**, **Stand-up India (2016)**, **Atal Innovation Mission (2016)**, and the **National Innovation and Startup Policy (2019)** were launched to generate employment, promote inclusive growth, and make Indian enterprises globally competitive [7]. These efforts respond to structural and contextual pressures, including the pace of digital transformation, expansion of the service economy, the demand for sustainable and inclusive growth, rising global competition, and the persistent dominance of the informal sector [8]. Recent scholarship has emphasized how innovation and entrepreneurship serve as pathways to address systemic challenges such as unemployment, regional inequality, and the need for renewed social and economic capital [9].

Within this evolving landscape, the Government of India has deepened its commitment to fostering entrepreneurship, not only for economic returns but also for social transformation. The rise of **social entrepreneurship (S-ENT)** is particularly notable, as it provides innovative responses to entrenched social problems through entrepreneurial practices [10].

Although still a developing field, social entrepreneurship in India is steadily gaining visibility as traditional welfare models and state-driven service delivery mechanisms—particularly in health, education, and social protection—struggle to meet citizens' growing expectations for efficiency, sustainability, and equity [11]. Consequently, social enterprises are increasingly recognized as vital actors within India's broader development agenda, despite continuing gaps in policy recognition, regulatory clarity, and ecosystem support [12].

Nevertheless, there is a lack of sectoral acknowledgement and official regulatory frameworks in India's social entrepreneurship scene, which contributes to its fragmentation and lack of clarity [13]. The formation, upkeep, and management of social enterprises (SEs) are not yet covered by any specific policies. Regardless of these caveats, the discipline provides a rare chance to reevaluate fundamental assumptions about economic and social growth and to foster creative responses to long-standing societal problems. To encourage more study in this important and developing area, this paper aims to provide a theoretical policy framework for social entrepreneurship in India. One distinguishing aspect of modern Indian government is the interplay between social entrepreneurship and policymaking processes [14]. Redistribution, regulation, and welfare provisioning were traditionally the main tenets of public policy, reflecting the view of the state as the exclusive protector of social welfare. But as the Indian economy liberalized in the 1990s, social businesses, civil society groups, and non-profit organizations (NPOs) began to play an increasingly larger role in tackling developmental issues [15]. The non-profit sector was able to take root and grow in the wake of policy moves towards participatory development, decentralized governance, and public–private partnerships (PPPs). Government agencies, business entities, and non-profits in India now work together to address social, economic, and environmental issues under a more diversified governance framework.

Social entrepreneurship has emerged as a popular concept in this dynamic setting as a way to merge the values of nonprofits with those of for-profit businesses in a way that is both efficient and innovative while also being sustainable [16]. Social enterprises, in contrast to more conventional forms of charity, place equal emphasis on making a profit and creating a positive social impact; this helps them to become less reliant on donor funding and more resilient over time. Social innovation and non-profit governance are becoming increasingly important in national development strategies, as shown by Indian policy frameworks like the National Policy on Voluntary Sector (2007) and more recent efforts aligned with the Sustainable Development Goals (SDGs) [17]. In light of this new reality, welfare is no longer seen as a state-led charity but as an innovation-driven industry involving multiple stakeholders, and the convergence of policymaking and social entrepreneurship highlights this paradigm change. Volunteer groups, trusts, cooperatives, and corporate foundations are all part of India's large and diverse non-profit industry. In addition to providing vital health, education, livelihood, and gender empowerment services, these groups also vigorously advocate for policies that affect governance practices on regional, state, and federal levels [18]. Important pieces of legislation like the Right to Education Act (2009), the National Rural Employment Guarantee Act (2005), and the Right to Information Act (2005) were largely influenced by non-profits. Their capacity to rally communities, collect data through fieldwork, and test out new models frequently gives lawmakers useful evidence to design social programs [19]. Nevertheless, there are significant obstacles to the governance procedures of India's nonprofit sector, despite their achievements. Conflicts arise between individual freedom and governmental regulation due to factors such as unclear and inconsistent rules, strict compliance with the Foreign Contribution Regulation Act (FCRA), unequal distribution of funds, and concerns about transparency and accountability [20]. There is also a dearth of clear policy frameworks suited to hybrid organizations that straddle the boundary between charity and business, as well as limited institutional support and bureaucratic lethargy, which can make scaling up these enterprises challenging. Thus, governance practices remain a contentious and ever-changing arena, since policymaking can

both facilitate and limit social entrepreneurship.

Understanding the interaction between innovative actors and formal state structures requires examining policy formation and social entrepreneurship in India through the prism of non-profit governance [21]. This perspective helps evaluate whether current governance practices strengthen or weaken the ability of social businesses to generate systemic change in inclusion, sustainability, and accountability. The study therefore seeks to highlight both the potential and the restrictions that shape India's evolving development landscape by positioning social entrepreneurship within the broader debates on governance and public policy [22].

Anil K. Gupta (2016)[23] – Grassroots Innovation: Minds on the Margin are Not Marginal Minds. Gupta documents the Honey Bee Network's decades-long engagement with community innovators, arguing that public policy and incubation systems systematically under-recognize "informal IP" and socio-technical ingenuity in low-income settings. He concludes that inclusive innovation policy must redesign governance around knowledge commons, fair benefit-sharing, and state–civil society intermediation that protects community inventors. Theoretically, the book advances an inclusive innovation / commons lens, reframing social entrepreneurship as co-production between state, universities, and grassroots actors. Penguin Random House IndiaAmazon India **Madhukar Shukla (2020/2021 online) [24] –** Social Entrepreneurship in India: Quarter Idealism and a Pound of Pragmatism. Shukla synthesizes Indian social enterprise cases across sectors, showing how mission-driven ventures navigate regulation, capital, and state interfaces post-liberalization. He concludes that sustainability comes from "pragmatic hybridity"—mixing revenue models, philanthropic capital, and government partnerships—rather than purity of form. His analytic frame draws on institutional logics and hybridity**,** offering a governance playbook: boards, measurement systems, and policy advocacy must evolve together to balance mission and market. SAGE KnowledgeGoogle Books **Noshir H. Dadrawala (2018) [25]** – "Legal Framework for Civil Society in India" (ICNL) This policy monograph maps India's complex NGO laws (trusts/societies/Section 8 companies), tax exemptions, and FCRA compliance, arguing that the state may regulate but not control internal NGO governance. Dadrawala concludes that proportional, clear rules—combined with board accountability and disclosure—strengthen legitimacy without chilling civic action. The theoretical contribution is a regulatory governance perspective that balances state oversight, donor assurance, and organizational autonomy. ICNL **Ela R. Bhatt (2006) [26] –** We Are Poor but So Many: The Story of SEWA Bhatt's account of SEWA shows how member-owned unions/co-ops can deliver livelihood services at scale while shaping public policy on informal work. She concludes that democratic, women-led governance structures—anchored in federations and social audits—produce durable impact and policy uptake (e.g., social security for informal workers). The book foregrounds a feminist cooperative / solidarity-economy theory of change, positioning non-profits as co-architects of welfare, not mere contractors. Oxford University PressAmazon **Aruna Roy with the MKSS Collective (2018) [27] –** The RTI Story: Power to the People This movement history traces how civil society crafted and won India's Right to Information law, institutionalizing transparency and social audits. Roy concludes that policy breakthroughs emerge from sustained grassroots deliberation, evidence from field hearings, and cross-coalitions that reframe citizens as rights-holders. The work advances social accountability / deliberative democracy as a governance theory, recentering non-profits as agenda-setters in policy formulation. Google Booksrolibooks.com **N. Srinivasan (2010)[28] –** Microfinance India: State of the Sector Report 2010 Srinivasan's annual sector review documented rapid microfinance expansion alongside rising client over-indebtedness and weak consumer protection, foreshadowing the Andhra Pradesh crisis. He concludes that sector health depends on prudential norms, independent grievance redress (ombuds), and data transparency—lessons applicable to non-profit financial services. The analysis employs a sectoral governance / client-protection frame, linking regulatory design with mission integrity

in social finance. FinDev GatewaySearchWorks **Vijay Mahajan & T. Navin (2013) [29]** – "Microfinance in India: Lessons from the Andhra Crisis". Mahajan and Navin offer a political-economy autopsy of the 2010 crisis, locating failures in incentive design, rapid growth, and inadequate oversight—not only in state politics. They conclude that responsible finance requires proportionate regulation, credit bureaus, and governance that aligns staff incentives with client welfare. The critical lens is political economy of regulation and mission drift, generalizable to social enterprises facing scale-versus-ethos tensions. SpringerLink OAPEN Library **Intellecap Research Team (2013)[30]** – On the Path to Sustainability and Scale (Landscape Study). Based on nationwide surveys/interviews of Indian social enterprises, this report maps barriers in talent, capital, and policy linkages across sectors (agri, health, energy, WASH, education). It concludes that ecosystem enablers—incubators, blended finance, outcome-funding, and government partnerships—are decisive for scale, not just business-model ingenuity. The study advances an ecosystem / resource-mobilization theory of social entrepreneurship, showing why governance must extend beyond the firm to networks and policy scaffolds. intellecap.com **Ambuj D. Sagar, Kavita Surana & Anuraag Singh (2020)[31]** – "Strengthening STI-based Incubators to Achieve the SDGs: Lessons from India" Using Indian cases, the authors analyze how public incubators can translate science/tech into social impact when goals, performance metrics, and coordination systems are designed for SDG outcomes. They conclude that incubation governance must move from facility management to system orchestration—aligning ministries, measurement, capacity building, and patient capital. The theoretical move is toward a mission-oriented innovation policy for social entrepreneurship, integrating policy design with non-profit/enterprise practice. arXiv

2. Policy Landscape Shaping NPO Governance

Corporate Social Responsibility (CSR) under Companies Act, 2013

India underwent a sea change in 2013 with the passage of the Companies Act, which made CSR a legal requirement instead of an optional extra. According to Section 135 of the Act, any firm that has a net worth of ₹500 crore or more, a turnover of ₹1,000 crore or more, or a net profit of ₹5 crore or more in the previous fiscal year is required to allocate a minimum of 2% of its average net earnings from the previous three years to corporate social responsibility projects. Schedule VII lays out the specific areas in which these money must be used, and they include things like healthcare, education, gender equality, sustainability, rural development, and government relief efforts. By formalizing a consistent and domestic funding mechanism for social and nonprofit organizations, the framework altered the dynamic between for-profit businesses and neighborhood revitalization efforts. Following these updates in 2014, 2019, and 2021, the CSR Rules were further amended to impose stricter oversight. Any remaining unspent CSR funds from ongoing projects must be moved to a designated "Unspent CSR Account" within 30 days and used within three fiscal years, after which they must be returned to designated government funds. Companies will no longer be able to ignore CSR because of this accountability measure. corporations are required to establish a corporate social responsibility (CSR) committee, approve CSR policies, investigate their implementing partners (whether they are NGOs, trusts, or Section 8 corporations), and publish a CSR report annually in the board reports and on the company website. This is all part of the law that incorporates accountability at the board level. After years of development, corporate social responsibility (CSR) in India is now a compliance-driven governance tool that strikes a balance between charity and transparency, stakeholder involvement and quantifiable social impact. This has made India the first major country to include CSR spending into company law. India CodeMinistry of Coal

Foreign Contribution (Regulation) Act (FCRA) 2010 & the 2020 Amendments

To ensure that foreign contributions do not negatively impact national security, sovereignty, or public interest, the Foreign Contribution (Regulation) Act (FCRA), 2010 was passed to govern the receipt and use of such funds by individuals, associations, and non-profit

organizations in India. The Act, which establishes rigorous compliance requirements on reporting, accounting, and registration, has evolved into one of the most significant governance instruments for the nonprofit sector. The regulatory environment was made much more stringent by the 2020 revisions. They started by making it illegal to sub-grant, which means that FCRA-registered organizations can't send money to other NGOs to use as partners. This makes all the money go to one place and donor agencies have to deal with the implementing body instead. Additionally, the administrative expense limit was lowered from 50% to 20%, which forced NGOs to streamline their operations, eliminate overhead, and redirect more funding towards project activities. Thirdly, legislation established a centralized banking channel to enhance government control by requiring all foreign contributions to be accepted in a designated "FCRA account" at the State Bank of India, New Delhi Main Branch. As a result of these changes, the nonprofit sector's internal governance processes have moved toward more open financial reporting, more precise tracking of utilization, centralized banking, and stronger audit trails. Despite the revisions' good intentions, they will make it more difficult for smaller NGOs to carry out their service delivery across India's varied and remote regions through networks and sub-grants. fcraonline.nic.inSupreme Court ObserverCouncil on Foundations

Social Stock Exchange (SSE) under SEBI

In an effort to fortify India's financial ecosystem for social impact organizations, the Securities and Exchange Board of India (SEBI) has been at the forefront of establishing a Social Stock Exchange (SSE) segment within existing stock exchanges. The SSE is a systematized hub where for-profit and non-profit social entrepreneurs can sign up, be more transparent, and raise money with new tools. The Zero-Coupon, Zero-Principal (ZCZP) instrument stands out among the instruments. It acts as a donation that is routed through the exchange, allowing for tax-compliant and traceable funding to non-profits. Donors are protected by greater disclosures. Annual impact reports, audited financials, and social audits carried out by professionals appointed by SEBI are all part of the regulatory structure that aims to ensure credibility and accountability. Circulars released by SEBI in December further clarified operating requirements by requiring dematerialized (demat) issuance of ZCZP securities, prescribing minimum issue sizes, standardizing disclosure formats, and imposing stricter compliance timetables. As a result of these changes, non-profits are under more pressure than ever to implement measures to improve their governance, such as stricter transparency policies, frameworks for measuring results based on actual outcomes, and methods for independent third-party assurance. Thus, the SSE signifies a sea change in India's approach to philanthropic funding—from donor-dependent, opaque systems to a regulated, open, and results-oriented marketplace for social capital—that will bring the country in line with international breakthroughs in impact financing while also meeting the needs of its specific development context. Securities and Exchange Board of IndiaNSE India+1KPMG Assets

NGO-DARPAN (NITI Aayog)

The NGO-DARPAN portal, launched by NITI Aayog in collaboration with the Ministry of Electronics and Information Technology, serves as a central digital repository for India's non-profit and voluntary organizations. Its primary purpose is to create a standardized database of NGO profiles, including their registration details, sectoral areas of work, geographic reach, and financial documentation. By making registration on NGO-DARPAN mandatory for access to central government grants and scheme-based partnerships, the portal has become a gateway for official recognition and funding eligibility. Beyond registration, the portal fosters standardization of identity and documentation, requiring NGOs to upload legal certificates, audited accounts, PAN and Aadhaar details, and information on governance structures. This drives transparency and credibility, allowing government ministries to conduct due diligence before releasing funds. The portal also enables sectoral mapping, helping policymakers identify the distribution of NGOs across domains such as education,

health, environment, and rural development, thereby facilitating evidence-based policy and targeted grant allocation. From a governance standpoint, NGO-DARPAN strengthens accountability by nudging NGOs toward more structured reporting and digital compliance. However, it also presents challenges: smaller grassroots organizations often lack the administrative capacity to meet stringent documentation requirements, raising concerns about inclusivity. The portal thus reflects India's broader move toward digital governance and New Public Management (NPM) practices, emphasizing performance measurement, transparency, and standardization in the non-profit sector. In essence, NGO-DARPAN is both an enabler of trust and efficiency in government–NGO relations and a compliance-driven filter that may reshape the operational landscape of voluntary organizations in India. India Services

Tax-Exempt Registration: 12AB & 80G

Formal registration under Sections 12AB and 80G is required to access the unique tax exemptions that are provided to non-profit organizations (NPOs) under the Indian Income Tax Act. If a group qualifies for Section 12AB registration and uses its funds for religious or charitable purposes, it can deduct those funds from its taxable income under Section 11. Donors can also take advantage of tax advantages (sometimes 50% or 100% of the donated amount) by registering under Section 80G, which encourages giving. All nonprofits are required to apply for or renew their registrations using the Income Tax e-filing system in order to take advantage of these incentives, according to the Income Tax Department. Organizations must submit audited financial accounts, activity reports, PAN, details of trustees/office bearers, and comply with submitting income-tax returns in order to use this digital system. A five-year validity period for 12AB and 80G registrations was adopted as part of the 2020 reforms, including provision for provisional registration for new companies. This will ensure that organizational governance and activities are reviewed periodically. This framework encourages non-profits to consistently be transparent, keep accurate records, and use uniform paperwork. In order to keep their exemptions, firms also need to file their audit reports (Form 10B) and other compliance paperwork on time. Aside from the obvious financial advantages to NGOs and their funders, 12AB and 80G registrations codify governance discipline by associating financial credibility with accountability to regulators, beneficiaries, and contributors. Income Tax India+1

3. Governance Practices: A Policy-Linked Framework

In order to better understand the policy drivers, we have distilled governance into four pillars: stewardship, controls, disclosure, and impact.

Policy lever	What it asks of NPOs	Governance implications
CSR (Sec 135)	Eligible corporates fund Schedule VII projects; board oversight of CSR	Partner due diligence; MoUs with outputs/outcomes; utilization certificates; board-level monitoring & public reporting. India Code
FCRA 2020	SBI-ND main a/c; no sub-granting; 20% admin cap	Centralized treasury; project-wise ledgers; stronger procurement & expense classification; policy on overhead recovery. fcraonline.nic.in
SSE	NPO registration/listing; ZCZP issuance; Annual Impact Report; social audit	Impact frameworks, KPIs/baselines; independent social audit; fund-utilization & outcome disclosures to bourses. Securities and Exchange Board of IndiaKPMG Assets
NGO-DARPAN	Central profile and validation	Public profile hygiene; documentation discipline; improved eligibility for government interfaces. India Services
12AB / 80G	Tax exemption & donor deductions subject to compliance	Statutory audit, return filing; board finance committee effectiveness; donor receipting & verification. Income Tax India+1
Social Audit Standards (ICAI)	16 SAS thematics; empanelment of social auditors	Codified audit planning, stakeholder consultation, evidence gathering, and impact reporting quality. ICAI Knowledge BankICAI

4. Methodology

This is a doctrinal and policy-analysis study synthesizing statutes, circulars, and official portals; we integrate guidance from regulators (MCA/SEBI/MHA/CBDT/NITI Aayog) and cross-reference sector reports to propose a practical governance framework for Indian NPO social enterprises.

5. Findings & Analysis

The Companies Act, 2013's Section 135 mandates corporate social responsibility, which essentially increases the bar for good governance for India's nonprofits. The law established a consistent stream of professionally managed social projects by mandating that firms devote a minimum of 2% of their average net earnings to CSR initiatives that are in conformity with Schedule VII. There are now contractual frameworks for CSR funding with well-defined goals, deliverables, and monitoring indicators, in contrast to the more ad hoc and relationship-driven philanthropy methods of yesteryear. Companies are now required to disclose their corporate social responsibility (CSR) activities and outcomes in their annual board reports, which has driven non-profits to implement more robust systems of financial accountability, utilization reporting, and effect verification. As a result, non-governmental organizations (NGOs) have been driven to incorporate stewardship concepts into their operations by standardizing memorandums of understanding (MoUs), reporting formats, third-party audits, and compliance frameworks. Greater openness, quantifiable effect, and organized interaction with corporate boards and independent directors are just a few ways in which CSR has institutionalized a performance-oriented culture in the nonprofit sector, going beyond mere compliance. Consequently, CSR policy has increased the bar for professionalism and accountability among Indian non-profits, which has led to increased access to domestic funding and a general trend toward more disciplined governance.India Code

FCRA 2020 re-engineered internal controls

Indian nonprofits had to completely revamp their operations when the no-sub-grant provision and the need to channel all international donations through a single approved SBI New Delhi Main Branch account came into play. A paradigm that allowed smaller grassroots groups to get international funding through larger anchor NGOs was effectively dismantled by the law, which forbade the onward transfer of monies to partner organizations. As a result, businesses could no longer depend on downstream partners for program execution and were instead forced to increase their direct program execution capability. Concurrently, the framework compelled NGOs to differentiate between programmatic and overhead costs with more clarity through the use of detailed accounting processes and cost allocation strategies that adhere to the stricter 20% limit on administrative expenses. Organizations are placing a higher priority on hiring finance, audit, and compliance experts as a result of this legislative transition. They are also investing in digital accounting systems and real-time reporting on fund consumption to ensure they fulfill the new criteria. Also, frameworks for governance have changed. Non-governmental organization boards are now required to keep a close eye on risks because losing their FCRA license is a real possibility for those who don't follow the laws when it comes to banking, reporting, or cost allocation. There has been a shift in the way non-profits in India balance their goal, operations, and governance, with a focus on direct delivery, standardized paperwork, and a professionalized compliance infrastructure, rather than on flexible, networked grant-making. fcraonline.nic.inSupreme Court Observer

SSE introduces market-style disclosure and assurance

As with listed securities markets, India's Social Stock Exchange (SSE) has stringent transparency and assurance requirements that non-profit organizations (NPOs) must meet in order to list or issue Zero-Coupon, Zero-Principal (ZCZP) instruments. For non-profits to be eligible, they need to publish standardized disclosure forms that detail their history, financial health, program goals, governance structure, and legal status. After being listed, organizations are required to submit Annual Impact Reports (AIRs). These reports go beyond just financial

accounting and incorporate indicators for output, qualitative narratives from beneficiaries, and quantitative social impacts. Critically, these reports undergo impartial social audits carried out by experts appointed by SEBI, guaranteeing the credibility and verifiability of effect assertions. To help institutional funders, CSR contributors, and retail donors compare organizations more consistently, this approach establishes a long-missed culture of outcome responsibility in the charitable sector. The SSE successfully decreases information asymmetry and increases donor confidence by incorporating capital-market type compliance measures such as structured reporting cycles, third-party assurance, and timely disclosures. Consequently, it encourages non-profits to put money into data systems, M&E frameworks, and open governance processes so they can compete with impact investment best practices around the world. Finally, the SSE architecture represents a paradigm change because it introduces the discipline of financial markets to the social finance ecosystem, which makes it easier for large-scale, institutional social investors to compare impacts and hold each other accountable. Securities and Exchange Board of IndiaNSE IndiaKPMG Assets

Transparency infrastructure is widening

A multi-layered transparency infrastructure for non-profit organizations has been progressively being built in India's regulatory framework, with several instruments reinforcing each other. For non-governmental organizations (NGOs) to be able to use the NGO-DARPAN portal—which is overseen by NITI Aayog—to get access to government partnerships and funding, they need to provide standardized identification documents, legal contracts, and sectoral mapping. Policymakers, donors, and people will have access to a single, searchable database of NGOs, which will help eliminate duplication and boost legitimacy. However, the production of audited financial statements, yearly returns, and activity reports is directly tied to the legitimacy of the organization for tax-exempt registrations under Sections 12AB and 80G of the Income Tax Act. Each registration serves as a constant reminder to organizations to stay on top of their financials and stay in compliance because it must be renewed at regular intervals (usually every five years). Investors on the Social Stock Exchange (SSE) and corporate social responsibility (CSR) contributors under the Companies Act rely on these frameworks as a due-diligence baseline. While SSE investors consider them as non-negotiable indicators of financial credibility and governance readiness, corporations that distribute CSR funding now consider an NGO's active 12AB/80G status and updated DARPAN profile as basic requirements. By bringing together 12AB/80G financial vetting with NGO-DARPAN identity verification, a multi-tiered trust ecosystem has been established, encouraging organizations to be more transparent and bridging the gap in knowledge between funders, regulators, and civil society actors. India ServicesIncome Tax India

Yet, capacity and transaction costs persist

Recent policy frameworks in India have undeniably raised the quality of assurance and accountability in the non-profit sector, but they have also significantly increased the capability demands placed on organizations. Regulations such as mandatory impact measurement under CSR contracts, social audit readiness under SEBI's Social Stock Exchange, rigorous utilization tracking under FCRA, and the push for digital reporting and centralized compliance portals (NGO-DARPAN, MCA, CBDT filings) require NPOs to invest in professionalized systems of monitoring, evaluation, and documentation. While larger, well-capitalized organizations may absorb these demands by hiring compliance officers and impact-assessment specialists, smaller grassroots NPOs often struggle. The fixed costs of compliance—auditors, legal filings, data systems, and social audit fees—are high relative to their operating budgets. This challenge is compounded by the structural financing limits imposed by law: CSR partnerships frequently restrict reimbursement of overheads to direct project expenses, while the FCRA amendment of 2020 lowered the cap on administrative expenses from 50% to 20%, leaving little room to cover staff salaries, capacity-building, or digital infrastructure. As a result, smaller NPOs face a paradox: they

must meet increasingly sophisticated governance requirements to remain eligible for funding, yet they lack the resources to build and maintain those very capabilities. This imbalance risks marginalizing grassroots actors, even though they are often the most embedded in local communities and critical for last-mile service delivery. Council on Foundations

6. Practice Toolkit: What Boards Should Do Now

1. **Charter the right committees:** Finance & Audit; Program & Impact; Risk & Compliance—with annual calendars tied to CSR reporting, FCRA returns, SSE disclosures, and tax filings.
2. **Adopt policy-aligned SOPs:** FCRA treasury & utilization SOP; CSR utilization certificate workflow; SSE disclosure checklist; document-retention policy mapped to regulator timelines. fcraonline.nic.inSecurities and Exchange Board of India
3. **Institutionalize impact measurement:** Define a theory of change, KPIs, baselines, and data-quality protocols; align to **ICAI Social Audit Standards** if SSE-linked, even if not listed. ICAI Knowledge Bank
4. **Strengthen donor confidence:** Maintain **12AB/80G** in good standing; publish audited financials and key program metrics on the website and NGO-DARPAN profile. Income Tax India
5. **Diversify instruments:** Explore **ZCZP** on SSE for restricted-use donations and build internal compliance muscle around demat issuance, utilization tracking, and AIR preparation. NSE India

7. Illustrative Governance Heat-Map (Self-Assessment)
RAG (Red–Amber–Green) Ratings

Domain	Minimum Compliance	Good Practice	Leading Practice	RAG Rating
Board Oversight	Statutory board constituted; basic meeting minutes maintained	Committees have charters; board follows an annual work-plan	Dedicated impact/CSR committee; independent social audit findings reviewed by board	[ ] Red [ ] Amber [ ] Green
Financial Controls	Annual statutory audit; FCRA funds in designated bank account	Project budgets vs. actuals tracked; CSR utilization reports prepared	Project-level unit costs; interactive funder dashboards; internal audit system active	[ ] Red [ ] Amber [ ] Green
Transparency	Registered on NGO-DARPAN with basic profile	Website publishes audited financials, annual reports, and project details	SSE-style disclosures; Annual Impact Report (AIR) published with financial + impact data	[ ] Red [ ] Amber [ ] Green
Impact Assurance	Basic output reporting (activities, beneficiaries reached)	Outcome KPIs tracked; beneficiary feedback collected systematically	Independent third-party social audit; aligned with ICAI Social Audit Standards (SAS)	[ ] Red [ ] Amber [ ] Green

8. Policy & Ecosystem Recommendations

For Regulators: Regulators such as the Ministry of Corporate Affairs (MCA), SEBI, CBDT, and NITI Aayog should prioritize harmonizing the diverse reporting templates currently in use under CSR, SSE, and 12AB/80G frameworks. At present, NPOs face duplication of effort, preparing similar disclosures in multiple formats for different authorities, which drains

limited administrative capacity. A unified disclosure framework would streamline compliance and free resources for program delivery. Additionally, regulators should invest in capacity-building programs to help small and mid-sized NGOs understand and implement impact measurement and social audit practices. Beyond simplification, periodic review of FCRA's 20% administrative expense cap is essential. While designed to curb misuse, the cap inadvertently constrains investment in monitoring, evaluation, learning (MEL), technology, and compliance infrastructure that are critical for long-term credibility and effectiveness. Introducing "safe harbors" for MEL and digital systems would strike a more pragmatic balance between accountability and operational feasibility.

For Corporates & Donors: Corporate CSR boards and institutional donors need to shift from a traditional input-financing model—where funds are tied to activities and line items—to an outcome-based financing approach that rewards measurable social impact. This includes explicitly funding a proportion of overheads and evaluation costs, recognizing that without robust financial systems, data infrastructure, and staff training, impact assurance cannot be sustained. Aligning CSR due diligence practices with SSE's impact disclosure standards would further reduce redundancy and encourage convergence toward a single, credible reporting ecosystem. For corporates, this shift also strengthens board stewardship of CSR spending, as directors can base oversight on standardized outcome metrics rather than varied, narrative-heavy project reports. Ultimately, corporates and donors can act as ecosystem enablers, leveraging their resources and influence to build governance capacity within partner NPOs, rather than limiting support to narrowly defined program activities.

For NPO Boards: Boards of non-profit organizations must increasingly view impact data as a core governance asset, not a peripheral reporting requirement. This means budgeting specifically for monitoring and evaluation systems, ensuring that data quality is independently assured, and committing to publish impact findings transparently. In doing so, boards can build both donor trust and public legitimacy. Beyond impact, boards must adopt a comprehensive risk governance framework that includes a live risk register covering compliance with FCRA, data privacy obligations, safeguarding protocols for beneficiaries, anti-fraud mechanisms, and financial integrity controls. Regular review of this register at board or audit committee meetings embeds accountability into organizational culture and minimizes the likelihood of reputational or regulatory crises. By elevating impact assurance and risk oversight to the same level of priority as financial compliance, NPO boards can position their organizations for sustainable growth in an increasingly demanding policy environment.

9. Limitations & Future Research

Despite its thorough examination of the conceptual and legislative frameworks influencing governance practices in India's nonprofits and social businesses, this study does have its limits. The study is based on a doctrinal examination of the ramifications for governance of various regulatory frameworks and regulations, including CSR, FCRA, SSE, NGO-DARPAN, and tax registrations. Nevertheless, the correlations between policy changes and real organizational behavior are still only suggestive, not definitive, due to the lack of empirical verification. To better demonstrate the effect of, say, FCRA amendments on changes in staffing, accounting practices, and partnership structures before and after registration, or governance changes before and after SSE registration, a quasi-experimental or longitudinal study design could be used. A further limitation of this study is that it only covers India as a whole, not individual states. This means that NPOs may have different experiences due to variances in administrative enforcement, corporate social responsibility agendas, or state-level regulatory culture. Also, little is known about sectoral heterogeneity, which could explain why some non-governmental organizations (NGOs) in the health sector are better at managing medical donations than others, or why education NGOs are better at providing community learning programs. Therefore, in order to understand how governance needs impact different contexts in different ways, future studies should compare state-level

data with data from individual sectors. Also, to get a better picture of how governance systems are really used, it would be helpful to combine quantitative compliance data with qualitative interviews of NGO boards, executives, and regulators. Such proof would help strengthen causal claims and guide policy changes that strike a good mix between transparency and practicality for India's varied and ever-changing nonprofit sector.

10. Conclusion

A more organized and multi-layered regulatory framework has replaced the previous decade's disjointed supervision in India's policy ecosystem for social entrepreneurship and non-profit governance. Social project funding is now hardwired to be subject to board-level oversight and accountability according to the Companies Act, 2013's mandated CSR requirements, which have also opened solid domestic funding sources. Fund transfers are now subject to stronger regulations, administrative spending is regulated, and centralized financial flows are the result of the 2010 and 2020 amendments to the Foreign Contribution (Regulation) Act (FCRA). Additionally, non-governmental organizations (NGOs) are now required to implement detailed accounting and compliance systems. Recently, SEBI introduced capital-market discipline to the industry with the introduction of the Social Stock Exchange (SSE). This has ushered in a new era of professionalized transparency and comparability by demanding uniform disclosures, impact measurement, and independent social audits. In addition to this, organizations can be linked to audited financial records and yearly reports through tax-exempt registration through 12AB and 80G. The NGO-DARPAN portal is a great resource for verified profiles, as it standardizes data on identity and sectors for government and donor due diligence. Accountability, documentation, and stewardship are now the standard, not the exception, for non-profits, thanks to these frameworks that have raised the "governance floor" for them. But now that this design has been so successful, the next frontier—organizational capability—is becoming clear. Unless they simultaneously invest in personnel capacity, digital infrastructure, and overhead financing, many small and medium-sized NGOs risk having their resources diverted from actually delivering programs due to the increasing demands of compliance and reporting. Sustaining this approach would necessitate balancing the practical realities of organizations with limited resources with the imperatives of good governance. However, the trend of India's policy reforms is evident: mission and accountability must go hand in hand. The next step is to create systems that help non-profits adapt to these new requirements without watering down their original mission of promoting social change.

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