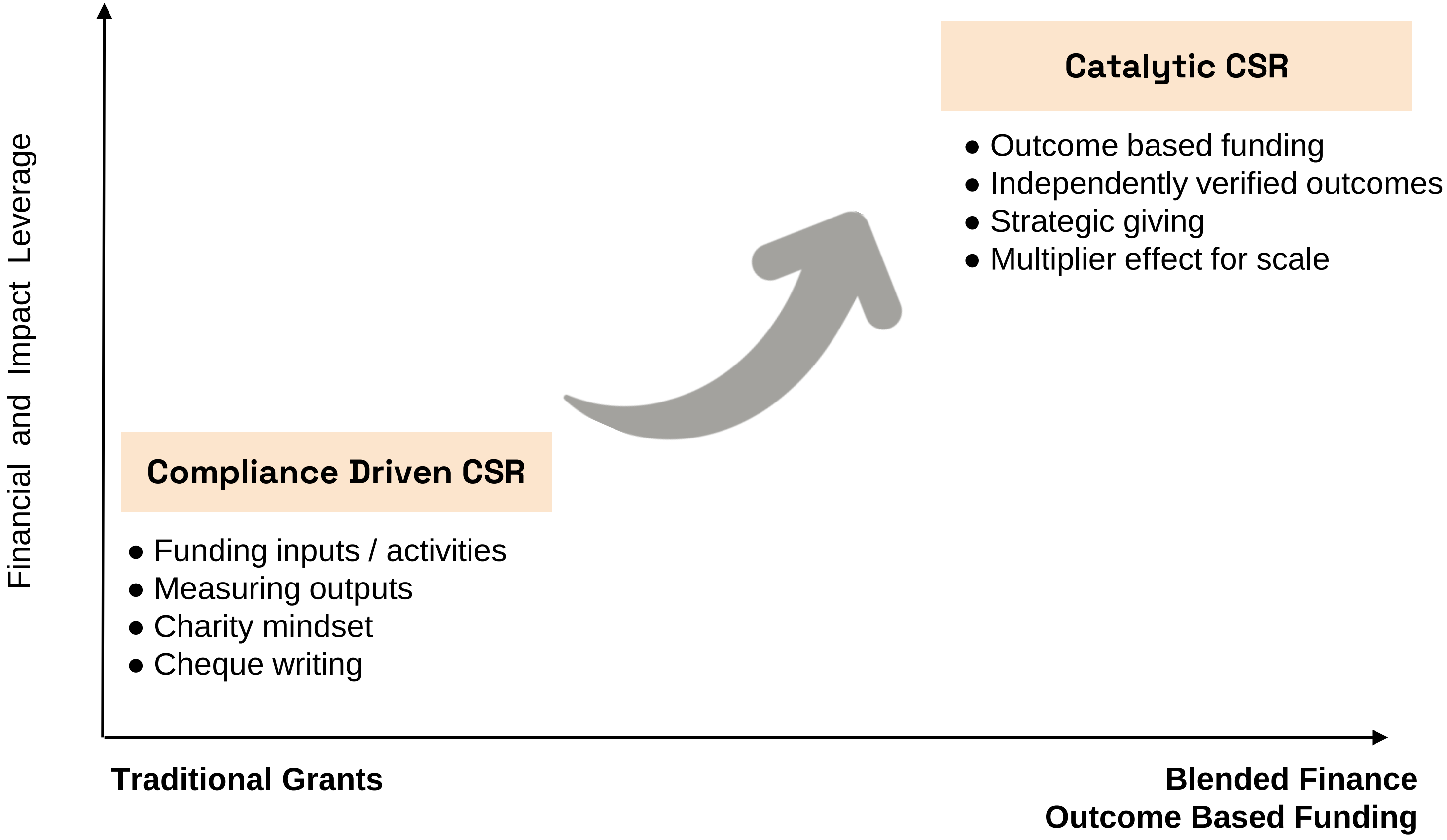
Corporate Social Responsibility (CSR): Evolving from Traditional Grant Giving to Blended Finance & Outcome Based Funding

Toolkit (inspired by a livelihoods portfolio – financial access and inclusion as a lever for livelihoods)

360 ONE | Foundation X Nishith Desai Associates LEGAL AND TAX COUNSELING WORLDWIDE X SATTVA Delivering High Impact.

Corporate CSRs can reimagine traditional grant giving thereby enhancing existing approaches to deliver higher leverage, exponential impact, and a strong focus on measured outcomes



Grants provide a unique pool of patient capital which is risk tolerant and seeks no return. 360 ONE Foundation recognized the potential for grants to provide concessionality, absorb risk, and unlock commercial capital.

This evolution not only increases the quantum of capital deployed, but drives further efficiency and effectiveness in utilization.

360 ONE Foundation has re-imagined traditional grant-giving and evolved a more catalytic approach with CSR funds deployed to generate a higher social return by unlocking additional capital, recycling funds, co-funding, with a strong focus on measured outcomes.

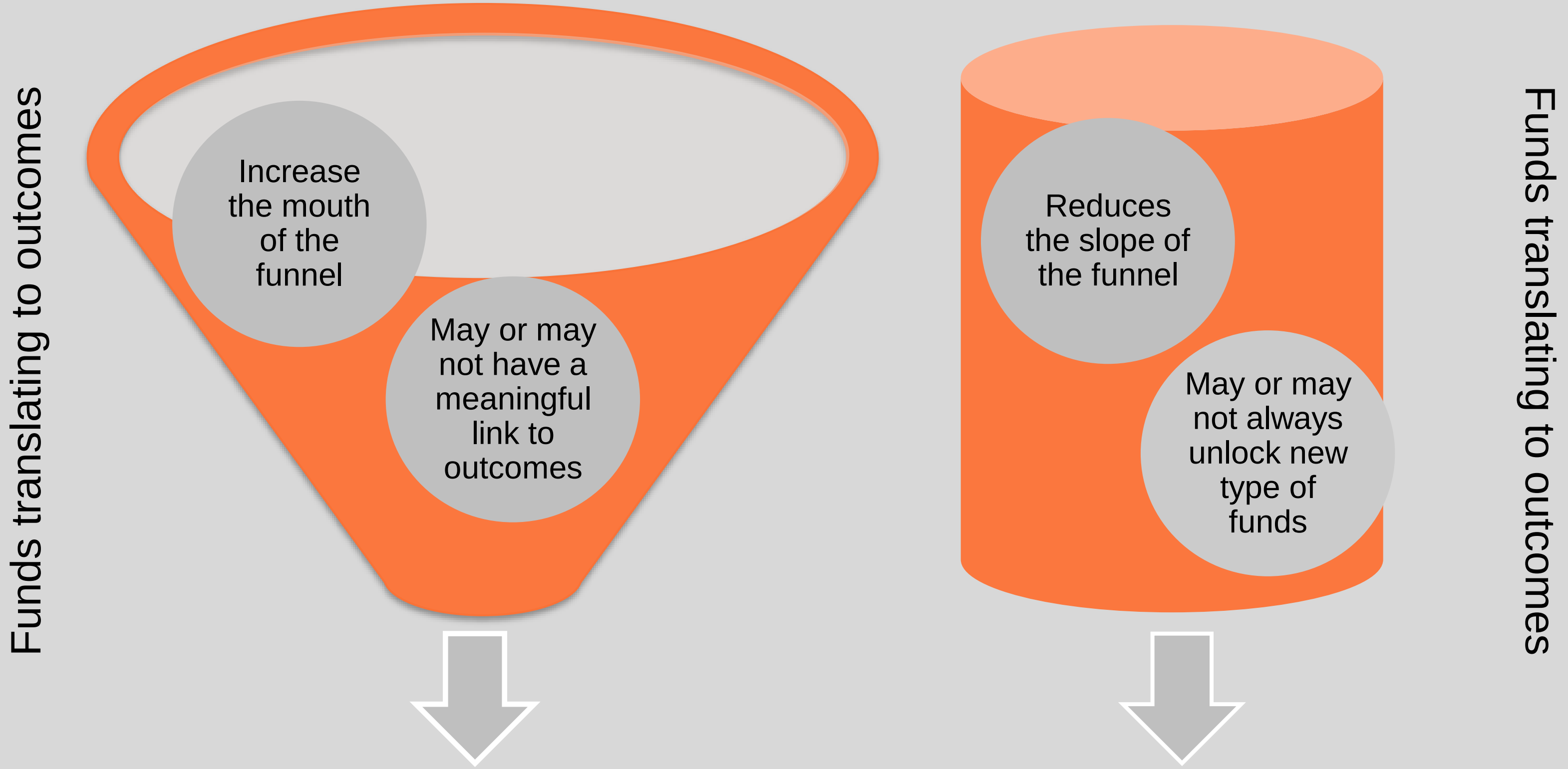
Blended Finance v/s Outcome Based Funding:

Do more with less. It's not just about the size of capital, but strength of outcomes

Blended Finance (BF) leverages philanthropic and public funds to unlock commercial capital. It enables us to increase the quantum of capital available for development financing, and allocate this capital more efficiently and effectively towards achieving development outcomes. Aligns ambitions of governments, private investors and philanthropies to fund solutions at scale.

Outcome based Funding (OBF) ensures that resources are directed where they generate greatest measurable impact. Outcome-based funding approaches tie the disbursement of funding for development projects to the achievement of independently verified results that are closely related to the ultimate development objective i.e. outcomes—as opposed to actions, inputs, and activities.

Note: These approaches are not a one size fits all solution. Applicability depends on problem to be solved… and type of capital required. OBF works well for scaling proven models with strong evidence of measurable outcomes.



Blended finance = new/ more money in the sector

Outcome based financing = making money work better and harder

Source: British Asian Trust

Outcome Based Funding and Blended Finance approaches

Outcome-based Financing		Concessional Debt			Risk Mitigation
Pay for Outcomes	**SIB/DIB****	**Returnable Grants**	**Interest Subvention**	**SSN***	**Risk Guarantee**
CSR grant is provided only on achievement of certain pre-agreed measured outcomes. If partial/no outcomes are met, the parties involved jointly decide on the best use of funds	**CSR - as an outcome funder – repays the risk investor on achievement of certain pre-agreed outcomes.** In a DIB – a private entity (philanthropic body) is the outcome funder, and in a SIB - the government is the outcome funder	**CSR grant is given as zero interest zero collateral loans - only with a moral obligation to repay.** The idea is to recycle the funds to aid more beneficiaries & create additionality by encouraging a culture of savings and paying it forward	**CSR grant is provided as an incentive to reduce the interest burden** on the borrower by rewarding a positive social behaviour change	**CSR grant is provided to reduce the cost of borrowing for the borrower, and sometimes the lender** if certain pre-agreed social outcomes are met	**CSR grant – through an intermediary non-profit - acts as a guarantee to** de-risk lending and improving risk-return profiles relative to market norms

* **SSN** – Social Success Note ** **SIB/DIB** – Social Impact Bond/Development Impact Bond

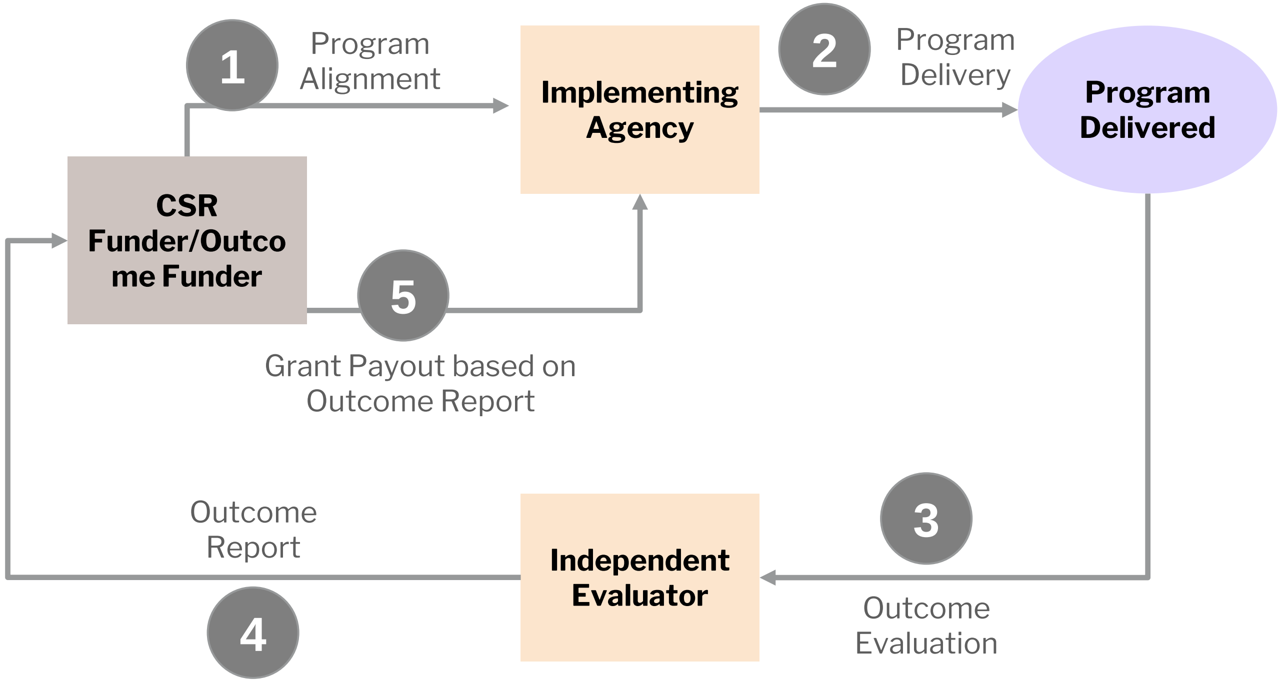
Source: A Practitioner's Guide to Effective Blended Finance Solutions for Social Enterprises; Villgro and Desai & Associates

360 ONE Foundation SATTVA Delivering High Impact. Nishith Desai Associates LEGAL AND TAX COUNSELING WORLDWIDE

360 ONE Foundation – Case study on Outcome Based Funding
The Basic Structure

Outcome Based Funding (OBF) unlike traditional grants or milestone based grants, links payment to achievement of pre-agreed, clearly defined, measurable outcomes that are independently verified. In other words, payments are not made upfront for actions, inputs, and activities, but are linked to the actual achievement of the desired outcomes that are independently verified.

Key Sources of upfront working capital required: Implementing not-profit's own funds, unlocking government schemes, private investors who seek social impact. While there is an appropriate sharing of performance risk with the implementing non-profit, underperformance also provides an opportunity to course correct and re-engineer program delivery until desired outcomes are delivered. Non-profits are given the flexibility to innovate on delivery processes.



FUND FLOW

- The Outcome Funder (360 ONE Foundation) entered into an agreement with the Implementing Agency ie Pan IIT Alumni Reach for India Foundation (PARFI) to implement the Project on the ground. The agreement outlined the program's predetermined objectives and outcomes.
- PARFI was responsible for executing the program in line with the agreed objectives and outcomes, and mobilize and train underprivileged youth as per the agreement entered between the parties.
- After program completion, an Independent Evaluator assessed and verified the placement and retention outcomes achieved by PARFI (student placement details and salary proof). A detailed Verification Report was submitted to 360 ONE Foundation.
- Upon the submission of the Verification Report and confirmation of the achievement of the pre- agreed placement and retention outcomes, 360 ONE Foundation disbursed the grant amount to PARFI as per the terms of the agreement.

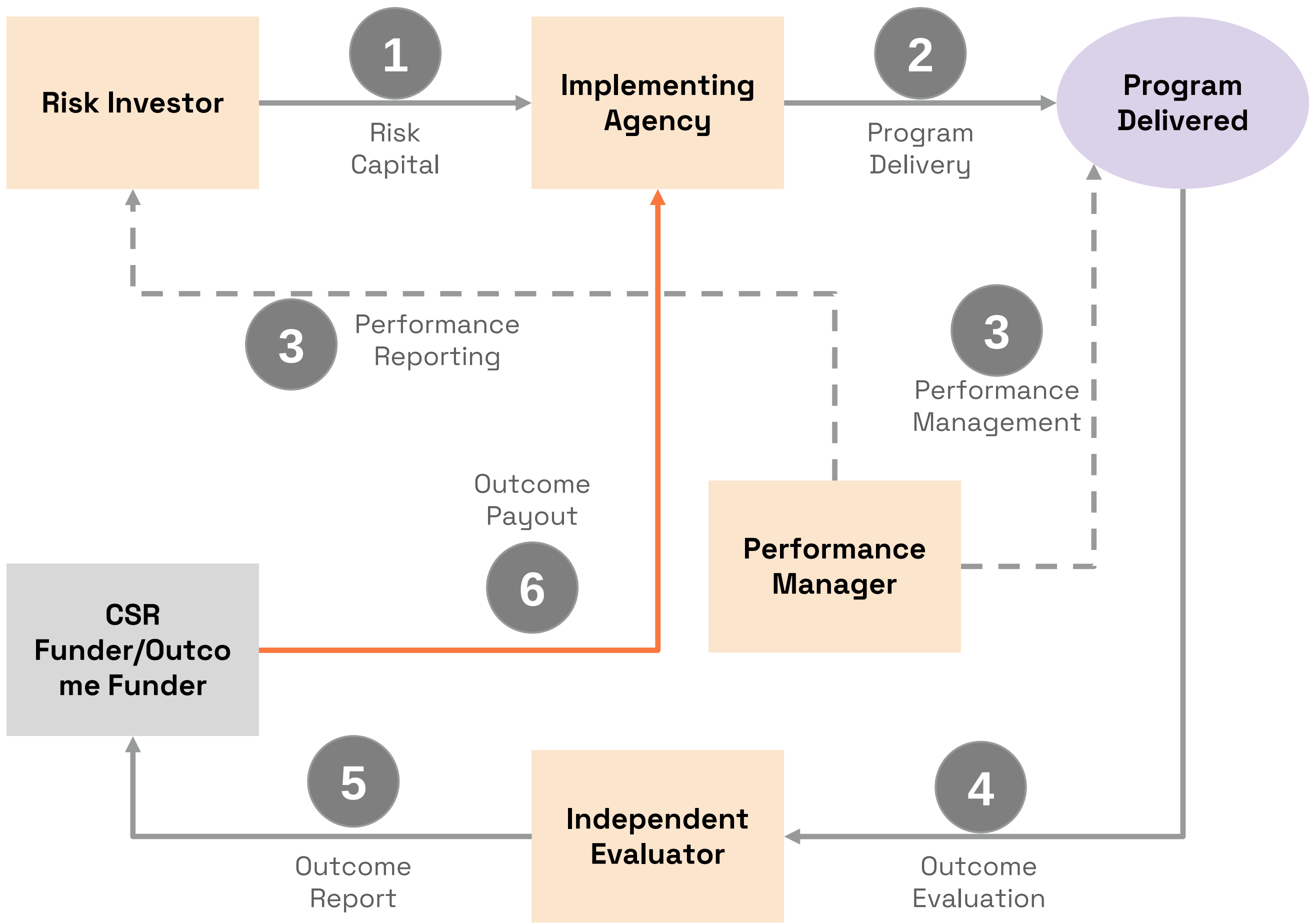
360 ONE Foundation – Case study on Outcome Based Funding
Practical Tips, Legal and Regulatory Considerations

Practical tips for project design	● **Timing of OBF payouts is critical.** Can be planned for Q1, Q2 leaving ample time for redeployment if outcomes not achieved. ● **Non-profit's belief and investment in the model**. Confidence that their process is delivering desired outcomes. Their comfort with risk sharing and having skin in the game to take impact linked incentive or penalty on non achievement of outcomes
Legal and Regulatory considerations*	● Given the inherent risk in the OBF models where payments are contingent upon outcomes, the corporate should ensure that its **agreements with IA address risk management,** including scenarios where outcomes are partially achieved or delayed. Provisions for reallocation of unspent funds, force majeure, and performance reviews should be included in compliance with Companies (CSR Policy) Rules, 2014 ("CSR Rules"). ● It is essential that **CSR funds are utilized strictly in accordance with the activities listed in Schedule VII** of the Companies Act, 2013 ("Companies Act"). A utilization certificate must be obtained from the IA to confirm that the funds are being used exclusively for the intended CSR activities. ● Corporates must ensure that CSR funds are only allocated to eligible Implementation Agencies ("IAs") as specified under Rule 4 of the CSR Rules. The corporate must **verify that the IA meets all regulatory requirements** before disbursing CSR funds.

*The Legal and Regulatory considerations mentioned here are over and above the ones for traditional CSR grants mentioned in slide 13

Impact Bonds: A more complex structure for Outcome Based Funding.

Practical Tips, Legal and Regulatory Considerations for Outcome Funder remain the same as a basic Outcome Based Funding structure

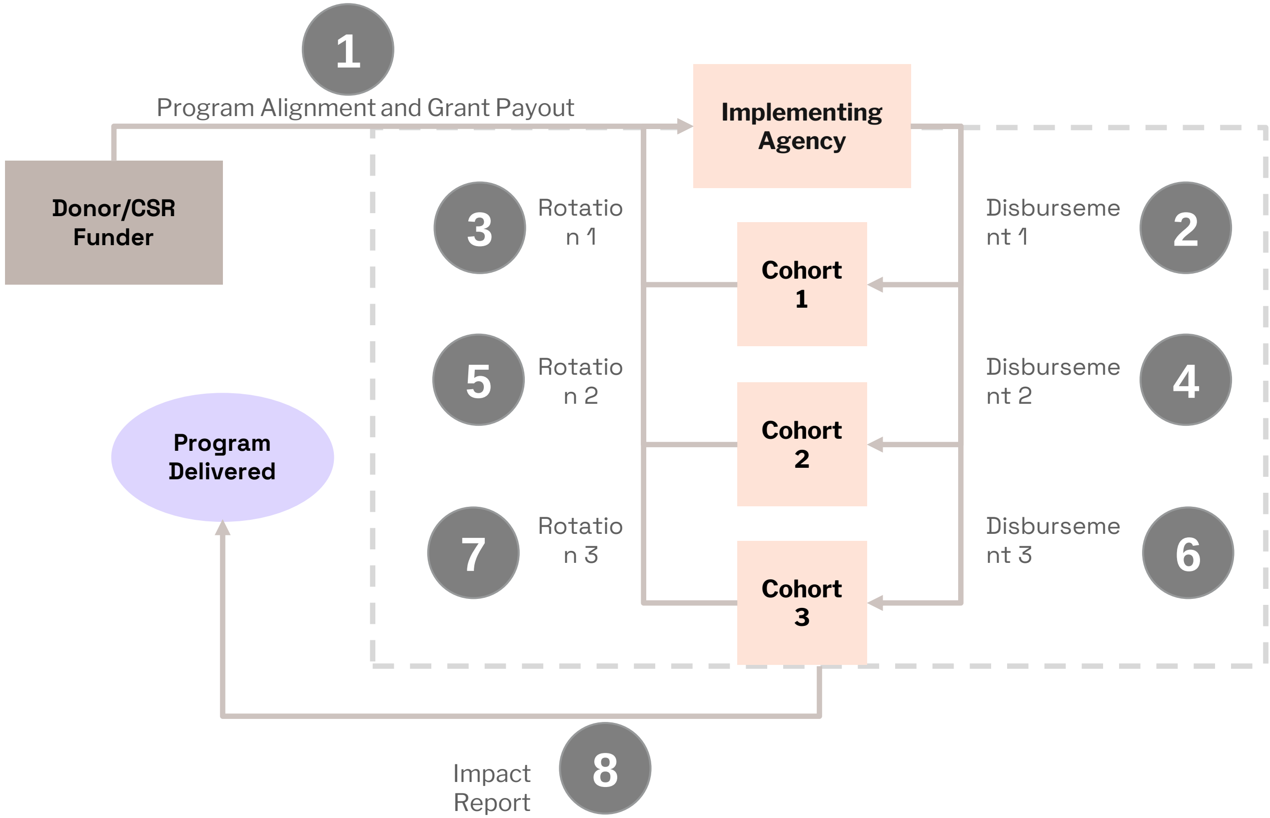


FUND FLOW

- The Risk Investor provided upfront capital to the Implementing Agency (IA) to initiate and implement the program on the ground.
- Upon completion of the program or key milestones, the reports submitted by the IA were reviewed and verified by a third-party evaluator or monitoring entity which assessed whether the outcomes mentioned in the agreement were achieved.
- The evaluator issued a verification report confirming if the program's outcomes met the required conditions and standards.
- Based on the independent verification report, the CSR Funder/Outcome Funder disbursed payments to the IA, fulfilling their contractual obligations.

360 ONE Foundation – Case study on Returnable Grant
The Basic Structure

A Returnable Grant (RG) is a financial instrument designed to support vulnerable individuals or social enterprises who are often locked out of the formal economy and lack access to affordable debt. It provides zero-interest, zero-collateral capital with recipients required to repay the implementing non-profit under certain conditions. The key distinction of an RG is that recipients are under a moral, rather than legal, obligation to repay the non-profit. This enables the patient capital to be recycled and used for future beneficiaries, and introduces them to the contours of responsible credit.



FUND FLOW

- CSR Funder (360 ONE Foundation) and IA (Shram Sarathi) entered into an agreement outlining the programs objectives and outcomes, with an initial grant payout to Shram Sarathi for Cohort 1.
- Shram Sarathi, selected eligible beneficiaries and distributed the grant to Cohort 1 as RGs.
- Beneficiaries repaid the grant in interest-free, monthly installments to Shram Sarathi, based on their repayment capacity.
- 360 ONE Foundation is provided utilization certificate upon disbursement of funds for Cohort 1. The repaid funds were not returned to 360 ONE Foundation, but were recycled into the program for future rounds of RG funding to additional beneficiary cohorts.
- So upon successful completion and evaluation of Cohort 1, the funds repaid to Shram Sarathi were recycled into the program for a second and third disbursement of RGs respectively.

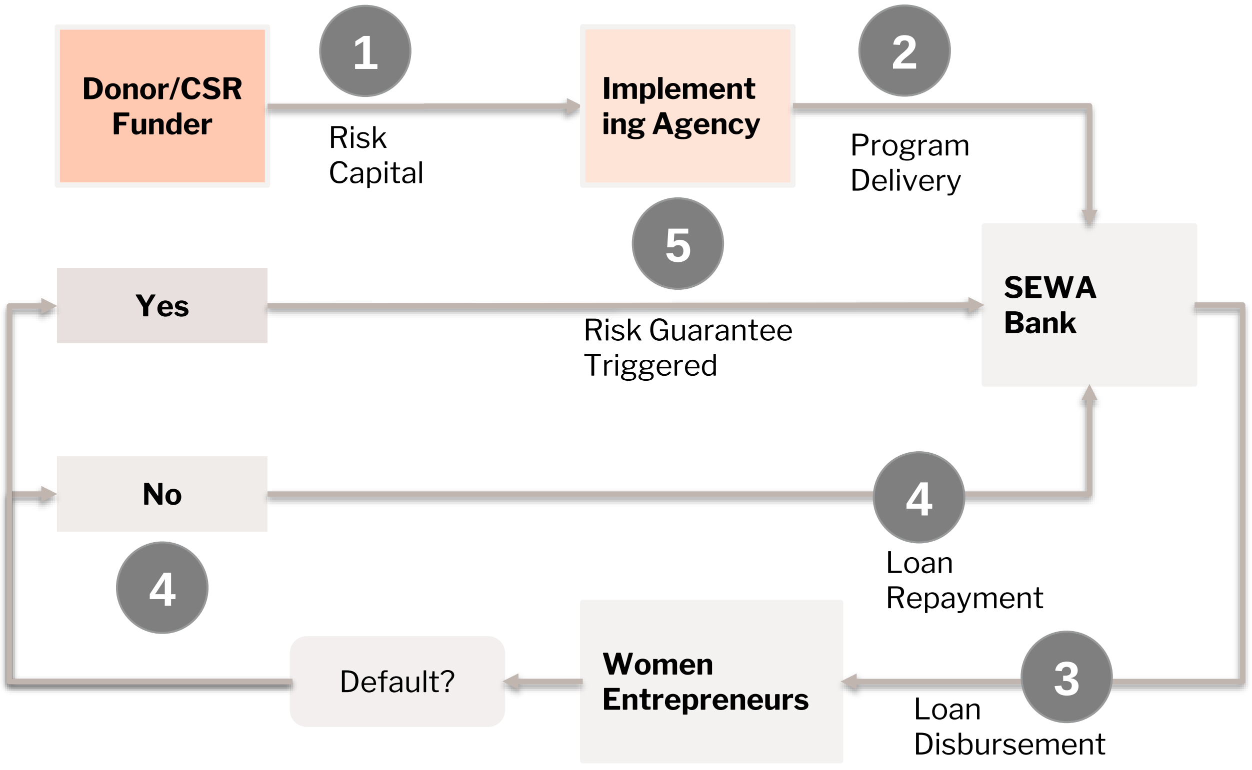
360 ONE Foundation – Case study on Returnable Grant
Practical Tips, Legal and Regulatory Considerations

Practical tips for project design	• **Capacity building of beneficiaries and initial disbursement of loans should be completed by March 31st** to enable a utilization certification from IA. • Since funds revolution is cyclical, eventual **extinguishment needs to be jointly discussed** between funder and non-profit and mentioned in Agreement. • **Beneficiaries should be marginalized** and aligned with Schedule VII
Legal and Regulatory considerations*	• **RG agreements should clarify that repayments are not tied to any financial outcomes or profitability metrics**, but rather to the achievement of specific social objectives such as capacity building or business development. • To avoid reclassification as loans, the repayment obligation should be based on **flexible, non-commercial terms,** i.e., contingent upon social outcomes rather than financial performance. There should be no elements of profit-sharing or interest charged. • The **repaid CSR funds should not be returned to the CSR Funder but should be recycled** within the program by the IA for future rounds of funding to the Beneficiaries. • The repayment mechanism must **avoid being categorized as a loan or profits under Indian laws.** Loans to Beneficiaries would fall outside the scope of CSR activities if they do not meet the legal requirements. For this reason, RG agreements should clearly specify that repayments are contingent on social outcomes, such as business development or capacity building, rather than financial success.

*The Legal and Regulatory considerations mentioned here are over and above the ones for traditional CSR grants mentioned in slide 13

360 ONE Foundation – Case study on Credit or Risk Guarantee
The Basic Structure

A grant – given to an intermediary non profit – can serve as a risk guarantor to the project beneficiaries. Acting as a first-loss or partial risk cover, the grant de-risks investments, aligns with CSR objectives, and facilitates the flow of capital into socially impactful initiatives. Risk-based instruments aim to mitigate financial risks for investors and lenders, and provide a level of financial security or assurance against potential losses, thereby encouraging them to invest in social sector projects and increase the flow of capital to socially impactful initiatives. Examples of risk-based instruments include partial credit guarantees, pari-passu guarantee and first loss default guarantees.



FUND FLOW

- The project integrated unbanked and underbanked women entrepreneurs into the formal credit system using a guarantee, making affordable finance accessible. The guarantee reduced the perceived risk for low/negative credit score borrowers, enabling them to secure formal loans instead of relying on informal sources. This led to improvement in income of entrepreneurs & enterprise growth which was measured.
- CSR Funder (360 ONE Foundation) and IA (Collective Good Foundation) entered into an agreement outlining the programs objectives and outcomes, with an initial grant pool of concessional capital earmarked as the first loss guarantee (FLDG). It was clearly specified in the agreement that the guarantee provided did not generate any commercial benefit, and that any repayments of loan principal were to be reinvested in further charitable activities, ensuring that no profit or interest was accrued by the guarantor
- Collective Good Foundation placed the FLDG funds in a Fixed Deposit marked as lien to the lender (SEWA Bank). This unlocked 10x loanable capital from SEWA Bank for lending to the marginalized women entrepreneurs who were unbanked or underbanked and had low credit scores.
- SEWA Bank selected beneficiaries, disbursed loans, and took on the credit risk for the disbursed amount. In case of borrower defaults, the FLDG would absorb the first losses, protecting SEWA Bank from excessive risk. 360 ONE Foundation is provided utilization certificate upon disbursement of loans.
- The funds repaid by the beneficiaries were retained by SEWA Bank and recycled into the program for future rounds of funding, without being returned to Collective Good Foundation or 360 ONE Foundation.

360 ONE Foundation – Case study on Credit or Risk Guarantee
Practical Tips, Legal and Regulatory Considerations

Practical tips for project design	• **Capacity building of beneficiaries and initial disbursement of loans should be completed by March 31st** to enable a utilization certification from IA. • Since funds revolution is cyclical, eventual **extinguishment of funds if guarantee is not fully evoked needs to be jointly discussed** between funder and non-profit and mentioned in Agreement. • **Guarantee cannot be in the name of the CSR Funder.** • **Beneficiaries should be marginalized** and aligned with Schedule VII of the Companies Act.
Legal and Regulatory considerations*	• The Agreement should clearly state that the CSR Funder, acting as the guarantor under the risk guarantee framework, **shall not receive any interest, fees, or other profit from the guarantee arrangement.** The primary purpose of the guarantee is to mitigate risks for the Beneficiaries and enhance their access to credit, without generating any financial gain for the CSR Funder. • Any repayments received from the Beneficiaries, including the loan principal, shall not be returned to the CSR Funder but shall be **reinvested in the Program by the IA** for future rounds of funding to the Beneficiaries. The parties agree that no interest or other profit shall accrue to the CSR Funder from such repayments, ensuring compliance with the CSR Rules and maintaining the charitable nature of the project. • **An extinguishment plan for unutilized funds shall be included**, specifying that if the CSR funds remain unspent or are not fully utilized for their intended purpose within the program, they must either (i) be returned to the Unspent CSR Account of the CSR Funder (if applicable), or (ii) be redeployed in furtherance of charitable objectives within the same or another CSR project, as permitted under the CSR Rules.

*The Legal and Regulatory considerations mentioned here are over and above the ones for traditional CSR grants mentioned in slide 13

General Tips and Legal & Regulatory Considerations for Any Traditional CSR Grant

Tootkit (inspired by a livelihoods portfolio – financial access and inclusion as a lever for livelihoods)

General Tips and Legal & Regulatory Considerations for Any CSR Grant

Usage and Compliance	✓ CSR funds should be deployed in activities enumerated under **Schedule VII** of the Companies Act. Contributions must strictly serve a public purpose, with **no financial return or gain to the donor** corporate entity. The Ministry of Corporate Affairs, through its General Circular No. 21/2014, has clarified that the provisions of Schedule VII should be interpreted broadly to allow corporates flexibility in funding initiatives that meet broader social development goals.
Due Diligence & Monitoring	✓ Corporates should conduct **comprehensive due diligence on the IA**, ensuring the agency has the capability and experience to manage blended finance structures effectively. **The IA must demonstrate a track record of transparent financial management, successful project execution and measurable social impact.** ✓ A **Chartered Accountant (CA) or any third-party evaluator must certify the utilization of CSR funds** to ensure compliance with statutory requirements, and the certification should be part of the project reports submitted to the corporate donor. ✓ Corporates must ensure regular monitoring of blended finance projects through **project reports, financial audits and impact assessments** which should be included in the agreements entered into between the parties. ✓ The corporate donor must ensure **compliance with the reporting obligations under Rule 9** of the CSR Rules. The IA must submit quarterly or annual reports on fund utilization and project progress, consistent with Form CSR-2, which must be filed with the MCA.
Eligible IAs	✓ CSR funds can only be deployed through eligible IA, which include **Section 8 companies, public charitable trusts, or registered societies,** as per Rule 4 of the CSR Rules.
Surplus Funds & Reinvestment	✓ **Any surplus generated through CSR activities must be reinvested** into the project or similar initiatives, in compliance with Section 135 of the Companies Act.

Managing & Implementing Outcome Based Funding (OBF)+ Blended Finance (BF) Projects

Tootkit (inspired by a livelihoods portfolio – financial access and inclusion as a lever for livelihoods)

At an implementation level, the requisites for BF/OBF are not very different from traditional CSR… some must have some good to have

Tracks	Current processes of CSR Project Management	Additional aspects to be covered for OBF/BF*
Compliance	• Project falls outside the donor's normal business scope. • Supports **long-term, impact-driven programs** vs one-off projects. • **Aligned with Schedule VII** and benefits marginalized & underserved communities. • Implementation agency meets **CSR compliance standards**. • **CA-certified fund utilization** is ensured and achieved.	• **Clearly define** the implementation model and fund flow. • **Reconfirm** no financial gain or return of capital to the CSR donor. • **Specify** tranche utilization and the process for fund extinguishment. • **Obtain compliance sign-off** from a noted entity.
Program Evaluation	• Program aligns with the **priorities and needs** of the target group. • Activities are **effective** in achieving program objectives. • Resources are **optimized** to achieve outputs. • Measures **local, social, and economic development** indicators. • Assesses **long-term sustainability** after donor funding.	• **Source projects** from niche platforms. • Ensure Implementing Agency **commit to outcomes and improving performance benchmarks**, and demonstrate **skin in the game**. • Structure **outcome based payments** (not milestone-based). • Validate the **business viability** of the **Theory of Change**. • Demonstrate the **ability to unlock commercial & public capital**. • **Link payouts to achievement of independently verified, measurable outcomes**, not just inputs or activities. • Ensure **additionality** by achieving outcomes beyond what would have occurred otherwise.
Monitoring and Reporting	• Implement **concurrent programmatic & financial monitoring** • Recommend **mitigation strategies** where needed. • Validate **outputs** through continuous assessment. • **Document and share impact stories** for learning and advocacy.	• Given catalytic/cyclical nature of funding, **Monitoring Evaluation and Learning** to be carried forward • **Independent evaluation** of outcomes • Track **Financial Leverage Metric** to measure unlocked funds. • **Re-engineer programs** as needed to improve outcome achievement • Maintain a **balanced approach** between measuring inputs and outcomes. • Ensure MEL **actively informs strategic decision-making**, not just documents past activities.

* Will be elaborated in subsequent slides

Compliance

Must Have		Good to Have	
Model of implementation & fund flow	• Clearly define the fund flow and roles & responsibilities of all stakeholders • Funds must not be returned to the CSR or provide any financial gain to CSR. • Returnable grants shouldn't be repaid to CSR. In the case of guarantees, it cannot be in the name of the CSR. Repayments must be reinvested into the project eg in training or training of beneficiaries or to extend the guarantee to additional beneficiaries. • Returnable Grant terms must avoid terms typical of loans —repayments should be flexible, non-commercial, and tied to social outcomes, not financial success.	Compliance sign off from relevant authority	• A third-party legal opinion stating compliance under CSR
Financial utilization & extinguishment	• Complete capacity building and initial loan or returnable grant disbursement by March. • Plan fund rotation and eventual extinguishment collaboratively, given the cyclical nature of funds. • Schedule OBF payouts in Q1/Q2 to allow redeployment if outcomes not achieved. Alternatively, if outcomes are to be met in subsequent year, treat funds as ‘unutilized’ under ongoing projects.		

OBF + BF - Outcome Based Funding + Blended Finance

Program Evaluation (1/2)

Must Have

Project sourcing

- RFP process need to be followed for sourcing and structuring of projects since there is a shortage of readymade projects. While some intermediaries do exist, efforts will be required to co-create, co-design with iterations.
- BF and OBF most suited for projects with a proven track record of outcomes that wish to scale.

Readiness to commit to outcomes (Capacity & capability)

- Implementing Agency must demonstrate improved performance over previous track record.
- Assess Implementing Agency's commitment and confidence in model —own fund contribution (skin in game), risk-sharing, and acceptance of outcome-based incentives or penalties.

Good to Have

Ability to unlock commercial and public capital

- Catalytic philanthropy is an enabler for scale. It is used for interventions where the market seeks incentive and is willing to expand potential, and the government sees viability to truly enable the potential of blended finance
- First identify the problem we are trying to solve and therefore the nature of capital and structure required to solve for it. Determine participation of apex/financial institutions
- Check for relevant government schemes

OBF + BF - Outcome Based Funding + Blended Finance

Program Evaluation (2/2)

	Must Have		Good to Have
Outcome based payments	• OBF is outcome-based, not milestone-based. • Payouts tied to achievement of independently verified, measurable outcomes - not milestones, actions, inputs, or activities.	Payout ratio – input vs output vs outcomes	• An independent evaluator must verify outcome achievement (e.g., 75% retention of placed candidates) and submit an outcome report. • To incentivize achievement of outcomes- payout disbursed should always be larger on outcome achievement
Business viability of Theory of Change	• If commercial capital is being unlocked, ensure it offers market-rate or lower interest, promoting access and inclusion of unbanked segments, and transferring benefit . • Review business plans for growth potential and repayment capacity. • Track beneficiary progress toward economic independence and reduced reliance on grants.	Additionality in outcomes	• CSR should incentivize performance and penalize defaults, it’s good practice to explore additionality in outcomes such as gender, inclusion, or focus on underserved areas.

OBF + BF - Outcome Based Funding + Blended Finance

Monitoring & Reporting

Must Have		Good to Have	
Monitoring evaluation and learning to be carried forward	• Due to cyclical nature of funds revolving or getting unlocked, despite fund utilization in year 1 and FUC receipt, monitoring and reporting continues until the project ends and funds are extinguished. • Evaluate business viability to assess performance and adjust incentives and rewards accordingly.	Metric for Financial Leverage	• Measure additional funds unlocked or recycled as a result of blended finance. • Keep a balance between measuring inputs and outcomes. Inputs/ process indicators will show if the quality of interventions is good enough and consistently delivers to yield the desired outcomes. The outcomes data shows how close or further away one is from the target.
Independent evaluation of outcomes	• Independent outcome verification is key to any OBF initiative. CSR payments depend on verified outcomes, requiring a strong MEL team and its own robust evidences to compare with third-party findings.	Program re-engineering to enable outcomes	• MEL should not be limited to documenting past activities - it must actively inform strategic decision making for ongoing programmatic interventions. Instead of waiting for end-of-cycle evaluations, feedback loops that highlight trends, identify challenges, and enable timely course corrections. • If outcomes are not met, CSR collaborates with Implementing Agency to re-engineer the program design and build their capacity for consistent outcome achievement

OBF + BF - Outcome Based Funding + Blended Finance

Acknowledgement and Key Contacts

Tootkit (inspired by a livelihoods portfolio – financial access and inclusion as a lever for livelihoods)

Acknowledgement and Key Contacts

360 ONE Foundation	• **Saumya Lashkari**, Director & Board Member, foundation@360.one • **Sneha Kailash,** Senior Manager, foundation@360.one
Sattva	• **Saloni Gupta**, Regional Head CSR, saloni.gupta@sattva.co.in
Nishith Desai Associates	• **Rahul Rishi**, Head Social Sector and Blended Finance, rahul.rishi@nishithdesai.com • **Sehar Sharma,** Member Social Sector and Blended Finance, sehar.sharma@nishithdesai.com