



Chandrawat  
& Partners

# NON-PROFIT ORGANIZATIONS AND NON-GOVERNMENTAL ORGANIZATIONS

A comprehensive guide



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# INTRODUCTION

In a world filled with challenges and opportunities, there exist numerous Non-Profit Organizations (“NPOs”) and Non-Governmental Organizations (“NGOs”) that have dedicated their existence to a noble mission: making the world a better place. These organizations, formed by passionate individuals with a shared vision, strive to serve society and enhance the welfare of humanity. Their collective efforts aim to bring about positive changes, addressing social, humanitarian, and environmental issues on local, national and international scales.

United by their commitment to serving others, NPOs and NGOs are powerful agents of change, driven by altruism and empathy. While their goal aligns, they often employ distinct strategies and areas of focus, leading to some confusion among the public.



# ECONOMIC OVERVIEW



Non-Governmental Organizations (“NGOs”) and Not-for-Profit Organizations (“NPOs”) in India play a crucial role in contributing to the economy through their diverse social and developmental initiatives. While their primary focus is on addressing social issues and humanitarian concerns, their activities have significant positive impacts on the country's economic landscape in various ways

**Employment Generation:** NGOs and NPOs create employment opportunities through their projects and programs. They hire skilled professionals, educators, healthcare workers, social workers and other personnel to implement and manage their initiatives. This helps in reducing unemployment and enhancing livelihoods, particularly in rural and underserved areas.

**Human Capital Development:** By focusing on education and skill development, NGOs and NPOs contribute to enhancing human capital in India. Through the establishment of schools, vocational training centers, and capacity-building programs, they equip individuals with skills that make them more employable and productive in the workforce.

**Healthcare and Productivity:** NGOs and NPOs working in the healthcare sector improve public health, leading to a healthier workforce. Healthy individuals are more productive, reducing absenteeism and improving overall productivity in the economy. Additionally, their efforts in preventive healthcare help in reducing the burden on the public healthcare system.



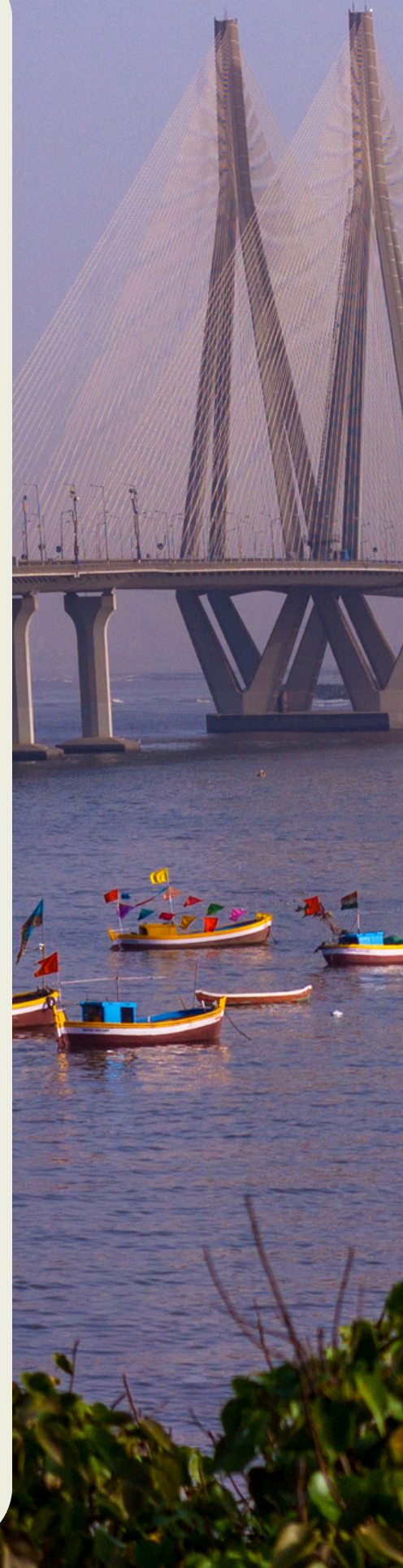
**Poverty Alleviation:** Through poverty alleviation programs and microfinance initiatives, NGOs and NPOs empower marginalized communities and individuals to become economically self-sufficient. This leads to the growth of local economies and stimulates economic activity at the grassroots level.

**Rural Development:** NGOs and NPOs actively engage in rural development projects, including agriculture, sanitation, water supply and renewable energy initiatives. These efforts uplift rural economies by creating infrastructure and sustainable practices, driving economic growth in rural areas.

**Philanthropy and Foreign Funding:** NGOs and NPOs in India receive substantial contributions from both domestic and international donors. These funds are often directed towards various social and developmental projects, providing financial support for activities that contribute to economic growth and social progress.

**Complementing Government Efforts:** NGOs and NPOs often complement the efforts of the government in implementing various development schemes. By partnering with government agencies, they improve the efficiency and effectiveness of service delivery, leading to better utilization of resources and promoting economic growth.

**Social Entrepreneurship:** Some NGOs and NPOs engage in social entrepreneurship, developing sustainable business models that address social challenges. These ventures create economic opportunities while simultaneously addressing societal issues, contributing to a more inclusive economy.





# MARKET DYNAMICS

India's social sector is burgeoning, and NGOs and NPOs play an increasingly significant role in complementing government efforts and addressing diverse social issues. Their presence is felt across various domains, including education, healthcare, environment, women's empowerment and poverty alleviation. As these organizations continue to expand their reach and influence, understanding the market dynamics becomes imperative.

## **Funding Landscape**

Securing sustainable funding is a paramount concern for NGOs and NPOs. The funding landscape in India varies widely, with sources ranging from individual donations, corporate sponsorships, foreign aid, grants and governmental funding. Navigating these funding sources requires strategic planning, compliance with regulations and maintaining transparency to build trust among stakeholders.

## **Competition and Collaboration**

The proliferation of NGOs and NPOs in India has led to increased competition for resources and visibility. Organizations must differentiate themselves through their mission, unique approaches and measurable impact. Simultaneously, fostering collaborations with other entities, including government bodies and corporate partners, can amplify their reach and efficacy.

## **Technology and Digital Transformation**

In recent years, the digital revolution has transformed the way NGOs and NPOs operate. Embracing technology enables streamlined operations, efficient fundraising, wider outreach through social media and improved monitoring and evaluation mechanisms. Adapting to technological advancements is critical to staying relevant in a rapidly evolving landscape.



# EMERGING TRENDS



The landscape of NGOs and NPOs in India is evolving rapidly, driven by societal changes, technological advancements and shifting donor priorities. These organizations are adapting to new challenges and opportunities, embracing innovative strategies to create a more significant impact on the communities they serve.



## **Technology Integration:**

Incorporating technology has become a game-changer for NGOs and NPOs. The integration of digital tools, data analytics and artificial intelligence streamlines operations, enhances fundraising efforts and enables better monitoring and evaluation of projects. Leveraging social media platforms and online crowdfunding has expanded outreach and mobilized support from a global audience.



## **Impact Investing:**

Impact investing is gaining traction in India's philanthropic ecosystem. Donors and investors are increasingly interested in supporting organizations that not only focus on social outcomes but also demonstrate tangible and measurable impacts. NGOs and NPOs are aligning their projects with Sustainable Development Goals ("SDGs") to attract impact-driven funding.



### **Focus on Sustainability:**

Sustainable development and long-term impact are gaining prominence in the philanthropic landscape. NGOs and NPOs are increasingly focusing on projects that empower communities to become self-reliant and resilient. Initiatives related to environmental conservation, skill development and entrepreneurship are fostering self-sustaining models.

### **Data Transparency and Accountability:**

As public trust and donor confidence are paramount, NGOs and NPOs are prioritizing transparency and accountability. Demonstrating financial prudence, sharing project outcomes with stakeholders, and adhering to reporting standards are critical to maintaining credibility and building lasting relationships.



### **Digital Advocacy and Awareness:**

With the increasing penetration of the internet, NGOs and NPOs are utilizing digital advocacy to amplify their causes and raise awareness on social issues. Online campaigns, petitions and virtual events are galvanizing public support and influencing policy changes.

### **Collaboration and Partnerships:**

Collaboration is becoming a cornerstone of success for NGOs and NPOs. Recognizing the power of collective action, organizations are forging strategic partnerships with government agencies, private companies and other non-profits. These alliances pool resources, share expertise and create synergy to address complex challenges more effectively.



# GOVERNMENT INITIATIVES

The Government of India has recognized the significant role played by Non-Governmental Organizations (“NGOs”) and Not-for-Profit Organizations (“NPOs”) in the country's development and welfare. To support and encourage their initiatives, the government has introduced several initiatives and schemes. Some of the key government initiatives for NGOs and NPOs in India are:

## **Pradhan Mantri Gramin Digital Saksharta Abhiyan (“PMGDISHA NRLM”):**

The NRLM, also known as Aajeevika, focuses on reducing rural poverty by promoting sustainable livelihoods and enhancing income-generating opportunities. NGOs and NPOs can collaborate with the government in implementing NRLM projects to uplift rural communities.

## **National Skill Development Corporation (“NSDC”):**

The NSDC collaborates with NGOs and NPOs to enhance skill development initiatives across various sectors. Through skill training programs, they aim to create a skilled workforce that meets the demands of the job market.



## **Corporate Social Responsibility ("CSR") Initiatives:**

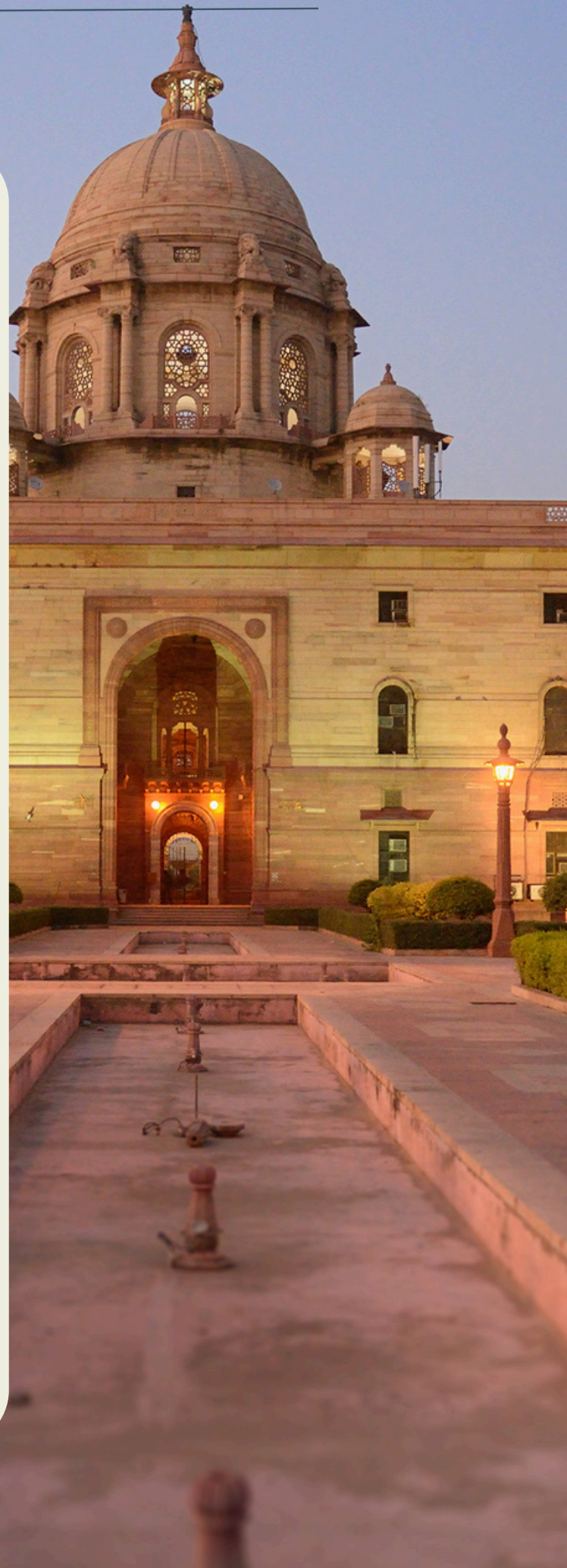
Under the Companies Act 2013, certain companies are required to allocate a portion of their profits towards CSR activities. NGOs and NPOs can partner with corporations to implement CSR projects in diverse areas, including education, healthcare, environmental sustainability and poverty alleviation.

## **NITI Aayog's Development Support Services ("DSS"):**

The DSS provides support to NGOs and NPOs in the form of research, capacity-building and technical assistance. It helps organizations enhance their effectiveness and impact in implementing developmental projects.

## **Startup India Scheme:**

While primarily aimed at promoting entrepreneurship, the Startup India Scheme also provides opportunities for social entrepreneurs who wish to start innovative ventures addressing social issues. Social enterprises can avail of various benefits and support under this initiative.





# RULES, LAWS AND COMPLIANCES

**Trust:** It is a public charitable institution that is registered with the Charity Commissioner's Office, which has jurisdiction over the entire state. The Bombay Public Trust Act, of 1950, was adopted by Maharashtra and has since become a model for other states. The Indian Trusts Act of 1882 is the law that governs trusts.

**Societies:** States have adopted their versions of the Model Societies Act, 1860, according to the Societies Registration Act, 1860. Society is regarded as a self-contained unit of organization. It has a large membership that elects a governing body to manage society's affairs regularly. Members hold the body responsible. The Act allows for the registration of various types of societies, including:

**The Companies Act of 2013:** The Act defines a company as a legal entity. The Act allows for the formation of "Section 8 companies." Section 8 companies, according to the Act, are those formed for art, religion, charity, or other useful objects. Section 8 Company's internal governance is like that of society. The members of the committee or governing council are chosen by the Charitable Company's members. It is possible to dissolve a Section 8 corporation. The registration process takes time and necessitates the submission of a memorandum of association and articles of association to the ROC (registrar of companies).







### **Tax deductions available for NGO compliance:**

Donations under the age of Income Tax Act 80G are deductible: Donors can deduct contributions to trusts, societies, and businesses that are registered under Company Act 2013 section 8. If the funds are from the government, they are entitled to a 100% deduction; if the funds are from non-government entities, they are entitled to a 50% deduction. It is a requirement for an NGO to obtain Section 80G registration to be eligible for an 80G deduction.

### **The Foreign Contribution (Regulation) Act of 2010:**

This act governs the reporting of foreign contributions. All non-profit organizations in India, such as public charitable trusts, societies and Section 8 companies, must obtain registration before accepting any foreign contributions. They must register with the government at the national level.

If a non-profit organization is involved in relief work, it is exempt from customs duty. Imported items such as food, medicine, clothing and blankets are completely exempt. The research equipment and components intended for research institutes are also exempt from the tax.

The Foreign Contribution Regulation Act FCRA Return can be submitted to the Ministry of Home Affairs either annually or quarterly. Even if no foreign contribution is received, the return is required to be filed. The return must be filed using Form FC-4, which includes the organization's charitable activities. The FCRA authorization and the CA certificate must be included in the return



# TAXATION

**Income Tax Act 80G Deduction:** Donors contributing to NGOs/NPOs registered under Section 80G can claim deductions on their taxable income for the amount donated. However, not all NGOs are eligible for this deduction. Donors should check the validity of the NGO's registration under Section 80G before claiming deductions.

**Avail tax exemption:** Registering the company as an NGO under the Companies Act, 2013 helps in availing several taxation benefits. NGOs are exempt from several taxes, which helps the organization utilize the saved money in further projects.

**Exemption on stamp duty:** Under the Income Tax Act, section 8 companies as NGOs are exempted from stamp duty, which results in more tax-saving methods for the company. All the taxes saved through stamp duty are then invested in the promotion of the objectives taken up by the company.

**Structured financial plan:** Having an NGO can bear a tax-free mechanism for actions NGOs are carrying on under the registered NGO. NGOs are considered not-for-profit and tax-exempt. Organizations can develop a structured financial plan that allows the organization to do business devoid of tax liabilities.





# HOW WE CAN HELP?

**Legal Consultation:** Provide legal counsel and advice to the NGO/NPO regarding the dispute, analyzing the merits of the case, potential liabilities and available legal options for resolution.

**Dispute Assessment:** Conduct a thorough assessment of the dispute, identifying the underlying issues and potential areas of agreement or compromise.

**Mediation and Negotiation:** Facilitate mediation or negotiation sessions between the parties to encourage open communication and reach a mutually acceptable resolution.

**Arbitration Services:** Offer arbitration services, acting as a neutral third-party arbitrator to render a binding decision if the parties opt for this method of dispute resolution.

**Drafting Settlement Agreements:** Prepare legally sound settlement agreements that outline the terms of resolution and protect the interests of the NGO/NPO.

**Reviewing Governing Documents:** Examine the organization's bylaws, articles of association and other governing documents to ensure compliance and resolve disputes within the framework of the organization's rules.

**Legal Representation:** If the dispute escalates to litigation, provide legal representation to the NGO/NPO in court proceedings.

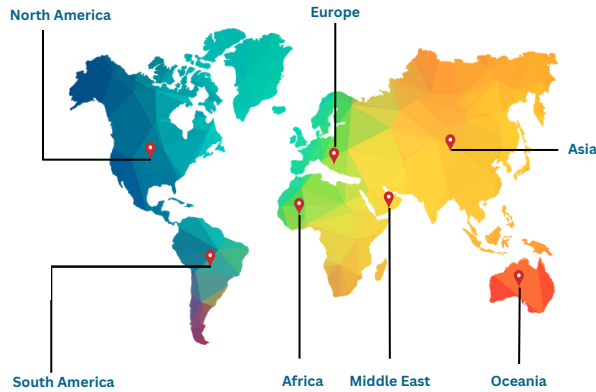
**Alternative Dispute Resolution (“ADR”) Expertise:** Leverage knowledge and experience in ADR methods, such as conciliation and negotiation, to find creative solutions outside of the courtroom.

**Compliance Guidance:** Help the NGO/NPO navigate the relevant laws and regulations to ensure compliance and mitigate future disputes.

**Risk Assessment and Management:** Assess potential legal risks faced by the organization and develop strategies to manage and minimize these risks.



## SERVING CLIENTS WORLDWIDE



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