INDUSTRY NIGHT

CORPORATE SOCIAL RESPONSIBILITY

CATALYZING CORPORATE STARTUP ENGAGEMENT

23RD AUGUST 2018

4:00 PM TO 7:00 PM

ZONE STARTUPS INDIA
18TH FLOOR, BSE BUILDING, P.J.TOWERS, DALA STREET, MUMBAI

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"Industry Night" is a series of bi-monthly evening events, started by Zone Startups, to stimulate an interaction between the leading members of the industry and the startup ecosystem and to share best practices and enabling a peer network in innovation within the space.

At an "Industry Night" you can hear a reverse pitch, wherein industry leaders talk and discuss problems that they are facing; which, shows that the industry is trying to work with innovation or new solutions.

The Corporate Social Responsibility Industry Night was a unique effort to understand challenges and future pathways of not just an industry but of a bridging platform for almost every stakeholder in the Development industry.

After five years of mandating CSR, there has been a shift in how corporates disperse their CSR funds and how the receivers utilize these funds. They have become more strategic and goal oriented.

India being ranked 3rd by Nasscom for number of commercial startups seeking to cater to a new class of consumer looking for ways to make business and daily life easier, in 2015, CSR got a new pathway of investing in these impact startups. The provision for corporates to utilize these funds for strengthening entrepreneurship by investing in Section 8 companies and partnering with government registered Incubators have opened opportunities for impact Startups to accelerate their growth and impact. Several stakeholders apart from government, corporates and startups like CSR consultancies, Incubators, Academicians, Impact investors etc, are increasingly becoming a critical part of building CSR engagement with startups. It was therefore evident to take inputs from all of these stakeholders as a part of this event and bring out this report to spread the future plan of actions for fostering this relationship.

Keynote – by Kartik Desai, Asha Impact

Impact investing is something that lies at the intersection of Philanthropy and For-profit investment. Impact investments are aligned with the National Development Goals and are part of a much larger group of investments to meet these goals. **Corporate Social Responsibility is a major effort by the Indian government to bring corporates as major stakeholders in achieving these goals.**

The current capital invested in impact innovations are good enough to improvise but more funds are needed to scale these innovations and this is where CSR can play a major role. While the CSR intends to get more involved in impact space, to achieve these scales, CSR has to move from traditional approaches of just input based grants and volunteering activities to more innovative and strategic approaches.

Following were some suggestions from the keynote:

1. **Invest only in success - social outcome-oriented grants:** Grants are provided only if the organization or enterprise is able to show the proposed results.
2. **Service Agreement Contracts:** Supporting social enterprises by not just funds but by partnering with them for the provision of services required for building and scaling enterprises.
3. **Grants to DST certified incubators supporting social entrepreneurs:** Since the CSR law mandates to invest only in specific enterprises as per their registrations, grants through incubators (as allowed by law) can help CSR infuse into a large number of impact startups.

'Invest only in success':

- A risk capital investor first invests through an intermediate firm (incubators/accelerators) into an impact enterprise. This investment is a principal amount and the intermediate firms coordinate, structure and manage the impact enterprise.
- The impact enterprise builds and delivers the project to given customer segments to achieve the proposed results.
- An external agency evaluates the results of the project and provides it to outcome funder.
- They pay for the success of impact enterprise to the intermediate firms and the capital investors get their principal amount with interests.

This process can be followed with other not for profit enterprises as well. This is an 'Impact Bond' – an innovative approach for CSR to create a sustainable impact. If the outcome funder is government, it is called as 'Social Impact Bond' (SIB) and if it is a philanthropy organization or individual, it is called as 'Development Impact Bond' (DIB).

Panel Discussion

Panelists

Nusarth Pathan, CSR Head at HDFC | Rachana Iyer, CSR Lead, Capital First | Priya Naik, Founder and CEO at Samhita | Deepak Goel, Business Development Adviser at Shell Foundation | Gaurav Mehta, Founder and CEO at Dharma Life | Kartik Desai, Executive Director at Asha Impact

What does CSR mean to you? How do you engage it with startups?

- CSR is an opportunity to extend who we are as a business
- It has been found that most of the corporate budget's partners are usually NGOs but there is an increase in demand within corporates to partner with startups.
- To have a maximum social impact, create a sustainable program

- Run multi-stakeholder platform – take one issue and bring corporates, foundations, startups, incubators, non-profits, the government all around the table to collectively then create a significant step that can scale over a period of time.
- Corporates are going to be a critical stakeholder in the development sector conversation. Figure out what their portfolios will look like to ensure their engagement with startups.
- Just one element of finance is not going to create a sustainable solution. Grants from organizations, CSRs, impact investors and commercial investors can come together at different stages to make sustainable and scalable solutions.
- De-risk the solutions made by social enterprises to scale them up.

Major stakeholders for CSR and their driving factors:

There are four important stakeholders

1. the government,
2. the organizations (managing, implementing or processing programs), and people to who these organizations are answerable to – their shareholders, CSR and other investors
3. the execution / implementation partner/s
4. the community itself for whom the programs are designed and implemented.

Each of these stakeholders has their own agenda. The challenge is in bringing them together and build synergies between these four at the community level.

In addition, customers could also be described as stakeholders. In many CSR projects, the beneficiaries can ultimately turn into customers for corporates.

Stakeholders within the corporates for CSR:

- CEO and other board members (legally responsible for planning and overseeing CSR).
- CSR practitioner,
- Other teams: the finance team, the compliance team etc.

Difference between Startups and NGOs at the community level:

1. The non-profit give access to community and startups provides the product or the service to the community.
2. NGO is going to provide the service free of cost forever whereas a startup is going to expect some sort of payback.

3. With CSR, the community is beneficiary for NGO and customer with startups.

Considering communities as customers in CSR projects brings in sustainability. Its resonating with corporates.

Hinderances for CSR Startup Engagement

The way the CSR law is currently structured which does not easily allow a corporate startup practice.

- The CSR practitioner has to understand what a social enterprise or startup is, how they are different from NGO.
- They then have to get a board member approval which needs to be explained through compliances.
- The legal and the finance team have no idea how to structure a contract with startup and social enterprises – whether it is a vendor contract or a grant contract or there needs to be a partnership with an incubator.

Due to these factors, things don't move. Even if there are approvals, then there is a challenge of the implementation partner. The NGOs need to understand the startup. So, even if there is a lot of excitement among corporates to partner with startups, there are very practical challenges at four phases

- the discovery phase, where they identify startups
- the contract phase, where they have to figure out how to work with a startup
- the pilot phase, where they have to experience success and
- the last is the scale-up phase, which many haven't gone through. The corporates are impatient. If they see success, they are going to give startups ten times the money, which initially feels great for startups but many are not able to absorb these funds and follow the pace at which corporates expect startups to grow.

So, it is important to look at all of the opportunities distinctly and ensure that both sides have willingness and capability to invest in that relationship.

The shift of CSR from traditional approaches of philanthropy to new age engagement with innovative tech impact startups

The shift of CSR to an outcome-based model is a welcome change. This shift is helpful in designing outcomes and defining differentiators. It pushes the performance due to the efficiency-driven output metrics and assessments which are given to evaluate performance.

The growth of CSR – current challenges and future roadmap:

These issues are there on both sides – from corporates and from startups. The corporates are interested in CSR activities and startups are trying to work with corporates to figure out how we can overcome these barriers. The startups also lack transparency. There have been instances of lack of discipline with startups considering grant money as free money and therefore they lose the credibility. This is a loss for maybe other ten startups who could have had the opportunity to work on CSR projects with that corporate.

The process challenge: CSR is a four-year-old recognition and following were the challenges observed

- The law is very vague. The corporates had to demystify the law. They take the compliance very seriously and have taken time to understand the implication of the law.
- CSR practitioners weren't around before the law came in. There wasn't any degree for CSR and therefore various departments of the corporates had to step-in and understand this new function which again is not very well defined.
- There are all kinds of actors - non-profits, social enterprises, incubators etc and it's difficult to understand the difference between these entities and how a corporate should transact with each of them. There are volunteers with their own point of view who can add or subtract energy very rapidly depending upon how they are managed.

A two-person team of CSR in the corporates is managing budgets between tens to lakhs to tens of crores, making sense of these new emerging noise, creating strategies, sticking to them, finding partners, building capacities, managing upcoming updates.

Future Roadmap 1:

- We first have to build capacity amongst all of us to understand each other
- We have to build trust and
- We have to demonstrate models of engagement

This will build a confidence in deploying this large amount of money that corporates have. The sector has moved rapidly as compared to philanthropic institutions.

The awareness challenge: The first direction that any corporate would look at after the law came up is figuring out which NGOs can deliver; how do you work with them and what are the next steps. Its only after a corporate does some pilots and get involved in the sector, it realizes that it's not the only organization or individual that can be invested in. There is a startup ecosystem and similar platforms where these funds can be deployed. It only happens when the corporates start looking around. There is no visibility of these groups who are ready to deliver.

Future Roadmap 2:

The movement is growing and we have to see how the impact created can be communicated back to the corporates. Funding startups with incubators is one way. Willingness of corporates to ticket further and see the last mile utilization of funds will help in building belief in engaging with startups.

Future Roadmap 3:

Build an ecosystem where the process of communication between start-ups and corporates is accelerated. An ecosystem to help start-ups figure out how to get the pull of capital and help corporates figure out credible and transparent start-ups who can actually deliver the impact which is auditable and measurable.

The funding challenge:

1. **For corporates**: Typical size of funding startups is between 5 lakhs to 20 lakhs. Its easier for corporates to write large checks between 2 to 5 crores for NGOs depending upon its capacity to absorb and deliver. For corporates, the mandated CSR budget comes around 5 crores. With this, how many startups can they manage? They can fund a lot of startups but how many of them can they actually engage with? The corporates have to know what kind of portfolios of startups can they typically manage since they also have to get involved in the capacity building of the startups. With these challenges, the corporates themselves are finding their feet in this engagement.

2. **For Startups:** It's a supply and demand calculation. There is this huge supply of CSR funds and its growing but where is the capacity of people to absorb these funds? That's a typical

economic way of looking at this. India has lots of problems but we also have a maximum number of entrepreneurs.

Future Roadmap 4: Measure the outcomes of social enterprises.

Outcomes which are science based or testing based are direct outcomes and are easier to measure. Social outcomes like health and education outcomes are 'human' outcomes and are difficult to measure. But someone is investing in these outcomes for which there has to be very specific metrics – how do you measure and how do you price that measurement. Something like this is being interestingly done by India Education Outcomes Fund is doing.

There is a cost involved in this measurement of outcomes. If the amount to be invested as CSR funds for an intervention is around 5 crores there are overhead budgets of managing that is again an additional crore. The measurement itself is so expensive. How do you manage with this additional expense?

Future Roadmap 5:

We have to focus on just educating people on raising this outcome funding. Now, along with impact investors and CSRs, even philanthropists are asking for outcomes and are trying to fund based on these outcomes.

Now if everyone is looking for outcomes then you also invest in building instruments for measuring these outcomes.

Government involvement:

Governments involvements can take these efforts to a much higher level. The Government of India is planning to launch a fund of 100 million dollars. If that happens, it's going to give a big boost to the CSRs and philanthropy by taking them to next level in the capital stack. And when impact investors see this, they join in. When the commercial investors see impact investors, they join in too.

While these efforts are in pipeline, the policymakers and bureaucrats may change and the whole thing can get stooped and the process has to be re-initiated. The awareness and education process, therefore, need to be continuous.

Models and methodologies for CSR Startup engagement

There are four kinds of model of engagement currently:

1. **Straight up - Startups are vendors:**
   It is the safest model for corporates as well as startups. It can happen in two ways under the CSR regulation – if the company is foundations, they can contract it out or they give money to an NGO you can then have the startup as a vendor.
2. **With Incubators:**
   Corporates fund incubators who then fund startups.
3. **Self-involvement:**
   Corporates take the responsibility of engaging with startups for growth, mentorship, incubation, and expansion.
4. **Government engagement:**
   Create programs with the government to work on one on one projects with startups. This is a multi-stakeholder engagement.

Methodology 1: Create an internal panel of senior business leaders to evaluate the pitches of each of the startups recommended by incubators and take an informed decision of engaging with a startup based on the sustainability of their social impact and finance in view of the budget.
Take this model ahead by engaging these independent panels of senior business leaders as value-add source for startups.

Methodology 2: Spending time and exploring who is doing what in the CSR as a CSR team of a corporate, in order to find the alignment with the startups to be able to pitch in the new ideas of engagement internally.

Methodology 3: Create volunteering programs to engage employees as resources for startups bridging an important skill gap for startups to grow.

Methodology 4: Use Technology. Standardize the process for engagement by introducing tech platforms. This makes it easier to analyze and evaluate the impact.

Forward Roadmap 6: Stakeholder management

Bring your stakeholders together and figure out how you can reduce the transaction costs in the engagement with start-up.

Methodology 5: Corporates themselves should come together despite differences in their focus areas to increase the funds and accelerate the approvals.

Forward Roadmap 7:

Law firms of India should put out the guidelines on how start-ups can engage with corporates. This is the most time-consuming step in the entire engagement – figuring out how to engage and explaining same to the committee for approvals. A simple document like this or three different samples for reference can have significant boost in the process.