NATIONAL POLICY ON THE VOLUNTARY SECTOR
2005

Preamble

This policy is a commitment to encourage, enable, and empower an independent, creative, and effective voluntary sector, with all its diversity in form and in function, in order to meet present and future challenges for social, cultural, and economic advancement of the people of India.

Voluntary action is essential to deepen democracy, social justice, and equity in the country. The voluntary sector has contributed significantly to finding innovative solutions to poverty, deprivation, discrimination and exclusion, through means such as awareness raising, social mobilization, service delivery, training, research, and advocacy. This policy affirms the growing need for collaboration between government, the voluntary sector, as well as the private sector, at the local, provincial, national, and global levels.

2. Scope of the Policy

2.1 Voluntary organizations (VOs) represent organizations engaged in public service, based on ethical, cultural, social, economic, political, religious, spiritual, or philanthropic considerations. They include informal groups; community-based organizations (CBOs); charitable organizations; non-governmental, development organizations (NGDOs); organizations that support informal groups, CBOs, charitable organizations or NGOs; organizations that are networks or federations of such groups or organisations; as well as professional membership associations.

2.2 Their key characteristics are as follows:
- VOs are registered organizations or informal groups, with defined aims and objectives
- They are private, i.e., separate from government
- They do not return profits generated to their owners or directors
- They are self-governing, i.e., not controlled by government
- Their role in public service may include awareness raising, social mobilization, service delivery, training, research, and advocacy.
3. **Objectives of the Policy**

3.1 The purpose of this policy is to create favourable conditions for VOs engaged in public service to be formed, to function well, and to work independently as well as in collaboration with other actors, in order to strengthen participatory democracy, social justice, and equity. The specific objectives of the policy are listed below.

3.1.1 To create an enabling environment for VOs that stimulates both enterprise and effectiveness, and safeguards their autonomy;

3.1.2 To enable VOs to legitimately mobilize necessary financial resources from India and abroad;

3.1.3 To identify systems by which government may work together with VOs, based on principles of mutual trust and respect, and with shared responsibility and authority as mutually agreed; and,

3.1.4 To encourage VOs to adopt transparent and accountable systems of governance and management, and to enhance their performance.

These objectives are to be achieved through establishing an enabling environment for the voluntary sector, through partnership between government and VOs, and through measures to strengthen the voluntary sector. Each of these is described below.

4. **Establishing an Enabling Environment for the Voluntary Sector**

4.1 The independence of VOs allows them to explore alternative paradigms of development; to challenge social, economic and political forces that may work against public interest; and to find new ways to combat poverty, deprivation, and other social problems. It is therefore crucial that all laws, policies, rules, and regulations relating to VOs categorically safeguard their autonomy. Economic liberalization since the early nineties seeks to do just this for the private sector. In the last two decades the voluntary sector has grown significantly in size, as well as in maturity. It is, therefore, time that a similar approach be adopted towards this sector, in a manner that simultaneously stimulates creativity, accountability and effectiveness.

4.2 Voluntary organizations may be registered as societies, as charitable trusts, or as non-profit companies under central or state laws. Some states have adopted the Societies Registration Act (1860), with
amendments, while others have independent laws. Similarly, laws relating to charitable trusts vary across states. Over time, many of these laws and their corresponding rules have become complex, and restrictive, thus leading to delays, harassment, and corruption. At the same time, some are no longer adequate to safeguard public funds and assets. As the nodal agency for interface between the government and the voluntary sector, the Planning Commission will encourage state governments to review prevailing laws and rules and simplify, liberalise, and rationalise them as far as possible. In order to facilitate registration of non-profit companies, the government will examine measures to simplify procedures under section 25 of the Companies Act (1956), including those for license, registration, and remuneration to member-employees.

4.3 The government will also examine the feasibility of enacting a simple and liberal central law that will serve as an alternative all-India statute for registering VOs, particularly those that wish to operate in different parts of the country, and even abroad. Such a law would co-exist with prevailing central and state laws, allowing a VO the option of registering under one or more laws, depending on the nature and sphere of its activities.

4.4 There has been much public debate on the voluntary sector, particularly its governance, accountability, and transparency. It is widely believed that the voluntary sector must address these issues through suitable self-regulation, as is the practice in various other fields. The government will encourage the evolution of, and subsequently accord recognition to an independent, national level, self-regulatory agency for the voluntary sector.

4.5 At the same time, there is need to bolster public confidence in the voluntary sector by opening it up to greater public scrutiny. At present, all VOs are not required to file basic documents such as their constitution, board composition, membership, and financial accounts with the government. The government will encourage central and state level agencies to introduce norms for filing such documents and placing them in the public domain (with easy access through the internet) in order to inculcate a spirit of public oversight.

4.6 Public donation is an important source of funds for the voluntary sector, and one that can and must increase substantially. Tax incentives play a positive role in this process. Stocks and shares have become a significant form of wealth in the country today. In order to
encourage transfer of shares and stock-options to VOs, the
government will offer tax rebates for this form of donation. The
government will also simplify and streamline the system for granting
income tax exemption status to charitable projects under section 35
AC and other relevant sections of the Income Tax Act. At the same
time, the government will consider tightening administrative and penal
procedures to ensure that these incentives are not misused by paper
charities for private financial gain.

4.7 International funding of voluntary organizations plays a small, but
significant part in supporting such organizations and their work in the
country. An organization seeking foreign funding must be registered
under the Foreign Contribution (Regulation) Act. This law prescribes
highly stringent screening norms that often restrict the ability for VOs
to avail of foreign funds. When approved, these funds must be held in
a single bank account, thus presenting enormous difficulties to VOs
working at different locations. The government will review the FCRA
with respect to VOs, and simplify and liberalise it to enable greater
resource mobilization from abroad, and to allow for greater operational
freedom in the voluntary sector.

4.8 The central government has framed guidelines for bilateral agencies to
give direct assistance to voluntary organizations for projects of social
and economic importance. It controls access to such funds and their
utilisation, both through the FCRA and through regulation by the
Department of Economic Affairs. This system needs to be simplified,
to obviate the need for bilateral agencies to seek case-by-case
approval of individual projects by the central government.

4.9 The tax exemption framework in the country has been progressively
tightened in order to prevent businesses from availing of tax
exemption by masquerading as charities. The scope for tax evasion
also exists where fees are the predominant source of income, notably,
private schools and hospitals. Therefore, it is necessary to make a
distinction between public-utility organizations depending on fees, and
public-benefit organizations depending on grants, as is the practice in
some other countries. The government will introduce measures for
separate classification and differential treatment of the two categories
under the Income Tax Act.

4.10 Under the Income Tax Act, a VO must spend at least 85% of its
annual income in the same year. This means that it cannot set aside
more than 15% of its annual income as surplus funds, or transfer them
to its corpus. This feature restricts a VO from building up capital. With a view to strengthening the financial sustainability of the voluntary sector, the government will review the existing provisions related to annual spending limit and procedures for creating corpus funds in order to encourage VO to plough back a greater part of their income to their corpus.

4.11 India is emerging as a regional and global player, both economically and politically. This trend is visible in the voluntary sector as well. Some Indian VO have the capacity to extend their work to other countries. A number of international development organizations are interested in partnering Indian VO for a range of activities in India and abroad. The government will introduce suitable provisions in the Income Tax Act and the FCRA to allow VO to spend their funds in other countries for suitable philanthropic and charitable purposes, barring funding of electoral politics, religious or ethnic sectarianism, and any other purpose restricted by local laws in the concerned country.

4.12 The Government will encourage all relevant central and state government agencies to introduce pre-service and in-service training modules on constructive relations with the voluntary sector. Such agencies should introduce time bound procedures for all dealings with voluntary organizations. These would include registration, income tax clearances, financial assistance, and other processes. The agencies should have formal systems for registering complaints, and for redressing grievances. Publication of informative booklets in the local language would help the public to comply with official rules and regulations.

5. **Partnership in Development**

5.1 Acting alone, the government cannot guarantee equity, justice, and empowerment to citizens. The voluntary sector plays an important role in deepening development and democracy. As partners in development, VO offer alternative perspectives derived from their own thinking and experience; qualified, talented, and committed expertise; an understanding of local opportunities, and constraints; and, perhaps most importantly, the capacity to conduct a meaningful dialogue with communities, particularly those that are disadvantaged. It is therefore essential that government and the voluntary sector work together to achieve synergy, whereby the result of joint efforts far outweigh those of separate efforts. Where feasible, such partnership
may also include other entities such as panchayati raj institutions, municipalities, academic institutions, and private sector organizations.

5.2 Partnership between government and VOs implies identifying shared goals, and defining complementary roles. It must be based on the basic principles of mutual trust and respect, with shared responsibility and authority. This requires a major attitudinal change in government, and in the voluntary sector. These principles must be explicit in the terms and conditions of the partnership. They must also be evident in the formal and informal systems of collaboration.

5.3 This policy recognizes three instruments of partnership, viz., consultation, through a formal process of interaction at the centre, state and district level; strategic collaboration to tackle complex interventions where sustained social mobilization is critical over the long term; and project funding through standard schemes. The Government will ensure that these three instruments of partnership are given due attention in Annual Plans prepared by ministries. Further details are discussed below.

5.4 An institutionalized process of consultation is a crucial instrument of partnership. With a view to improving constructive interaction between government and VOs, the government will encourage setting up of consultative groups by relevant central and state ministries (including social welfare, health, education, agriculture and rural development, environment and forests, science and technology). It will also encourage district administrations, district planning bodies, district rural development agencies, zilla parishads, and local governments to do so. These groups will be permanent forums with the explicit mandate to share ideas, views, and information, and to identify opportunities and mechanisms of working together. The government will introduce suitable mechanisms for involving a wide cross-section of the voluntary sector in these forums.

5.4.1 Apart from permanent consultative groups, there is also a need to draw upon the expertise of the voluntary sector to help tackle key issues on a short-term basis, from time to time. Reasonable numbers of suitable experts from VOs will therefore be included in relevant committees, task forces, and advisory panels constituted by the government.

5.5 The country faces a number of complex problems that require adaptive, multi-sectoral solutions where sustained social mobilization
is particularly challenging. These include poverty alleviation, empowerment of women, population stabilization, combating HIV/AIDS, water resources, elementary education and forest management, to name just a few. Such areas urgently require strategic collaboration between government and VOs, through national level programmes that are long-term in duration, and utilize multiple strategies, methodologies, and activities to achieve stated objectives.

5.5.1 The government will identify specific themes for national collaborative programmes to be implemented in partnership with VO consortia. Each such programme will be led and managed by an independent, specialized, national level institution. Suitable support organisations, philanthropic organizations and academic institutions will be considered for this role.

5.5.2 Each national collaborative programme will involve a finite set of reputed, medium or large VOs in different parts of the country, with a proven track record, and the ability to work on a reasonably large scale. While these VOs will be primarily responsible for programme management, government agencies will provide local facilitation, and technical and financial assistance. There will be joint responsibility for setting out programme working principles, and for monitoring and evaluation. The Planning Commission will ensure that national collaborative programmes in partnership with VO consortia are given due importance in Plan documents.

5.6 The third instrument of partnership between government and the voluntary sector is project funding. A large number of government agencies operate schemes for financial assistance to VOs. These schemes usually deal with activities such as surveys, research, workshops, seminars, documentation, awareness raising, training, creation of public welfare facilities, running public welfare facilities, and so on. Project grants are a highly useful means for government to promote its activities without direct involvement. They are also a valuable source of support to small and medium VOs. Nevertheless, there are legitimate concerns regarding the effectiveness of grant-in-aid schemes. Out-dated design, arbitrary procedures, selection of unsuitable VOs, poor quality of implementation, and misuse of funds are some features that can help to defeat the objectives of a scheme.

5.6.1 Some central agencies have achieved good results by decentralizing the process of project funding. Rather than administering various
schemes directly, they appoint regional or state level intermediary organizations to do so on their behalf. This allows for closer interaction for better selection of VOs, and better monitoring of VOs. Intermediaries could include umbrella VOs, professional or academic institutes, state government agencies, or multi-stakeholder standing committees. The Planning Commission will review the experience of such decentralized funding and make suitable recommendations to central agencies.

5.6.2 There is a view that accreditation of VOs will improve the system of government funding. It is expected that accreditation will lead to better funding decisions, and make funding processes more transparent. Further, accreditation may provide incentives for better governance, management, and performance of VOs. However, no validated and reliable accreditation procedures are available as of now. In the absence of such procedures, indiscriminate or premature use of accreditation may prove counter-productive. The government will therefore encourage various agencies, including those in the voluntary sector, to develop alternative accreditation methodologies. It will allow time for such methods to be debated in the voluntary sector, and gain acceptability, before considering their application to government funding of VOs.

5.6.3 In order to improve the effectiveness of project funding to the voluntary sector, the Planning Commission will review the performance of all such schemes and suggest suitable measures to streamline design, implementation, monitoring, and evaluation procedures.

6. **Strengthening the Voluntary Sector**

6.1 Indian society has a well-established tradition of philanthropy. While a regime of tax concessions facilitates donations to charitable organizations, there is considerable untapped potential to channelise private wealth for public service. The government will support and encourage existing, as well new, independent philanthropic institutions to provide financial assistance to deserving VOs. It will also promote a dialogue among public and private grant makers so that they may take advantage of the best practices in grant making.

6.2 Accountability to all stakeholders, and transparency in functioning are key issues in good governance. The voluntary sector is expected to set its own benchmarks that stimulate peer pressure for improved
governance. Since VOs vary in history, ideology, thematic focus, activities, and working methods, it is impractical to lay down uniform norms for all. It will encourage suitable support organizations, and VO networks and federations to facilitate discussion, deliberation, and consensus-building on this issue. It will also encourage such agencies to advise and assist VOs to voluntarily adopt norms that they find acceptable, and useful. The government will duly recognize excellence in governance among VOs by publicizing best practices, and by conferment of awards.

6.3 Training is a crucial requirement for people working in the voluntary sector. However, this is often neglected on account of limited availability of training courses that are high quality yet reasonably priced. The government will support and encourage organizations that train aspirants to enter the voluntary sector, as well as those already working in the sector. Such training courses will focus on imparting relevant organizational, managerial, technical skills, and social skills. For this purpose, the government will make available physical facilities currently available with its training institutes at the central and state level.

6.4 Innovation in institutional, technical, and social approaches to development problems is an essential ingredient of voluntary action. The government will support and encourage innovation by conferring awards for pioneering work.

6.5 Databases of VOs working in different fields, and at different levels, are useful for communication within the voluntary sector, as well as between the voluntary sector, government, and private sector. The government will commission suitable agencies to prepare and update such databases.

6.6 Information on government policies and programmes is often difficult for VOs to access. The Planning Commission website will be re-designed to provide links to key documents and databases of relevant government agencies, including project funding schemes, in a range of local languages.

6.7 Informal organizations such as citizen action groups, community associations, youth clubs, *mahila mandals*, and self-help groups are an important part of civil society. The government will endeavour to recognize the contribution of such groups, and introduce suitable administrative guidelines and mechanisms to engage them at the
local level. It will, for instance, encourage the involvement of volunteers in public services such as schools, family welfare centers, primary health centers, hospitals, vocational training centers. Particular attention will be paid to utilizing the knowledge and experience of senior citizens, as well as the energy and enthusiasm of young people.

This National Policy on the Voluntary Sector 2005 is the beginning of a process to evolve a new partnership between Government and the Voluntary Sector in the economic and social development of the nation, without affecting the autonomy of VOs.