DOIs:10.2017/IJRCS/202405025 --:-- Research Paper / Article / Review

Social Stock Exchange: A New Dimension of capital markets in India

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Abstract: *The SEBI approved the formation of the 'Social Stock Exchange', which is regarded as a game changer in the social impact sector. This is especially important in a large country like India, where socioeconomic disparities exist across sectors. This Exchange will seek to give a more streamlined and organized approach to the operation of non-profit organizations, as well as to assist unlock additional financing for social impact in the country. SEBI has stated that SSE will allow charity and for-profit social organizations to list on the Exchange. The SSE will support not just the rising investment industry, but also a more regulated capital market in India. The Finance Minister of India declared intentions to establish an India-based SSE in 2019, with the goal of improving the capacity of social enterprises and non-profit organisations to obtain money via debt, equity, and/or mutual funds. This study highlights the concept and benefits of SSE, concept of social enterprise, and explain the challenges and future of SSE in India.*

Key Words: *Social enterprises, Stock Exchange, Social Impact, Listing, Regulations.*

1. INTRODUCTION :

As part of the Budget Speech for FY 2019-20, Hon'ble Finance Minister Smt. Nirmala Sitharaman proposed the idea of an electronic fund-raising platform "Social Stock Exchange" under the governing scope of SEBI for listing social enterprises and voluntary organizations engaged for the achievement of a social welfare objective so that they can raise money as equity, debt, or units, similar to mutual funds. The SSE would serve as a separate sector of the existing stock exchange, assisting social businesses in raising financing from the public via its mechanism. It would act as an interface for businesses to seek funding for their social activities, obtain awareness, and give greater transparency about resource mobilization and utilization. Retail investors are limited to investing in securities issued by for-profit social enterprises (SEs) on the Main Board. In all other circumstances, only institutional and non-institutional investors may invest in SE-issued securities.

The Millennium Development Goals (MDGs) and the Sustainable Development Goals (SDGs) have established a shared set of aspirational aims for nations to work toward a more sustainable, safe, and prosperous world. Alongside, the corporates began to take a range of steps to guarantee that their actions do not harm society or the environment. Investing has also transitioned to an Environmental Social Governance (ESG) approach. The Hon'ble Finance Minister revealed the following in his Budget Speech for Fiscal Year 2019-20:

"It is time to take our capital markets closer to the masses and meet various social welfare objectives related to inclusive growth and financial inclusion. I propose to initiate steps towards creating an electronic fund raising platform- a social stock exchange- under the regulatory ambit of Securities and Exchange Board of India for listing social enterprises and voluntary organizations working for the realization of a social welfare objective so that they can raise capital as equity, debt or as units like a mutual fund.
Accordingly, SEBI constituted a working group on 'Social Stock Exchanges' (SSE) under the Chairmanship of Shri Ishaat Hussain on September 19, 2019."

Figure 1 Timeline showing Evolution of concept of SSE

As per the draft SEBI report, a Social Stock Exchange might assist to reconstruct the livelihoods of those affected by pandemics such as COVID-19. *"The SSEs will aim at unlocking large pools of social capital, and encourage blended finance structures, so that conventional capital can partner with social capital to address the urgent challenges of COVID-19."*

The SSE will also contribute to impact investment's increased accessibility, which will boost funding for sustainable development. The Securities and Exchange Board of India (SEBI), the markets regulator, granted the National Stock Exchange of India formal approval on February 22, 2023, to establish a Social Stock Exchange (SSE).

2. Key Benefits of Social Stock Exchange :

a) **Better market access:** SSE will make it easier for social enterprises and investors/donors to interact in a structured, common space with built-in regulations that ensure financial accountability and integrity.
b) **Synergy between investors and investees in social goals:** Given the flexibility of the funds and investments that would be made available on SSE, there would be a greater range of options, facilitating easy connections between investors and investees who share similar goals and missions.
c) **Performance-based philanthropy:** Since the SSE lists companies' performance will be tracked, a culture of performance-driven (or social return-driven) generosity will be established.
d) **Minimal Registration Cost:** By charging small fees for listing and registration, SSE reduces costs for issuers as well as for investors and donors.
e) **Extra avenue for Social Enterprises:** Up until now, the largest responsibility for accomplishing sustainable development objectives has rested with the federal and state governments. SSE will offer a different way to raise money, promoting both current and new social entrepreneurs.
f) **Social impact reporting:** To lessen information asymmetry, common minimum requirements for social impact reporting have been proposed for both categories (FPEs and NPOs). The working group also recommends running a "capacity building fund" to improve NPOs' ability to report. It is also anticipated that in due course, a brand-new auditor class known as social auditors will independently confirm the impact reports provided by NPOs.
g) **Tax benefits:** The committee has also suggested a number of tax breaks, benefits, and other helpful regulatory clarifications in order to boost the adoption of these funding structures among different investor groups.
h) **Strict regulatory oversight:** Self-reporting social effect alone should not be the sole basis for listing FPEs on the SSE. In order to guarantee that solely legitimate FPEs can affiliate with SSE, SEBI ought to devise a system for evaluating the qualifications of the social impact dimensions that the FPEs have self-reported, in collaboration with the current specialized organizations.
i) **Decreased Government burden:** Up until now, the primary responsibility for accomplishing sustainable development goals has been on the Central and State governments. The establishment of an SSE would significantly increase private sector involvement in a number of crucial areas, reducing the load on the government and encouraging cooperation in the pursuit of the development objectives.

j) **Access to foreign finance:** An SSE would create a platform for efficiently leveraging and luring funding from bilateral and multilateral organizations as well as from overseas sources. The platform would enable these organizations to contribute significantly to the growth of the nation's social sector while eventually confirming their legitimacy. In the long run, this would in some days, curtail the influx of dubious foreign funds in NGOs.

k) **Constant flow of funding:** By giving social enterprises more exposure to possible investors, the aforementioned projects and/or social enterprises would always have a variety of ways to get funds, minimizing ongoing concerns about funding shortages and initiatives ending suddenly.

3. Eligibility Condition for being identified as Social Enterprises

- **Predominance (Any one of the following)**

Social Enterprise

Revenues	Expenditure	Beneficiaries
At least 67% of the immediately preceding 3-year average of revenues comes from providing eligible activities to members of the target population	At least 67%of the immediately preceding 3-year average of expenditures has been incurred for providing eligible activities to members of the target population	Members of the target population to whom the eligible activities have been provided constitute at least 67% of the immediately preceding 3-year average of the total customer base/ beneficiaries

- **Target Segment**
  Social Enterprise shall target underserved or less privileged population segments or regions recording lower performance in the development priorities of central or state governments.

- **List of eligible activities for demonstrating primacy of Social Impact**

17 plausible criteria under **SEBI's ICDR Regulations, 2018** include:

- eradicating hunger, poverty, malnutrition and inequality
- promoting health care including mental healthcare, sanitation and making available safe drinking water
- promoting education, employability and livelihoods
- promoting gender equality, empowerment of women and LGBTQIA+ communities
- ensuring environmental sustainability, addressing climate change including mitigation and adaptation, forest and wildlife conservation
- protection of national heritage, art and culture
- training to promote rural sports, nationally recognized sports, Paralympic sports and Olympic sports
- supporting incubators of Social Enterprises
- supporting other platforms that strengthen the non-profit ecosystem in fundraising and capacity building
- promoting livelihoods for rural and urban poor including enhancing income of small and marginal farmers and workers in the non-farm sector
- slum area development, affordable housing and other interventions to build sustainable and resilient cities
- disaster management, including relief, rehabilitation and reconstruction activities
- promotion of financial inclusion
- facilitating access to land and property assets for disadvantaged communities
- bridging the digital divide in internet and mobile phone access, addressing issues of misinformation and data protection
- promoting welfare of migrants and displaced persons
- any other area as identified by the Board or Government of India from time to time.

ISSN(O): 2456-6683
[Impact Factor: 7.148]

4. Minimum Reporting Standards mandated for Social Enterprises :

By evaluating components from numerous national and international frameworks of measurement that have been developed and are in use, the minimum reporting criteria were created. The following are the reporting standard's primary components:

a) Section 1: Strategic Intent and Goal Setting

(a) The social issue that needs to be resolved
(b) The target market that needs to be catered to
(c) The method for resolving the issue

b) Section 2-Social Impact Scorecard

(a) Target segment served extent;
(b) impact intensity on median individual;
(c) income, social equity, and diversity dimensions

c) Section 3: General Data

(a)Members of the governing body
(b) Example of previous funding history
(c) Financials, Licences or Registrations

5. Social enterprises not eligible to get registered or raise funds through Social Stock Exchange/Stock Exchange:

A Social Enterprise cannot register or raise funds through the Social Stock Exchange/Stock Exchange if:

a) any of its promoters, promoter group, directors, selling shareholders (for-profit social enterprise), or trustees have been prohibited from accessing the securities market by SEBI,
b) if any of the promoters, directors, or trustees are promoters or directors of another company or Social Enterprise that has been prohibited by SEBI.
c) If the Social Enterprise or its promoters are intentional defaulters or deceptive borrowers.
d) If any of the promoters, directors, or trustees are fugitive economic violators.
e) if the Social Enterprise or any of its promoters, directors, or trustees has been forbidden from conducting its operations or raising funds by the Ministry of Home Affairs, any other ministry of the Central Government, State Government, Charitable Commissioner, or any other statutory agency.

Not-for-profit organization in the context of Social Stock Exchange

A not-for-profit organization is an entity that fits the criteria to be designated as a social enterprise and is one of the following entities:
a) A charitable trust registered under the relevant state's public trust statute.
b) A charitable society registered under the Societies Registration Act, 1860 (21 of 1860).
c) A company incorporated under section 8 of the Companies Act, 2013 (18 of 2013);
d) Any other entity specified by SEBI.

For profit social enterprise in the context of Social Stock Exchange

A for-profit social enterprise is an entity that fits the criteria for being designated as a social enterprise and can be any of the following:
a) A profit-making company under the Companies Act of 2013, excluding those incorporated under section 8 (18 of 2013);
b) A profit-making body corporate.

Fund-raising by For-Profit Enterprise and NPOs through Social Stock Exchange

A For Profit Social enterprises can raise funding by:
a) issuing equity shares on the main board, SME platform, or innovators development platform of the stock market.
b) They can also issue equity shares to alternative investment vehicles, such as the Social Impact Fund.
c) Debt instrument issuance
d) Other future SEBI-specified means.
If for-profit businesses issue equity shares on the Main Board, SME Platform, or Innovators Growth Platform of the stock exchange, as applicable, they must also meet the qualifying conditions for the corresponding platform as stipulated by the SEBI (ICDR Regulations) 2018. Similarly, issuance of equity shares to AIFs, issuance of debt securities, and so on would require compliance with the appropriate SEBI Regulations.

A registered Not-for-Profit organization can raise funds on Social Stock Exchange by
a) issuing Zero Coupon Zero Principal Instruments, either through private placement or public issuance.
b) Donations made through certain mutual fund schemes.
c) Any other methods SEBI may designate in the future

6. Registration of For-Profit Enterprise and NPOs for raising through Social Stock Exchange :

Before raising money through SSE, a for-profit social enterprise must comply with the provisions of the ICDR Regulations and the AIF Regulations [as applicable to its fund-raising mechanisms].

Before raising funding through SSE, NPO organizations must first register with the SSE. A non-profit organization, whether or not registered with the Social Stock Exchange, may continue to raise funds through any other means permitted by law. A non-profit organization may choose to register on a social stock exchange without raising revenue through it. It may also continue to raise funds by any other methods. It is not necessary for Not-for-Profit Organizations registered with the Social Stock Exchange under Regulation 292F of the ICDR Regulations to seek listing.

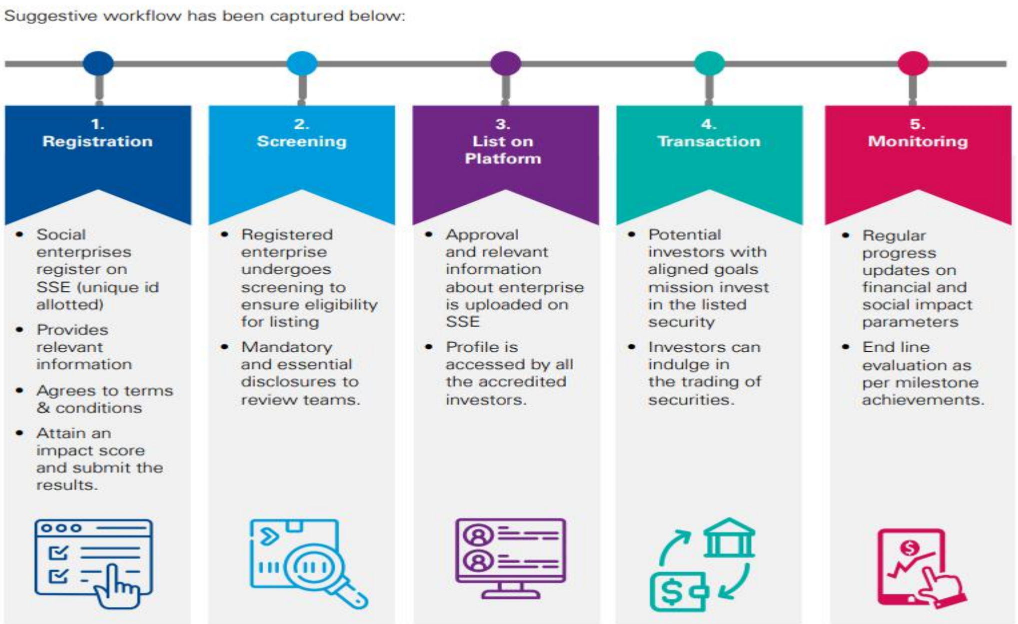

Figure 2 Suggestive workflow of Social Stock Exchange

Tax Benefits
Investors will get Section 80G benefits which allow all investments in securities/instruments of NPOs listed on SSE to be tax deductible, and corporates to deduct CSR expenditure from their taxable income, among other things. Investment by companies will be considered as part of their Corporate Social Responsibility (CSR) initiatives.

7. Regulations :

The Securities and Exchange Board of India (SEBI) will oversee the social stock markets in India. It has also implemented transparency rules for social entrepreneurs listed on SSEs.

SEBI mandates NPOs listed on social stock exchanges to file an Annual Impact Report (AIR) each year, outlining the impact of their activities. They will also be required to produce a fund utilization statement on a regular basis. A Social Impact Assessor will need to audit the AIR. Chartered Accountants, Company Secretaries, and Cost Accountants may act as Social Impact Assessors after obtaining appropriate certificates and completing the eligibility conditions.

SSEs will be obliged to establish an SSE Governing Council (SGC) to oversee their operations. SGCs will consist of at least seven members, one from each of the following categories.

1. Donors from the philanthropic and social sectors, both public and private.

2. NPOs

3. Information repositories

4. Social Impact Investors

5. Self-regulatory organization or profession for social auditors.

6. Capacity-building fund

7. Stock Exchange

Seven SSEs received charitable financing to develop and launch operations, but this was sometimes insufficient to cover running costs because SSEs did not generate enough revenue through their fee structure due to a lack of scale and demand for their services. While SSEs are generally neutral about causes, they are likely to perpetuate funding inequalities in thematic areas that are more visible and generate revenue streams. A analysis of 123 projects published on six SSEs revealed that environmental projects were the most popular (25% of all projects), owing to the prominence of social entrepreneurs in sectors such as clean technology. These were followed by initiatives centered on livelihood, healthcare, and individuals with impairments. Mental health, gender-based violence, senior care, and policy advocacy initiatives were less common. Most SSEs emphasize project financing over obtaining core money to establish and grow organizational processes and systems. All current SSEs accept both retail (one-time and lesser donations) and institutional investors (foundations or high-net-worth individuals making monthly and larger donations). However, options for ordinary investors are restricted due to regulatory constraints, a scarcity of acceptable products that balance risk and return, and the high cost of servicing them.

Figure 3 Representative model of SSE

First ever Listing at Social Stock Exchange in India

With the launch of SGBS Unnati Foundation, India saw its first-ever listing on the Social Stock Exchange (SSE). Through its SSE listing, the Bengaluru-based non-profit organisation (NPO) received somewhat less than Rs 2 crore from high net-worth individuals (HNIs). Through its UNXT programme, the NGO hopes to teach roughly 10,000 graduates from government colleges and help them find employment. The monies raised will go towards this goal. 90% of the issue was subscribed, and based on reports, the NGO was able to raise approximately Rs 1.8 crore.

Challenges and Future of SSE in India

An SSE would draw players of all sizes, which would result in greater transactional costs due to the institutional effort required for due diligence, monitoring, and, ultimately, effect evaluation. Means that outsourcing ancillary activities or passing the expense on to investors for the specified transactions must be prepared. Such regulations may also limit the involvement of small-scale retail investors on the market; but, when combined with tax breaks, this issue can be overcome.

The most pressing issue remains accreditation at all levels—among investors, social enterprises, and the intermediaries who serve as crucial brokers and valuation experts in the industry. Another significant problem is developing a facilitatory environment, particularly given that 90% of the organizations that could possibly engage are small and have minimal resources. Building this ecosystem and strengthening the capacities of involved parties is an ongoing process. To achieve this purpose, a ten-million-rupee Capacity Building Fund has been established, including donations from NABARD and SIDBI.

Validating social impact necessitates a comprehensive social audit measuring system and trained social impact assessors. Aside from developing a new cadre of jobs, it is vital to ensure a standardized procedure of social auditing and to improve openness and accountability requirements in the social sector. As a result, the National Institutes of Securities Markets (NISM) is providing a training-and-certification program for social auditors.

8. Conclusion:

Various countries around the world have seen the introduction and extinction of the concept of SSEs within a very short period of time. While the model of SSE in India is quite different from the ones that evolved in countries around the world, however, whether this concept would be successful in India or not will require powers of prophecy. SEBI has permitted, and may be stock exchanges will quickly implement the SSEs, but the question is – will there be takers? There is no doubt that a huge amount of money flows into social enterprises in India in the form of pure donations, and donors will find it much better to donate to regulated SEs complying with corporate governance norms than not. However, will there be enough incentive for the SEs to get adapted to the rigorous corporate governance norms? This is the question which will hold the clue to the success of SSEs in India.

Making SSEs succeed is hard and drawn-out work – but if India wants to ensure that investments in human capital stay a priority in this post-Covid era, it needs the various stakeholders – government, investors, businesses, financial intermediaries, regulators, philanthropic organisations, and NGOs – to partner, collaborate and co-invest. SSEs are a unique and novel mechanism for socially conscious enterprises and non-profits to access an alternative funding mechanism that is reliable and subject to public scrutiny. In India particularly, an SSE could go a long way towards inculcating professionalism, objectivity and a culture of tracking, measuring, documenting, and reporting the social impact they are creating. The transparency and the opportunity to impact social change at scale is a clear win-win for all stakeholders in the ecosystem. The SSE is a new set-up. The challenges and collateral benefits or pitfalls may only be known as more social enterprises get listed and use the variety of fund-raising avenues available to them. The regulator and the exchanges will keep monitoring and adjusting their policies to streamline the processes. Therefore, our knowledge about SSEs will also evolve and refine over time.

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