



SOCIAL STOCK EXCHANGE– A DRIVING FORCE IN INDIA’S DEVELOPING ECONOMY

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Abstract

The social sector refers to partially non-profit sector whose main aim is to achieve social development and providing basic needs to the people. India will require massive investments in the coming years to be able to meet their human development goals. This cannot be done through government expenditure alone. Private enterprises working in the social sector are also required to contribute. Currently, social enterprises are very active in India. However, they face challenges in raising funds.

A Social Stock Exchange is a platform which allows investors to buy shares in social enterprises under an official exchange and raise the fund from the public through a common platform.

The social Stock Exchange is a regulated funding platform which allows social enterprises and voluntary welfare organizations with a social purpose, to raise funds from the capital markets. The aim of introducing Social Stock Exchange is to enable not for profit organizations to raise capital and work in close collaboration with the business and developmental enterprises and individuals of the society to meet the social concerns and issues of the society.

The purpose of the study to understand the role of social stock exchange, its benefits, framework of Social Stock Exchanges and its impact economy of the country.

Key words : SSE – Social Stock Exchange, NPO – Non Profit Organisation, NGO – Non Government Organisation FPEs – For Profit Enterprises, WG – Working Group, TG – Technical Group

Statement of Problem

What are the regulatory framework of Social Stock Exchanges, Need of Social Stock Exchange, its benefits and impact on country’s economy.

Objectives of the Study

- To understand the meaning of Social Stock Exchange.
- To understand the benefits of Social Stock Exchange
- To facilitate the availability of funds through Social Stock Exchange
- Framework on Social Stock Exchange
- Minimum disclosure of requirements for raising the funds

Scope of the Study

This study helps us in undertaking the work process of Social Stock Exchange, It also helps how Non Profit Organisations and Voluntary Organisations can raise the funds through the stock exchange how Stock markets works for raising the funds under the guidelines of Security Exchange Board of India (SEBI).

Hypothesis of Study

H0: Social Stock Exchange will overcome the problem of lack of funds for social impact to



some extent

H1: Social Stock Exchange will not overcome the problem of lack of funds for social impact

H0: Social Stock Exchange is a driving force in India's developing economy

H1: Social Stock Exchange is a driving force in India's developing economy

Research Methodology

This paper is based on Secondary data includes SEBI Working groups, Published papers, Reports of corporate, and primary data through the online survey form

Introduction

“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.”

- Hon'ble Finance Minister *Ms. Nirmala Sitharaman*

The social sector refers to partially non-profit sector whose main aim is to achieve social development and providing basic needs to the people. India will require massive investments in the coming years to be able to meet their human development goals. This cannot be done through government expenditure alone. Private enterprises working in the social sector are also required to contribute. Currently, social enterprises are very active in India. However, they face challenges in raising funds.

The British Council Report published by the British Council on the basis of survey conducted on around 258 Social Enterprises (SE) peculiarly enlightens the contributions of such enterprises to our ecosystem as under:

- Around 2,000,000 social enterprises currently operating in multiple sectors like skill development, education, food & nutrition, human rights, rehabilitation etc., with set growth plans are anticipated to be a part of the Indian social ecosystem
- 57% of the Social Enterprise (SE) are 5 years old or younger wherein the leadership is also relatively young viz the average age is below 44
- Employment to 19 employees on average (17 full-time and 4-part-time) wherein 25% of the full-time employees and 65% of the part-time employees are women
- 24% of the social enterprises are led by women, higher than the 8.9% female-led firms in mainstream business/ private sector firms.

It is also observed that 32% of Indian social enterprises have seen a general lack of understanding among banks and financial organizations about their work and 20% reported a lack of awareness amongst community members about their goals, functions and objectives. The report also found that about 33% of Indian social enterprises felt that their limited networks act as a barrier to accessing investors.

In India Social Stock Exchange was first floated by the Hon'ble Finance Minister Ms. Nirmala Sitharaman in her budget speech for the year 2019-20.

A Social Stock Exchange is a platform which allows investors to buy shares in social enterprises under an official exchange and raise the fund from the public through a common platform.



The social Stock Exchange is a regulated funding platform which allows social enterprises and voluntary welfare organizations with a social purpose, to raise funds from the capital markets. The aim of introducing Social Stock Exchange is to enable not for profit organizations to raise capital and work in close collaboration with the business and developmental enterprises and individuals of the society to meet the social concerns and issues of the society.

The proposed exchange will be under the regulation of Securities and Board Exchange of India (SEBI). The working group was set up by SEBI in September 2019 under the chairmanship of *Ishaat Hussain*, director at SBI Foundation and former finance director at Tata Sons.

SEBI constituted working group and technical group on Social Stock Exchange to examine and make recommendations with respect to possible structures and mechanisms, within the securities market domain, to facilitate raising of funds by social enterprises and voluntary organizations.

Key Dates pertaining to development of the concept of Social Stock Exchange in India		Objective
Constitution of Working Group	September 19, 2019	To examine and make recommendations with respect to possible structures and mechanisms, within the securities market domain, to facilitate raising of funds by social enterprises and voluntary organizations.
Report of the working group	June 1, 2021	
Constitution of Technical Group	September 21, 2020	To review and make recommendations on certain critical operational issue, in the context of the recommendations made by the Working Group on the Social Stock Exchange
Technical Group Report	May 06, 2021	
Submission of Public Comments on the Report of Technical Group	July 20, 2021 (Before extension, it was June 20, 2021)	

Source : BSE Working Papers

On 28th September, 2021, The Securities Exchange Board of India has cleared the proposal and approved the framework for setting up Social Stock Exchange.

Social Stock Exchange (SSE) will aim at mitigating the economic damage caused by Covid-19 pandemic and this will need Social capital to rebuild the livelihoods of the people affected due to pandemic. Social Stock Exchange will aim at addressing the pressing problem, as it will unlock the large pools of social capital and enabling commercial capital to partner with Social capital.

Presently, the Social Enterprises (SEs) receive funding via CSR, philanthropic donations, crowdfunding etc. SSE, providing a unified funding channel, will act as an umbrella organization to monitor due diligence, reporting and standardized disclosures of the listed SEs. The SEs listing herein would be subjected to enhanced continuous disclosures encompassing financial, governance and social impact aspects. Although the listed SEs will enjoy tax benefits, they would be subject to mandatory social audits by auditors certified by National Institute of Securities Markets and self-regulatory sustainability directorate certified by Institute of Chartered Accountants

Literature Review:

As this concept of Social Stock Exchange is new concept. Very few articles are published on Social Stock Exchanges those are on Introduction, and SEBI guidelines.

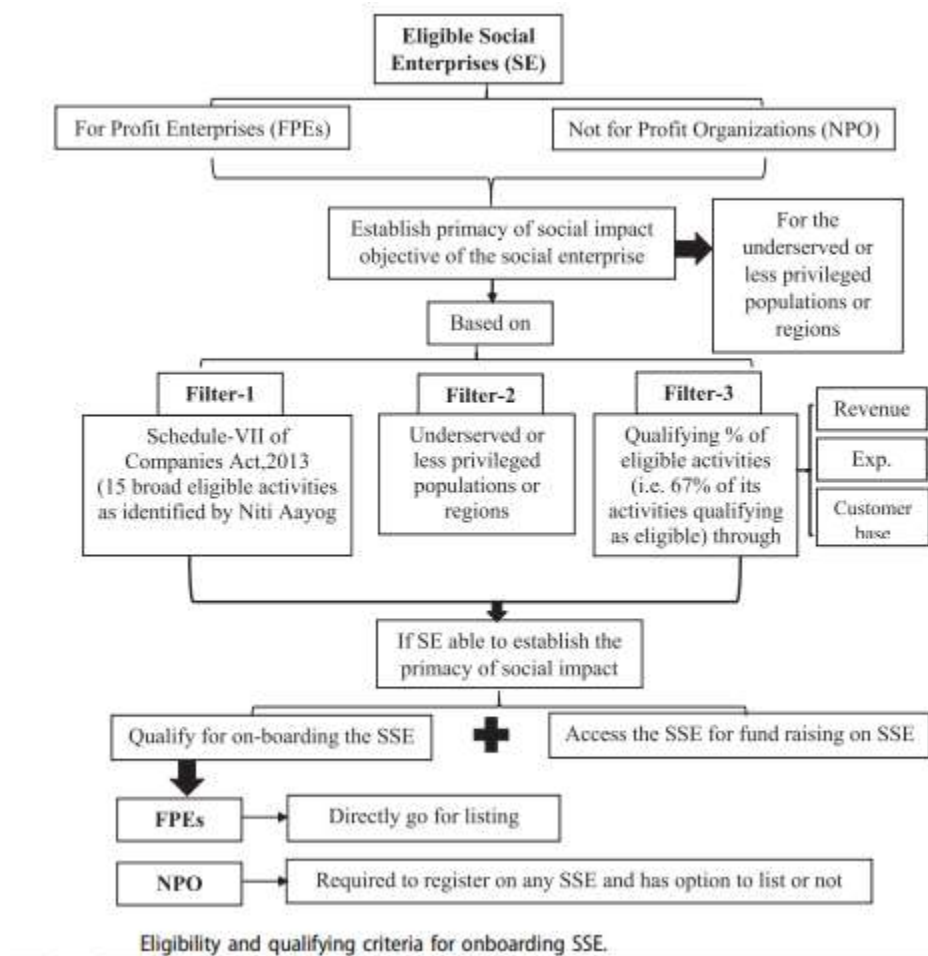
In this paper tried to cover the opinion of the respondent regarding the regulation of Social Stock Exchange by Stock Exchange Board of India (SEBI) and introduction of Social Stock Exchange will meet the expectations of investors and open the more market opportunities to access by NGOs and NPOs.

Framework on Social Stock Exchange

It is a novel concept in India and such a bourse is meant to list securities intent and impact as their primary goal.

Also, such an intent should be demonstrated through its focus on social objectives for the underserved or less privileged population.

Eligible NPOs can raise funds through Zero Coupon Zero Principal Bonds (ZCZPB) and mutual funds while for profit social enterprises can mobilize capital through the issuance of equity shares on the main board, SME Platform or equity shares issued to an alternative investment fund including social impact fund.





Amendments made

SEBI (Issue of Capital and Disclosure Requirement Regulations 2018) (ICDR)

SEBI (Listing Obligations and Disclosure Requirement Regulations, 2015) (LODR)

SEBI (Alternative Investment Funds) Regulations, 2012 (AIF)

Minimum Requirements to be met by an NPO for registration with SSE

Broad Parameter	Indicator	Details
Entity is registered as an NPO	Registration certificate valid atleast for next 12 months at the time of seeking registration with SSE	Entities must be registered in India as one of the below – Charitable Trust Registered the Public Trust Statue of State Charitable Trust registered under the Societies Registration Act 1860 Charitable Trust registered under the Indian Trusts Act, 1882 Company incorporated under Section 8 of the Companies Act 2013
Ownership and Control	Governing document (MoA & AoA / Trust Deed / Bye Laws / Constitutions)	Disclose if NPO is owned and/or controlled by Govt. or private
Age of NPO	Registration Certificate	Minimum 3 years
Deductions under Income Tax 1961	Valid 80G registration under Income Tax Act, 1961	Entity to ensure whether tax deduction is available or not to the investors
Eligible to be Social Enterprise	Requirement with Regulation 292 E of ICDR Regulation	As may be specified by SSE

Minimum Fund Flow

Broad Parameter	Indicator	Details
Annual Spending (Past FY)	Receipts / Payments from Audited Accounts / Fund Flow Statement	Must be atleast Rs. 50 Lakhs
Funding (Past FY)	Receipts from Audited Accounts / Fund Flow Statement	Must be atleast Rs. 10 Lakhs

Minimum Initial Disclosure Requirement for NPOs raising funds through issuance of ZCZP Registration 292K(1) of ICDR Regulation

Under the guidance of SGC (SSE Governing Council) SSE on its website, should mandate the structure of the draft fund raising document / final fund raising document.



Minimum Disclosure

Vision : Organization's activities, interventions and programmes are in line with aims and objects stated in its constitution.

Target Segment : Clear identification and understanding of the target segment (those affected by the problem and how it intends to improve inclusion of its customers / receipts)

Finance: Disclosure of Financial Statements of last three years in accordance with guidelines for NPos issued by Institute of Chartered Accountant of India (ICAI)

Compliance : Compliances w.r.t. Income Tax notices received etc. There should be no material irregularities reported by auditors ie Annual Accounts duly audited for the last three years

Credibility : Documents such as **Registration, Trust Deed / MoA and AoA** Address Proof, IT PAN 12A/12AA/12AB Certificate etc. to governing members

Risk: Disclose risks / unintended consequences that the NPO sees to/from its work and how it proposes to mitigate these.

Disclosure of Annual Impact Report

All social Enterprises which have registered or raised funds using SSE in terms of Regulation 91E of the LODR Regulations

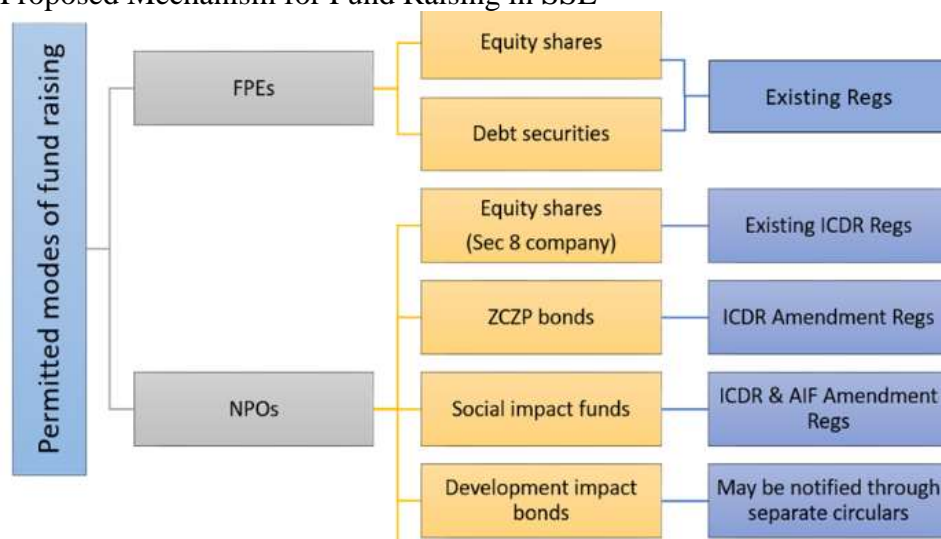
Provide duly audited Annual Impact Report (AIR) to SSE within 90 days from the end of Financial Year.

To capture qualitative and quantitative aspects of the social impact generated by the entity / project or solution for which funds have been raised on SSE

In case of NP (registered without listing any security), AIR must cover the NPO's significant activities, intervention, programs or projects during the year and the methodology for determination of significance.

For Social Impact Fund (underlying recipients of funds are SEs) registered or raised funds using SSE must disclose in overall AIR for the fund covering all investee / grantee organization.

Proposed Mechanism for Fund Raising in SSE





The instruments are different for NPOs and for Profit Enterprises

Instruments for Non Profit Social enterprises are as follows

- 1) Zero Coupon Zero Principal Bonds (ZCZPB) : It is a feasible option to unlock funds from donors, philanthropic foundations and CSR spenders. These bonds would carry a tenure equal to the duration of the project that is being funded and at tenure, they would be written off the investor's books.
- 2) Social Venture Funds (SVF) :It is an alternative Investment Fund which is allowed by SEBI to issue securities or units of social venture to investors.
- 3) Mutual Funds : An asset management company could offer closed end mutual fund units to investors. The units could be redeemable in principal terms, but all of the returns could be channeled towards suitably chose NPSs by the fund which acts as intermediary.
- 4) Pay for success model – Pay for success models through lending partners or through grants are highlighted as effective mechanisms to ensure a more efficient and accountable deployment of capital.

The instruments for Profit Social Enterprises

- 1) Equity Listing : Social Enterprises would list equity on the SSE subject to a set of listing requirements, including operating practices and social impact reporting.
- 2) Social Venture Funds (SVFs) : These already exist for For Profit Social Enterprises but do not require social impact reporting

Benefits of SSE from the perspective of Social Enterprises

The registration and/ or listing of securities in the SSEs can benefit the SEs in multiple ways –

- 1) ***Ease of fundraising*** – SSEs may be said to be acting as a “crowdfunding” platform with the additional component of “responsibility” and “reliance”. Therefore, it may help the SEs to raise funds easily for their activities.
- 2) ***Access to larger pool of investors*** – It will also help the NPOs/ FPEs registered as SEs to create the “impact” they are willing to, in less time and with more certainty of funds, since the SSE being a trading exchange, the withdrawal of donations from one donor can be funded by another donor trading on the platform.
- 3) ***Visibility of operations*** – For registered SEs, especially for an FPE, the benefit behind registration on the SSE provides enhanced visibility to their operations.

Benefits of SSE from the perspective of Investor / Donor

The following benefits may be achieved by the investors making investments/ donations for creation of “social impact” through SSEs –

- 1) ***Tax benefits*** – The same being in the nature of philanthropic donations, tax exemptions may be available to the donors on the basis of the activities funded. Various tax benefits have been proposed in the WG Report, however, the same will require amendments to the existing tax laws.
- 2) ***Liquidity of funds*** – The SSE provides liquidity to the donor in the sense that if a donor, after donating for a specific cause, wants to withdraw funds on account of need of funds or uncertainty of the project performance etc, the same can sell the donations made and free up the funds donated.
- 3) ***Transparency*** – Donees are not usually accountable to donors for the use of funds



provided to them. However, for funds provided to SEs registered with the SSEs, certain disclosure and audit requirements attract which provides the donee with transparency in the use of donations given to the donee.

- 4) ***Fulfillment of CSR commitments*** -The TG/ WG Report also proposed that the funding of SEs by corporates may also be counted towards the CSR commitments of companies, however, the same will require amendments to the existing laws. In our view, the same will also require additional safeguards since there might be a possibility of withdrawal of funds by the contributing company after counting the same as a CSR contribution towards its mandatory CSR obligation. Our detailed write-up on the use of SSEs as a platform for channelising CSR funds can be read at New CSR avenues, innovative bonds and much more in the Social Stock Exchange package!

Global Evolution and Present Status of SSEs

The concept of SSEs was not born in India. It was/ is in existence in many countries throughout the world. However, the operating mechanism of SSEs differs from country to country. While some countries have adopted SSEs as a separate match making platform altogether or as an impact investment instrument as a part of their existing stock exchanges, the concept of SSEs in India operates differently as also discussed in the Working Group Report.

Globally, countries like Brazil, Portugal, South Africa, Jamaica, the UK, Canada & Singapore already have established Social Stock Exchanges (SSE) in their respective countries.

Out of the ones mentioned below, only Jamaica, Singapore and Canada are currently functional, the rest have become extinct due to financial and other structural challenges such as low number of users resulting in inability to attain economies of scale, lack of training and awareness etc.

Country	Exchange name	Established	Operating model ^[20]	Data/ statistics
Brazil	Brazil's Socio-Environmental Impact Exchange (BVSA)	2003 (discontinued – 2018)	Only for non-profits Publicity of listed projects Investment in the form of "social shares"	Raised R\$ 19 million (~\$3.6 million USD) for more than 188 projects in its 15 years of operation
UK	Social Stock Exchange (SSX)	2013	Directory of verified businesses having social impact Only for profit companies eligible Annual review of impact report ^[21] No trading	400 million euros raised till 2015
Canada	Social Venture Connexion (SVX)	2013	Primary offering platform (secondary trading not allowed) Networking platform Returns include social/ environmental and financial returns	Mobilized capital aggregating to around \$350 millions with a network of around 500+ organizations and 1200+ investors
Singapore	Impact Investment Exchange (IIX)	2013	FFEs and NPOs Marketing of social projects social/ environmental returns along with financial returns	
South Africa	SASIX	2006	NPOs and social business ^[22] Tax benefits to investors social/ financial returns Impact investment exchange	Funds raised – 2.7 million dollars with 15 listed projects as on 2009
Jamaica	Jamaica SSE	2018	Available for NPOs only Crowdsourcing platform No financial returns ^[6] Audit and reporting requirements	USD 2,40,103 as on 2020
Portugal	Bolsa de Valores Sociais (BVS)	2009 2015	Only for NPOs Social shares Only social returns Listing of projects for donations	Raised 2 mn euros by 2012 and had 26 registered projects in 2015



Data Analysis

As the topic is emerging, so data is collected from 65 respondents. Data collected from the age group of 18 till 60 years. Through the study came to know the awareness of Social Stock Exchange is around 35% among the people and most of the respondents were of 18-35 age group. 40% of the respondents were of the opinion that Social Stock Exchange will prove an aid to the economy development of the country. They also of the opinion that through the Social Stock Exchange there will more transparency of the utilization of funds collected on the activities meant for the welfare of the society. Around 48% of the respondents are trusting the system of Social Stock Exchange. They also of the opinion that through this system there will more opening of ways for raising the funds for the NGOs and NPOs, which is the major problem in front of them. The system will also allow to access more market opportunities for raising the funds.

Conclusion and Suggestions:

The success of Social Stock Exchange system depends on the variables like Trust of the system, Transparency of information, accountability, synergy between investors and investee will meet the expectation of fulfilling the objective of reduction in poverty, Financial Inclusion, more access to market, increase in ways of funds for social activities, which are framed in the form of questionnaire and collected the opinion of the respondents.

Respondents are of mix of opinion that Social Stock Exchange system will meet the expectations of investors and NGOs and NPOs. Though the investors are not getting any interest or benefit but they want the transparency on proper utilization of funds invested ie for the welfare of the society. As the Stock Exchange Board of India (SEBI) is regulating the Social Stock Exchange, investor will get confident in investing in. SEBI should regularize the system properly and change the policies from time to time as per the requirement to make sure the purpose of establishing the social stock exchange system will fulfill the objective of social enterprises. Also framed policies of Social Stock Exchange will aid in increasing the economy of the country.

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