SOCIAL STOCK EXCHANCE *

INTRODUCTION

The Hon’ble Finance Minister as part of the Budget Speech for FY 2019-20 had proposed to initiate steps towards creating a Social Stock Exchange (SSE), under the regulatory ambit of Securities and Exchange Board of India, for listing social enterprise and voluntary organizations. The Hon’ble Finance Minister as part of the Budget Speech for FY 2019-20 had announced as follows:

“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 working 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.

The report of working group on Social Stock Exchange was uploaded by SEBI for public comments on June 01, 2020. While analysing the comments received on this report, it was felt that further expert advice and clarity may be needed on certain critical operational issues before comprehensively firming up views in the matter. Accordingly, a Technical Group (TG) was constituted by SEBI on September 21, 2020, the report of which was uploaded by SEBI on its website on May 06, 2021 for public comments.

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)	

* *Directorate of Academics*

Views expressed in the Article may not express the views of the Institute.

The SSE initiative has played a key part in raising awareness with capital markets globally on sustainability issues, and in assisting members to transform their initiatives to include the SDGs in addition to the initial ESG imperatives. Under the leadership of the SSE, the number of stock exchanges providing guidance and training on ESG disclosure has increased year-on-year.

The SEBI report defines social enterprise as "a class or category of enterprises that are engaging in the business of 'creating positive social impact'", which are then categorised as NPOs and FPEs. It also recognises the necessity of treating NPOs differently from FPOs and developing innovative investment options for NPOs, separate from those available for FPEs. Institutional listing, with its emphasis on enhanced and continuous disclosure, will promote transparency and accountability. This would lead to strong, fair and impartial corporate governance practices for the social enterprises that list with the proposed SSE. Strict checks and balances would prevent undue influence and misappropriation of funds.

The Indian SSE, as this report suggests, supports innovative outcomes based financial instruments such as Pay for Success (PFS) bonds like social impact bonds or Development Impact Bonds (DIBs), zero coupon zero principal bonds and sovereign wealth funds, using which NPOs can finance their operations. For FPEs, the SEBI Report recommends that the SSE could popularise available funding options including the relatively mainstream equity funds and specialised social venture funds. These capital pooling options are highly underutilised in India, despite there being no legal or regulatory impediment on their use for this purpose.

GLOBAL OUTLOOK

Out of the eight SSEs, three are active (Canada, Jamaica, Singapore), one (India) is proposed and four (Brazil, Portugal, South Africa, UK) are no longer in operation. The following table shows the establishment of Social Stock Exchanges across the globe:

S. No.	Name of SSE	Year of Establishment	Country
1.	BOVESPA SSE	2003	Brazil
2.	UK SSE	2013	United Kingdom
3.	Social Venture Connexion (SVX)	2013	Canada
4.	Impact Investment Exchange (IIX)	2013	Singapore
5.	SASIX	2006	South Africa
6.	Jamaica SSE	2018	Jamaica

UK Social Stock Exchange (SSX) was developed to provide a platform to small and mid-cap companies (with a social impact lens) which were not able to raise sufficient capital through the stock exchanges on which they were listed. The UK SSX thus adopted the structure of a secondary listing platform through which investors could screen for impact-oriented organisations and invest in their securities through their listing on other stock exchanges.

Similarly, Canada and Singapore viewed their SSEs primarily as tools to build and strengthen the impact investment ecosystem in these countries, rather than a wider platform to raise funds for all types of social organisations.

On the other hand, Jamaica is aiming to develop its overall social sector funding landscape and has therefore adopted an approach that seeks to help not-for-profit organisations access funding and assist for-profit social organisations access capital through the issuance of securities. The adoption of such an approach will lead to the development of separate markets and, by extension, separate exchange platforms for not-for profit and for-profit organisations.

Social stock exchanges' ability to cover their costs, as well as the experimental nature of early SSEs, were highlighted as relevant factors in SSE sustainability. Seven SSEs received philanthropic funding to conceptualize and kickstart operations, but this was often insufficient to finance operating costs as SSEs did not generate enough income through their fee structure, due to lack of scale and demand for their services.

NEED FOR SOCIAL STOCK EXCHANGE

Among the wide range of funding options available to the Social Enterprises, the need of alternative fund-raising structure has been proposed by the Government through listing of social enterprises and voluntary organizations with a social welfare objective, in Social Stock Exchange (SSE).

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.

The British Council Report observed that 32% of Indian social enterprises have seen a general lack of understanding among banks and financial organisations 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.

SSEs would help improve visibility and knowledge, among all stakeholders, especially funders, issuers and customers, about the contributions of social enterprises to the economy. They would also establish procedures to standardise social finance transactions, build awareness about the needs and challenges of this sector and develop social capital. These stock exchanges would bridge the funding gap for social enterprises and enable a growth of strong professional networks of investors and subject matter experts in order to guide social enterprises. They therefore create the necessary social investment ecosystem for enterprises and investors, whose objective is to generate maximum positive social impact and place environmental, social and governance (ESG) features within the pursuit of profits and growth. Environmental features cover Resource Conservation, environmentally sustainable working practices; Social features cover privacy, data protection, employee welfare etc. and Governance features cover board diversity, conflicts of interest resolution mechanism, independent oversight of management etc.

Rationale behind a Social Stock Exchange (SSE)

The rationale for an SSE is multipronged. Most importantly, the public provision of essential services can be further improved, and private sector and non-profit sector provision can play a significant role in closing the gap. The SSE is meant to serve these private and non-profit sector providers by channeling greater capital to them. To take just three examples – education, health and agriculture – the potential of high-quality private and non-profit sector led provision becomes obvious. SSEs act as a link between social entrepreneurs in need of capital and investors prepared to put their money into them. SSE is a platform enabling social entrepreneurs to trade their shares after going through checks, financial and social audits.

The Human Development Index, which brings together the three dimensions of education, health and income to produce a comprehensive measure of a country's development achievements, ranks India 129 among 189 countries for the year 2019. It is clear that India can benefit greatly from more funding to the social sector, which cares explicitly about creating sizeable and measurable impact. This will support the government in achieving its sector development outcomes.

JOURNEY OF SOCIAL STOCK EXCHANGE IN INDIA

Constitution of Working Group

A working group on Social Stock Exchanges under the chairmanship of Shri Ishaat Hussain (Director SBI Foundation and Ex-Director (Finance) Tata Sons Limited was constituted by SEBI 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.

The report of working group on Social Stock Exchange was uploaded by SEBI for public comments on June 01, 2020. It covers the modalities for creating a Social Stock Exchange that will serve as a platform for fundraising and also incorporate a set of procedures by which social impact will be measured and reported.

As per report, the SSE can be housed within the existing stock exchange such as the Bombay Stock Exchange (BSE) and/or National Stock Exchange (NSE). This will help the SSE leverage the existing infrastructure and client relationships of the exchanges to onboard investors, donors, and social enterprises (for-profit and non-profit).

Players in Social Stock Exchange

The universe of enterprises that create social impact is vast and consists of a variety of legal forms. These can broadly be categorized as under:

For-profit enterprises (FPEs)	Non Profit Organisations (NPOs)
Companies registered under the Companies Act	Section 8 companies
sole proprietorships	Trusts and Societies
partnership firms	
HUFs and limited liability partnerships	

The key difference between these two categories is that they source different kinds of capital. **Specifically, FPEs can raise equity while NPOs cannot.**

Equity is a residual claim for the owner, i.e., it is a claim on profits. This means that the owners of an FPE can reasonably expect some financial gain. NPOs do not generate profits and therefore cannot issue equity.

A caveat here is that Section 8 companies are allowed to organize on a share basis, and therefore can issue equity. However, the shares do not represent a residual claim on the Section 8 Company's profits, as the law prevents dividends from being paid out to shareholders.

At present, India has a number of conduits through which the social sector receives funding. These are both new (CSR, Impact investing, Socially Responsible Investing or SRI, etc.) and old (philanthropy, government agencies, etc.) and they work to varying degrees of effectiveness. Enabling these diverse channels to come together on a common platform and introducing uniform frameworks in reporting, measurement and standards can represent an important step forward in development of this sector. This is where the SSE has a big role to play.

Ineligible Entities	i. Corporate foundations that are primarily funded by a parent corporate entity or a group of corporate entities.
	ii. Political or religious organisations or activities
	iii. Professional or trade associations.
	iv. Infrastructure companies and housing companies (other than affordable housing companies).

Social enterprises would be eligible for listing through an independent assessment of their (i) commitment to address social problems (ii) capacity to generate and report impact, and (iii) ability to manage funds. This due diligence should be supported by a continuous monitoring of fund utilisation by these enterprises. It is, however, important to recognise the nascency of the Indian social sector and the need to develop satisfactory social reporting, impact evaluation and social audit capabilities among different actors. To this end, the SEBI report recommends a 'self-declaration' model for social enterprises in the immediate term. Any entity that declares an intent to create a social impact and commits to measuring and reporting that impact is considered a social enterprise.

The Working Group report has provided the following two primary roles of SSE

a) To effectively deploy the fund raising instruments and structures available under the regulatory guidelines towards social enterprises:
   - For FPEs: Equity and Social Venture Funds(SVFs)[1]
   - For NPOs: zero coupon zero principal bonds[2], SVFs, Mutual Funds (MFs),various pay-for-success structures, other securities and units that may evolve
   - For Section 8 Companies: Equity and Debt

b) To foster overall sector development by creating a capacity building unit which will be responsible for:

---

1 *Social Venture Funds (SCFs) are funds investing in early-stage social enterprises to expand opportunity for people living in poverty.*

2 *Zero Coupon Bonds is a debt security that does not pay interest but instead trades at a deep discount, drawing a profit at maturity, when the bond is redeemed for its full face value.*

- Encouraging the setting up of a Self-Regulatory Organization (SRO) that will bring together existing Information Repositories (IRs), in the immediate term for extending requisite support to SSE
- Implementing the reporting standard for all social enterprises that benefit from the SSE.
- Operating the "capacity building fund" for enhancing reporting capabilities by NPOs (particularly the smaller NPOs). Creating awareness and driving adoption of this fund among NPOs, philanthropists, and donors.
- Actively raising awareness and promoting the fundraising instruments/ structures available on the SSE among social enterprises and non-profit organisations

Both these roles are equally important to ensure that the SSE makes a meaningful impact.

The working group report defines 'Social Enterprise' as an enterprise that is engaged in the business of 'creating positive social impact'. It also envisages a minimum reporting standard wherein Social Enterprise voluntarily submits a report and measures their intent to create social impact. The definition is bound to multiple interpretation and vests the decision of identifying as social enterprise to the enterprise itself based on self-declaration approach.

Key Recommendations of the Working Group for NPOs

- Non- profit organizations can directly list on SSE through issuance of zero coupon zero principal bonds.

- A range of funding mechanisms have been recommended including some of the existing mechanisms such as SVFs and Mutual Funds.

- Common minimum standards for reporting on social impact have been suggested for FPEs and NPOs. Impact is measured from the perspective of the beneficiary. This would help create some uniformity in impact reporting, which can support decision-making for donors.

- Common minimum standards for reporting on governance and financials have been suggested. The suggested framework includes general information, governance, funding, and legal and statutory filings/reports.

- Develop new institutions that provide sector-level infrastructure have been recommended. The SSE should encourage the setting up of a Self-Regulatory Organization (SRO) that will bring together existing Information Repository (IRs) such as GuideStar, DARPAN, and Credibility Alliance.

  (IRs, which are necessary because of the dire lack of robust information on NPOs, unlike in the for-profit sector. IRs would work on enumeration of NPOs, their activities and areas of operation as well as for standardization and verification IRs can play an important role in building confidence in NPOs by providing credible and standardized information about them. They can also act as a "feeder" to the SSE by helping players on the SSE access additional opportunities to fund high-quality NPOs.)

- Allowing funding to NPOs on SSE to count towards CSR commitments of companies has been recommended. The Ministry of Corporate Affairs (MCA) may authorize the trading of CSR spends between companies with excess CSR-spends and those with deficit CSR-spends, and the SSE can provide a platform for this purpose.

Key Recommendations of the Working Group for FPEs

- FPEs will use the SSE to raise equity capital. They will, therefore, list on the SSE, which will be a segment of an existing high-turnover stock exchange such as the BSE and/or NSE.
- The equity instruments will be tradeable. Listing criteria will apply for FPEs, just as they apply for for-profit conventional enterprises who list on the main board of the BSE or NSE. However, there is a critical difference between for-profit social enterprises (FPEs) and for-profit conventional enterprises – the former will also be performing social impact reporting according to the minimum reporting standard outlined in the report. In other words, FPEs will have to demonstrate that they are in the business of "creating positive social impact". This will enable them to access a kind of capital that conventional for-profit enterprises do not have access to.
- Association of FPEs with SSE must not be based only on self-reporting. To ensure that only bonafide FPEs are able to associate with SSE, SEBI, in consultation with the existing specialist entities, should work out a mechanism for assessing credentials of the social impact dimensions self-declared by the FPEs.
- FPEs will also be able to raise funds using funding structures such as SVFs. In order to kickstart activity on the SSE for FPEs, the report recommended tax incentives to investors (such as exemptions from the Security Transactions Tax and Long Term Capital Gains Tax) and tax relief to FPEs (for 5 years).

Constitution of Technical Group

While analysing the comments received on Working Group report, it was felt that further expert advice and clarity may be needed on certain critical operational issues before comprehensively firming up views in the matter.

Accordingly, SEBI constituted a Technical Group (TG) on September 21, 2020 under the chairmanship of Dr. Harsh Kumar Bhanwala (Ex – Chairman - NABARD). The report of technical group was uploaded by SEBI on its website for public comments on May 06, 2021. The comments to be submitted to SEBI latest by July 20, 2021.

This Technical Group report seeks to put the dots and dashes to the high level recommendations made by the WG. The broad operational structure provided herein will go a long way in enabling SEBI to build robust and adequate framework to kick-start the Social Stock Exchange. Taking the Working Group Report ahead this Technical Group deliberated at length on the various aspects such as determining what constitutes an eligible Social Enterprises for SSE through primacy of social impact, enabling on-boarding of social enterprises on SSE, and detailing their disclosure norms. The Technical Group also deliberated on aspects related to ecosystem development, especially on Social Auditors.

Terms of reference (ToR)

The broad terms of reference of the Technical Group were to review and make recommendations on the following matters, in the context of the recommendations made by the Working Group on the Social Stock Exchange (SSE):

i. Framework for on-boarding and regulating non-profit organizations (NPOs) and for-profit social enterprises (FPEs) on the SSE including defining for-profit social investing/enterprises

ii. Standardizing reporting and disclosure requirements for NPOs and FPEs on the SSE including financial reporting, governance & operational performance and social impact.

iii. Scope of work, eligibility criteria and regulation of social auditors, other intermediaries such as information repositories and, their necessary SROs.

iv. Further evolution and growth of social auditors

Key Recommendations made by the Technical Group

i. Social Enterprises (SE), eligible to participate in SSE, shall be entities (Non – Profit Organization- NPO and For-Profit Social Enterprise (FPE) having social intent and impact as their primary goal. The primacy is to be determined through application of the following filters:

- SE should be engaged in at least one of the 15 broad eligible activities
- SE should target underserved or less privileged population segments or regions
- SE shall have at least 67% of its activities qualifying as eligible activities to the target population

ii. To inculcate a cultural shift towards a disclosure based regime, TG has recommended prior registration of NPOs with SSE before fund raising. The registration criteria for NPOs include parameters such as minimum annual spending and receipts, valid IT registration certificate etc.

iii. The instruments/ mode of raising finance recommended i) for NPOs include equity, Zero Coupon Zero Principal bonds, Mutual Funds, Social Impact Funds, and Development Impact Bonds ii) for FPEs include equity, debt, social impact funds, and development impact bonds.

iv. All SEs on SSE will be required to make disclosure of social impact on annual basis comprising of strategic intent and planning, approach and the impact scorecard.

v. A Capacity Building Fund (CBF) of Rs. 100 Crores may be instituted to enable NPOs and other stakeholders to navigate the SSE and its processes, instruments etc. apart from creating awareness.TG recommends that the CBF can be housed in NABARD as an administrative fund.

vi. In respect of Social Auditors (SA), TG recommends that to begin with only reputed firms/institutions having relevant expertise shall be allowed to carry out social audits. Such institutions will employ social auditors who have qualified certification course conducted by NISM. Social Auditors will be required to be empanelled with an SRO which is proposed to be under ICAI as a separate Sustainability Directorate.

vii. In order to make Social Venture Funds (SVF-a type of Cat-I AIF) as an attractive means for investment in NPOs, the TG has recommended that a new form of SVF may be set up allowing 100% grants-in, grants-out. TG has also recommended that reference to “muted” returns in the AIF Regulations may be removed and the nomenclature of Social Venture Funds may be changed to ‘Social Impact Funds’.

Article

Reporting on Social Impact - Annual Impact Report

Social Stock Exchange (SSE) will recognize For-profit social enterprise (FPEs) and non-profit social enterprises (NPOs) differently, as they operate in different ways with different financial needs. Yet, common minimum standards for reporting have been proposed for all enterprises under the Social Stock Exchange. These standards will require the enterprises to report on social impact, governance, and financials.

Social enterprises, whether FPEs or NPOs, that seek to raise funds through Social Stock Exchange (SSE), need to report under minimum reporting standard. This reporting requirement will help the stakeholders of the report to capture the performance of these organization and to check whether they are genuinely working towards creating social impact.

Apart from the disclosures on general, governance and financial aspects (which differ for NPOs and FPEs), both the FPE and the NPO, once they have their securities listed (or once the NPO has registered with an exchange but chooses not to list), will have to produce an Annual Impact Report (AIR). This report is to capture the qualitative and quantitative aspects of the social impact generated by the entity, and where applicable, that generated by the project or solution the security is meant to fund. If the NPO is registered without listing any security, the AIR must cover the NPO's significant programs or projects during the year, and the methodology for determination of significance must be explained. Additionally, if there is a program covered under a listed security, it will qualify as a significant program.

Aspects to be covered under Annual Impact Report

1. What is the social or environmental challenge the organization and/or the instrument listed is addressing? Has this changed in the last year?
2. How is the organization attending to the challenge or planning to attend to the challenge? Has this changed in the last year?
3. Who is being impacted (target segment)? Has this changed in the last year?
4. What will be the outcomes of the solution/program? Disclosure should include positive and potential unintended negative outcomes.

CONCLUSION

The Hon'ble Finance Minister's bold vision of a Social Stock Exchange could not have come at a more opportune time for India. In a country whose policy makers have always striven to create economic prosperity for all, the seeds of a form of capital that would prioritize social returns over financial returns have always been present in the policymaker's conception of Indian business and enterprise. It is no wonder then that India is the only country in the world to have mandated a Corporate Social Responsibility role for its private enterprises, and that it is also one of the world's fastest growing impact investing destinations. Yet, much more can and should be done. India's economic imperative is to feed, clothe, educate and empower more than a billion people, in ways that conserve and grow its natural, cultural and social heritages. It cannot expect to accomplish this lofty objective on the strength of conventional commercial capital alone. If that were possible, India would not be home to over 3 million non-profit organizations who are working tirelessly to close the capabilities gap for hundreds of millions of Indians. These NPOs must receive adequate financial assistance to continue and

Article

multiply their stalwart efforts. They represent the core of the Hon'ble Finance Minister's vision for a new form of enterprise in India, one in which the entrepreneur is an agent of positive social impact more than anything else.

References:

- **Report of Working Group on Social Stock Exchange is available at** https://www.sebi.gov.in/reports-and-statistics/reports/jun-2020/report-of-the-working-group-on-social-stock-exchange_46751.html
- **Report of Technical Group on Social Stock Exchange** https://www.sebi.gov.in/reports-and-statistics/reports/may-2021/technical-group-report-on-social-stock-exchange_50071.html
- https://www.samhita.org/wp-content/uploads/2021/03/India-SSE-report-final.pdf
- https://sseinitiative.org/wp-content/uploads/2019/12/SSE-10-year-impact-report.pdf
- https://www.theindiaforum.in`/article/social-stock-exchanges-india-sebi-s-promise

***