



SOCIAL STOCK EXCHANGE: AN IDEA WHOSE TIME HAS COME

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INTRODUCTION

The seeds of the idea of a Social Stock Exchange (SSE) were first sown about four years ago when India’s Finance Minister Nirmala Sitharaman during her Union Budget FY19-20 presentation, proposed the establishment of a **Social Stock Exchange** under the ambit of **Securities Exchange Board of India (SEBI)**.

Social Enterprises, Development Sector Organizations, Not-for-profits, Non-Governmental Organizations (NGOs), and Civil Society Organizations (CSOs) work with a “social purpose” and an intent to bring about a “positive-change” in society. These organizations are often constrained by the lack of capital to convert their “intent” into “impact” and more critically by a lack of *access* to capital and the means to work for social welfare and create social impact.

It is in this context that the proposed the **Social Stock Exchange (SSE)** would potentially enhance the ability of social enterprises and voluntary organizations working in the social welfare ecosystem to raise capital through debt, equity and/or mutual funds.

A key objective of the SSE is the integration of the multiple avenues through which not-for-profits and for-profit social enterprises can seek as well as receive funding for their social initiatives. The working group setup by SEBI, after the announcement of the finance minister had made high-level recommendations¹ on the architecture, modalities, and contours of this social stock exchange. A follow-up **Technical Group Report on Social Stock Exchange**² published recently, seeks to dot the “i’s” and dash the “t’s of the working group report and is the operational document for all further deliberations and decisions on the Social Stock Exchange. It is important to note that the SEBI has

¹ Report of the working group on Social Stock Exchange – see reference-1 in the additional reading and references section of this article.

² Technical Group Report on Social Stock Exchange – see reference-2 in the additional reading and references section of this article.



approved the setting up of the SSE as a separate segment under both the National Stock Exchange (NSE) and the BSE (formerly known as the Bombay Stock Exchange).

THE NEED AND RATIONALE FOR SSE

Social Sector Organizations can include both “for-profit” (FPEs) and “non-profit” organizations (NPOs). As the names suggest, the former are organizations that have a social purpose but are not averse to making profits, while the latter consists of organizations that re-invest their profits towards societal needs. The two are connected by their common need to create social impact and welfare. It is not just about bottom lines and **Return-on-Investment (RoI)** but also about the **Social Return on Investment (SRoI)**, social impact, community empowerment and sustainable outcomes.

At present, the social-development sector in India receives funding through multiple sources spanning corporate social responsibility (CSR), philanthropy, government funding, and ad hoc charity. The SSE will attempt to bring convergence across these diverse platforms with uniform frameworks of funding, utilization, impact-creation, reporting, measurement, and standards³. The technical group report lays out in clear terms the defining parameters of what constitutes an eligible and viable Social Enterprise (SE) by emphasizing three key aspects:

1. **The primacy of social impact** – an SE, whether established as an FPE or an NPO must be able to establish that its primary purpose (of existence), intent, objectives, and focus are targeted at eligible social objectives for the underserved or less-served population groups and/or geography. The “eligible objectives/activities” would need to pass through three filters:
 - a. *15 eligible activities based on Schedule VII of the Companies Act, 2013, Sustainable Development Goals and priority areas identified by Niti Aayog.*
 - b. *Eligible activities would be targeted in geographies or regions that recorded lower performance in the development priorities of central/state governments.*
 - c. *67% of an SE’s activities qualifying as eligible activities to the target population, shall be measured through one or more of the following parameters:*
 - i. *Revenue*
 - ii. *Expenditure*
 - iii. *Customer base*
2. **Enabling the onboarding of SEs on the SSE:**
 - a. All NPOs (who would like to avail the benefits of the SSE) must be registered with the SSE prior to raising funds through the SSE – this the Technical Group (TG) believes will enable the transitioning towards a disclosure-driven fund-raising system, while assuring the investor community about the primacy of social impact.
 - b. Modes available for fund raising include:
 - i. For NPOs: Equity, Zero Coupon Zero Principal Bonds (ZCZP), Development Impact Bonds, Social Impact Fund (which was earlier known as the Social Venture Fund), Mutual Funds
 - ii. For FPEs: Equity, Debt, Development Impact Bonds, and Social Venture Funds
3. **Detailing of disclosure norms**
 - a. All entities listed on the SSE are required to disclose the social impact created through an annual report covering strategic intent, planning, execution, impact score and so on

³ Understanding India’s proposed social stock exchange. Available at: [Understanding India’s proposed social stock exchange - India Development Review \(idronline.org\)](https://www.idronline.org/understanding-indias-proposed-social-stock-exchange). Last Accessed: April-11, 2023.



- b. Additionally, disclosures must include vision, mission, operating scale, board and management, financial reports, and independent auditors report.

The technical group report also notes a crucial lacuna in the social sector ecosystem – the presence of many small NPOs that may lack the necessary capacity and infrastructure needed to meet the enhanced monitoring and reporting requirements and therefore envisages the setting up of a “**Capacity Building Fund**” that will help these NPOs in scaling up their infrastructure and capacity to meet the norms of the future. The TG recommendation on this aspect includes setting up of a corpus of Rs. 100 crores, housing it under the NABARD, and funding it through other developmental agencies such as SIDBI and routing of CSR funds. The Technical Group (TG) further recommends the institutionalization of **Social Audits**. Social audits will be conducted by reputed firms/institutions with subject matter expertise in the relevant areas. A governance mechanism and standards will govern the conduct and reporting of these social audits. The TG recommends that the audit include two components to be comprehensive – (1) financial audit (2) non-financial audit.’

ELIGIBILITY CRITERIA TO BE LISTED UNDER THE SSE

The SSE also clarifies the inclusion and exclusion clauses about organizations that can and cannot be part of the SSE. Table-01 below summarizes the eligibility criteria for companies to be listed under the SSE⁴

Table 1 Eligibility Criteria

Non-profit organizations	For Profit Social Enterprises
A Trust registered under the public trust law of the state (where located) and with a clearly stated charitable purpose	A profit-making enterprise setup under the Companies Act, 2013, but outside the purview of section 8 of the same act and with an objective to create social impact.
Society registered under the Societies Registration Act, 1860 (21 of 1860) and with a charitable objective	
A section 8 company setup under the Companies Act, 2013 (18 of 2013) and has a not-for-profit purpose.	

The following types of organizations are ineligible to be listed under the SSE:

1. Corporate Foundations
2. Religious Organizations
3. Professional or Trade Associations
4. Infrastructure and Housing companies, except those involved in affordable housing.

Furthermore, the TG report also lists 15 broad “social-activity-areas” for Social Enterprises (SE) that would be “minimum requirement” for an SE to be eligible to be listed under the SSE. These include poverty, education, eradication of hunger, promotion of healthcare, employability and livelihoods, gender equality and so on. *See References 1 and 2 under the Additional Reading and References section of this report for a comprehensive list of activity areas.*

⁴ All About SSE, The Social Stock Exchange of India. Available at: [All About SSE - The Social Stock Exchange of India \(nationalviews.com\)](http://nationalviews.com). Last Accessed: April 11, 2023.



PROPOSED FUNDING STRUCTURES AND RECOMMENDATIONS

Specialized funding structures and mechanisms like Social Impact Funds Zero Coupon Zero Principal (ZCZP) bonds can help provide the necessary funds to create the social impact necessary to grow contribute to nation-building while demonstrating socially responsible behaviour. Additionally, Investing in SSE-listed companies can provide investors with tax benefits, under Section 80G of the Income Tax Act.

A few examples of funding structures that could work include **Mutual Funds** where the returns on the parked capital (principal) would go to funding activities of social organizations while the principal amount is potentially redeemable. **Social Impact Funds** with 2 working models of 100% grant-in/grant-out model and 25% grant-in/grant-out model. **Zero Coupon Zero Principal (ZCZP) bonds** as the name suggests have a zero coupon and no principal payment at maturity and may be issued to NPOs for the purpose of social development projects/activities, in which the NPO has demonstrated expertise in the past. ZCZP may not offer financial returns to the investor like conventional investment instruments, but they come with the promise of a social return on the investment to the funder.

SOCIAL AUDITS & ASSESSMENT OF IMPACT

As noted earlier in this article, the Technical Group recommends audits at two levels – (1) financial audits to be performed by financial auditors and (2) non-financial audits that can be performed by financial as well as non-financial auditors with the caveat that both obtain the necessary qualifications and certifications to perform a non-financial social audit that shall help assess and validate social impact. Therefore, when it comes to the SSE, the social auditor category will include both financial and non-financial auditors. Chartered Accountants (CAs) holding a certificate of practice from the Institute of Chartered Accountants of India (ICAI) and having attended a course and cleared an examination of the National Institute of Securities Market (NISM) can conduct both financial and non-financial audits of NPOs and FPEs.⁵

Individuals and firms or Institutions that wish to conduct non-financial audits will also need to qualify through the NISM course. In addition, the following criteria apply in the case of individuals as well as employees of firms, seeking to conduct social audits:

1. Post-grads from universities recognized by the UGC and with a minimum 3 years development sector experience.
2. Graduates from a UGC-recognized university and 6 years of development sector experience.
3. Cost & management accountants or any other person suitably accredited and with 6 years of development sector experience.

Details and registration process of the NISM Social Auditors Certification Examination can be accessed through this link: [Social Auditors Certification Examination](#)

Firms and Institutions seeking to conduct social audits will need to empanel themselves with the Institute of Social Auditors of India (SRO set up by ICAI).

⁵ Technical Group Report on Social Stock Exchange: Available at: https://drive.google.com/file/d/1ZSI4CwjaJuRjyyOlv_M1BXJbCNlldeca/view?usp=sharing



SOCIAL STOCK EXCHANGE ADVISORY COMMITTEE

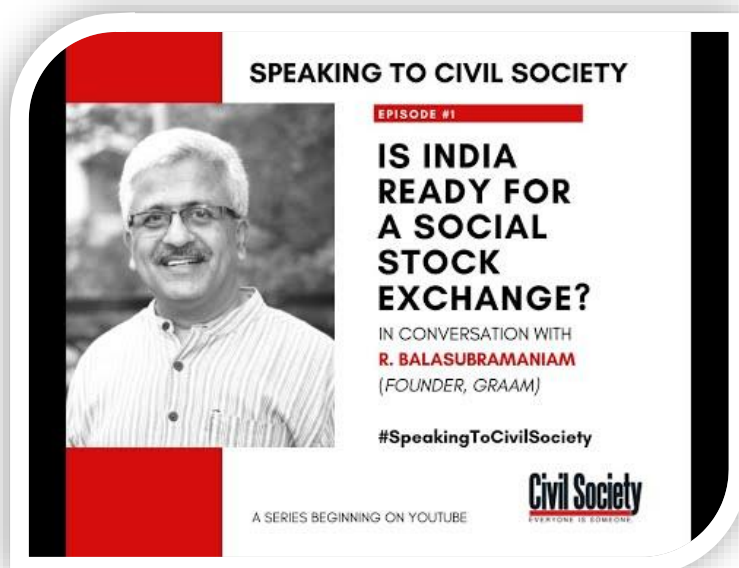
The SEBI has also setup the Social Stock Exchange Advisory Committee⁶ under the chairmanship of Dr. R. Balasubramniam, Member HR, Capacity Building Commission, GoI; Founder SVYM and GRAAM, with the following terms of reference:

1. To advise SEBI on the issues pertaining to the development and growth of the SSE Segment and relevant ecosystem
2. To advise SEBI on the issues pertaining to Regulatory Framework for SSE including Social Enterprises and Intermediaries
3. To advise SEBI on the matters related to regulations of intermediaries for ensuring stakeholders protection in respect to Social Stock Exchange
4. Any other matter to be referred to the Committee by SEBI from time to time.

CONCLUSION

The Social Stock Exchange is a unique and novel mechanism for socially conscious enterprises and non-profits to access an alternate funding mechanism that would be reliable and subject to public scrutiny – this would go a long way in inculcating professionalism, objectivity, and an orientation towards 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.

It is in this context that the **Swami Vivekananda Youth Movement (SVYM)**, one of the leading development sector organizations of the country proposes to organize a half-day seminar on this subject. The seminar incorporates a keynote address by subject matter experts followed by a panel discussion that will help clarify several questions that organizations in the development sector ecosystem might have. The seminar will have two eminent speakers who were part of the Technical Group that drafted the report on the Social Stock Exchange – *Shri. Hemant Gupta, MD & CEO, BSE Samman CSR Ltd. & Member, Social Stock Exchange Advisory Committee and Dr R. Balasubramaniam, Member HR, Capacity Building Commission, GoI; Founder SVYM and GRAAM, Chairman, Social Stock Exchange Advisory Committee.*



[Click on the image above to watch the interview](#)

⁶ Available at: [SEBI | Committee Members](#). Last Accessed: April 20, 2023.



For more information on the event and registrations, go to our event-page: [SOCIAL STOCK EXCHANGE-SVYM SEMINAR](#)

Please see the invitation and agenda appended in the concluding section of this article for details on participation and event registration.

ADDITIONAL READING AND REFERENCES:

1. Technical Group Report on Social Stock Exchange: Available at: https://drive.google.com/file/d/1ZSI4CwjaJuRjyyOlv_M1BXJbCNlIdeca/view?usp=sharing
2. Framework for Social Stock Exchange. Available at: [1633606607609_1.pdf \(sebi.gov.in\)](#). Last Accessed: April 11, 2023.
3. Are Investors, NGOs ready for the Social Stock Exchange. Available at: [Are investors, NGOs ready for a Social Stock Exchange? - Civil Society Magazine \(civilsocietyonline.com\)](#). Last Accessed: April 20, 2023.

To know more about SVYM and V-LEAD, please visit us at the following links:

<https://svym.org/>

[V-LEAD – V-LEAD Blog \(wordpress.com\)](#)

www.v-lead.org