

## **Social Stock Exchange in India – A Framework Study of Proposed Exchange**

**By**

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### **Abstract**

Globally, Social Stock Exchanges (SSE) have emerged as a funding mechanism for nonprofit and for profit social enterprises. India has also announced a similar mechanism to introduce the Social Stock Exchange. The aim of the paper is to understand the concept of Social Stock Exchange and to study its framework proposed by Securities and Exchange Board of India (SEBI) in consultation with a technical group. Paper evaluates the proposed structure of the SSE and compares it with the existing structure of its global peers, i.e., Brazil, South Africa, United Kingdom, and Canada. The paper also studies the benefits to stakeholders from the proposed SSE framework. The study covers the secondary research, information available in public domain, newspaper articles, press notes, academic journal and report published by SEBI. Websites of foreign social stock exchanges are also used to understand the SSE structure. The outcome of the study shows the proposed structure will overcome the shortcomings of global peers and identifies the benefits to various stakeholders. While problems and challenges are also identified for implementation of new framework.

**Keywords:** Social Stock Exchange, Social Enterprises, Impact Investment, ESG Reporting

### **Introduction**

Recently, Social Stock Exchange (SSE) have received global attention following India's Finance Minister Nirmala Sitharaman announced the plan to launch the Social Stock Exchange (SSE) in India under the authority of security and exchange board of India (SEBI). The SSE will serve as a trading platform for social enterprises to obtain funds in a transparent and efficient manner, by making various fundraising instruments available to them under regulatory guidelines. Non-profit organizations and for-profit corporations with social objective and impact are both eligible social enterprises. Whereas impact investors,

especially institutional investors can invest in various financial instruments offered. Hence an SSE works as a regular stock exchange by facilitating listing trading and settlement of various financial instruments. In addition to standard financial reporting, the listed firm must demonstrate its social, environmental impact and governance practices through impact reporting, rather than relying exclusively on profit and loss. The SSE will have two major roles given below,

- To efficiently employ the fundraising instruments and structures available to social enterprises under the regulatory guidelines.
- Responsible for overall development by establishing the capacity building unit.

The proposed Social Stock Exchange (SSE) can be divided into two major categories

1. For profit social enterprises (FPEs)
2. Non-profit social enterprise (NPOs)

Both above operates in different ways, and both have different financing needs but are proposed to be come under the single SSE umbrella. The standard incorporates reporting of social impact, governance, and financials. Over time, the minimum standard is envisioned to evolve and become more rigorous and more sophisticated. Majority of the NPOs in Indian are very small. The SSE will provide capacity building support to such organizations. To get such benefits social enterprises must follow the reporting in accordance with the minimum standards.

## **Literature Review**

Regulator SEBI in consultation with technical group and working group has come out with reports (Bhanwala, 2021) and (Hussain, 2020) suggesting the detailed structure of the SSE and necessary measures to be taken to launch the SSE, detailed guidelines are also been highlighted for all the participants. The detailed framework report was also published by (KPMG, 2020) analyzing the concept of social stock exchange in India. The report published by Brookings India (Ravi, Gustaffson, Sharma, & Boggild, 2019) gave the detail analysis of the impact investment in India. The report highlights the market trends in India, sector-level analysis, innovative financing and measurements, the major trends that have shaped the Indian impact investment environment and offered specific recommendations in the report. After the release of the survey by Brookings India (Manali Jain, Mohit Saini, 2021) also highlighted the features of proposed Indian social stock exchange. Where practices of existing social stock exchanges have been discussed along with the proposed framework. The suggestions are also given by the authors to make the SSE a success in India. (Parekh, Jagtiani, & Walia, 2021) studied the framework of the seven global exchanges and India's proposed social stock exchange. The report analyses the SSE recommendations proposed by India's SSE Working Group and provides some additional suggestions for the same. The same was discussed by (Rahul Rishi, Meyyappan Nagappan, 2019) where some issues related to new framework, unclear laws and need for new framework were identified to regulate the SEs, the tax related challenges were also pointed by them. Changes in the framework and the

planning points were also suggested by them in the article. The efforts were made to understand the concept of social stock exchange in India by (Sanjana, 2019), the paper sheds light on proposed structure of SSE.

## **Methodology**

The study is carried out through secondary data source collected from published research articles, journals, websites, and reports. Securities and Exchange Board of India (SEBI) – working group and technical group reports are also used to understand the proposed social stock exchange structure. The graphical representations and tabular analysis have been used. The basic characteristics of proposed structure has been compared with existing major global structures. There is also a dearth of meaningful literature. most of the literature focuses on the impact investment. The study gives overall basics understanding of the topic in Indian context in absence of quality literature available, as concept is still new to India. The launch of the SSE platform is delayed due to prevailing COVID 19 and uncertain global geopolitical tension between Russia and Ukraine, this adds the limitation of the study.

## **Objectives**

- The main objective of the study is to understand the concept and framework of Social Stock Exchange proposed in India.
- Secondary objectives of the study are to compares it with the existing structure of its global peers and study the benefits to stakeholders from the proposed SSE framework.

## **Findings & Analysis**

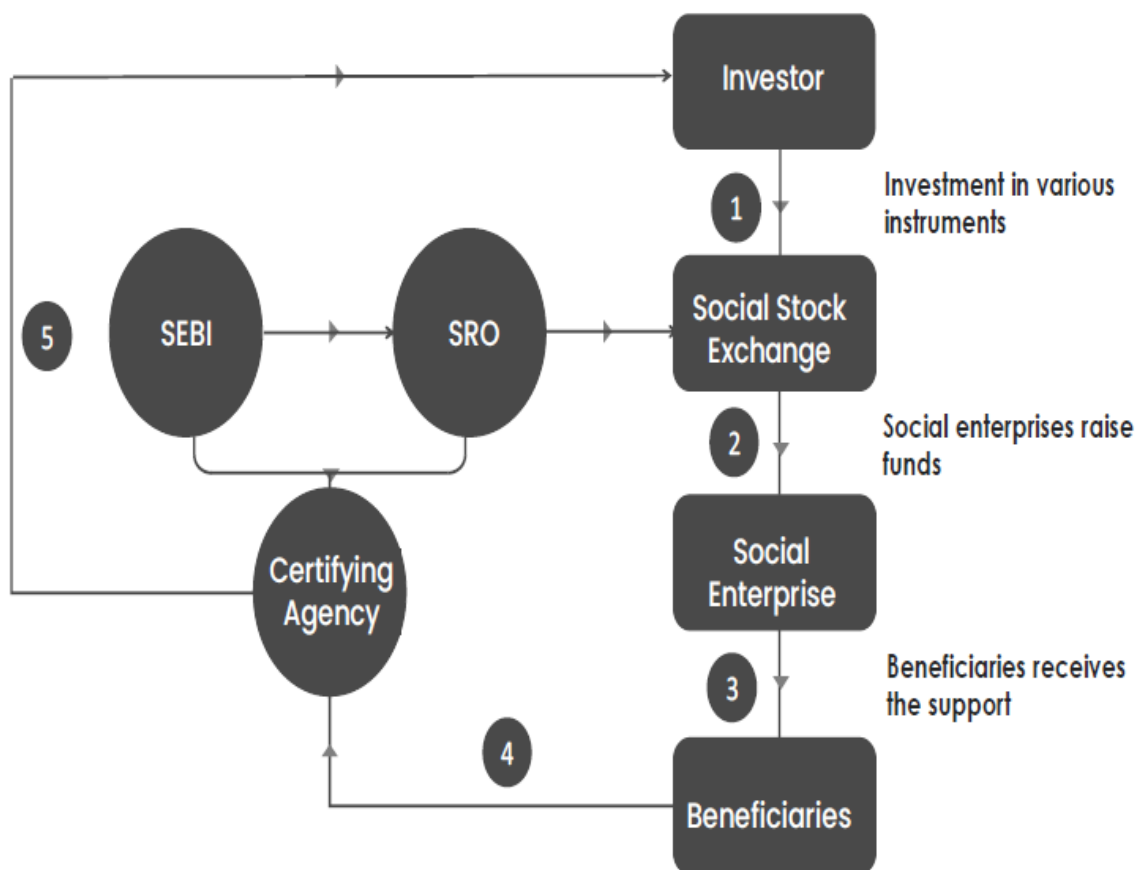
The framework of the SSE can be understood through the structure given in figure 1, where the Social Stock Exchange will give these businesses more market access and visibility among SSE platform investors, allowing them to raise funds through impact investing, charity, corporate social responsibility, and government funding. The SSE will also set minimum social effect reporting criteria and indicators for all firms listed on the exchange, which is expected to promote market discipline and stimulate healthy competition among social enterprises to accomplish impact goals.

The graphics in figure 1 explains how social stock exchange will work in India; the following are the steps to understand the function of SSE

1. Investors will invest in various instruments offered at exchange
2. Social stock exchange will provide the platform to social enterprises to raise fund for projects from various category of investors.
3. Social enterprises will support and deliver services to various beneficiaries

4. Authorized certified agencies will collect the information from beneficiaries and conduct the social impact tests for listing. They will also measure the outcome of the projects.
5. Investors will assess those outputs evaluated by third party evaluators / certifying agencies and validate impact of projects.

**Figure 1: Functioning of SSE**



**Source: Author's Presentation**

The third-party evaluators will be empaneled by the committee set up by SEBI and self-regulatory organizations (SRO). The SEBI committee will formulate and set the vision of the SSE and SRO will provide support to social enterprises. The social exchanges can be housed under the existing stock exchanges such as Bombay Stock Exchange (BSE) / National Stock Exchange (NSE).

**Comparison of Proposed Indian SSE with its Global Peers**

Brazil, South Africa, United Kingdom and Canada are major social stock exchanges in the world. Globally Canada, Singapore and Jamaica are other major social stock exchange, active currently. Most of the SSEs are housed under the existing exchanges of their countries with support from some external groups in some cases. The comparison between major SSEs and Proposed Indian SSE can be observed in the table below.

**Table 1: Comparison of Proposed Indian SSE with its Global Peers**

	<b>Brazil</b>	<b>South Africa</b>	<b>United Kingdom</b>	<b>Canada</b>	<b>India (Proposed)</b>
<b>Year of Launch</b>	2003	2006	2013	2013	2023
<b>Name of Exchange</b>	BVSA (Brazil's Social Stock Exchange)	SASIX (South African Social Investment Exchange)	SSX (UK Social Stock Exchange)	SVX (Canada Social Venture Connexion)	To be announced
<b>Structure (Supported by)</b>	Brazilian Stock Exchange	Johannesburg Stock Exchange	Standalone private company (London stock exchange)	TMX Group (Independent NPO)	National Stock Exchange / Bombay Stock Exchange
<b>Current Status</b>	Closed operation in 2018	Not Active	Not Active	Active	To be launched
<b>FPO/NPO Inclusion</b>	FPO-No NPO-Yes	FPO-Yes NPO-Yes	FPO-Yes NPO-No	FPO-Yes NPO-Yes	FPO-Yes NPO-Yes

**Source:** Authors Presentation

The proposed Indian SSE is going to be different from other major global SSEs on some aspects. Proposed Indian SSEs will provide solution for both for profit organizations (FPO) and Non-profit organization (NPO) rather than allowing any one of it. It will allow to list both type of social enterprises on the exchange. Both will be housed under existing stock exchange NSE / BSE. The Indian SSE will go beyond the pure matchmaking or discovery to create common standards for reporting, direct listing and streamlining funding mechanism for NPOs. The structure will also provide the innovative instruments and funding structures. The overall ecosystem to support the growth of social finance as per the SEBI technical group report (Bhanwala, 2021).

#### **Proposed Tax Incentives to Investors:**

Proposed tax incentives for investors and philanthropic donors are recommended by SEBI technical group reports are:

- Exemption from Securities transaction tax (STT) fro trades on social stock exchange
- exemption from long term capital gain tax (LTCG) on selling of securities through SSE
- 100% tax exemption for donation to NPOs that benefit to SSE
- Tax deduction on investment in securities issued by NPOs listed on SSE
- deductions of taxable income for CSR expenditure to SSE
- 10% cap removal on income under 80G
- 100% tax exemption to first time retail investors on investment in SSE MFs (not exceeding Rs. 1Lakh)

Some of the proposed tax incentives to social enterprises recommended are tax holiday of 5 years to FPEs on listing on SSE and ease of getting certifications to get listed. Other such proposed tax incentives to social enterprises are tax deduction on revenue generated by stock exchange through SSE are also proposed

## **Problems and Challenges Ahead**

Government of India and regulatory bodies are ambitious about SSE in coming days, however exchange directing capital to social embedded causes has its set of challenges. Making SSE as a successful platform is a major challenge amid major global platform has failed to achieve the investors attentions. Defining social enterprise, measuring Impact and ESG reporting also remain another major challenge to implement. Other challenges are, rigorous surveillance, financial scrutiny becomes essential amid increase in number of participants, transaction cost, designing and providing various financial instruments, tax benefits and defining all instruments and entities etc. Exchange (NSE) in India is already hit with the colocation scam, as loopholes in the system has been identified and misused by top people of the organization. Maintaining trust, launching new platform, and providing services in such environment is again a challenge for section of investors.

## **Conclusion**

The Indian policy makers and regulator have defiantly learned from existing global SSE before the launch of the Indian SSE, as all of those are not successful and active today. Indian SSE will have edge over its global peers as better functional mechanism are proposed after understanding the global structure. The proposed framework will also attract all categories of investors / impact investors to invest in financial instruments offered by SSE in India. The initiatives will defiantly create the ecosystem for social enterprise, impact investors and all beneficiaries amid rising ESG investment awareness globally, with the purpose tax benefits are also proposed by regulatory body to investors and SEs. The initiatives will also result in significant economic contribution because of wide market participation in given framework. However, the challenges remain in near future before the launch of the SSE in India. Some of those are defining social enterprise, measuring Impact and ESG reporting, and audits also remain another major challenge to implement. Rigorous surveillance, financial scrutiny becomes essential amid increase in number of participants, transaction cost, designing and providing various financial instruments, tax benefits and defining all instruments and entities etc. These problems and challenges can be addressed by regulatory bodies. Other such issues can arise after the launch of the SSE, which can also be fixed, hence, policy maker and regulatory bodies have to be wary and work for better surveillance system as well.

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