



# The Promise of Social Stock Exchange (SSE)

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## Social Enterprises

Social enterprises are businesses that provide goods and services to intentionally tackle social problems, improve communities, provide people access to employment and training, or help the environment.

## Social Stock Exchange

A stock exchange is a market where companies and corporations purchase and sell shares of their stocks, allowing the holders of these shares to share in the profits generated by the company. A social stock exchange (SSE) is a novel way to list securities and raise funds for social enterprises that are engaged in creating a positive social impact. An exchange like this would help not only such enterprises looking for funds but also investors who look to fund entities engaged in social sectors.

### How would such a social stock exchange function?

The social stock exchange would function in the same manner as a normal stock exchange except that platform will be implemented to primarily serve the society. It would generate source from the society and return to society itself in form of welfare and social upliftment programmes. The foremost significant aspect which a social stock exchange facilitates is the concept of transparency. There is always a dilemma as to the funding of NGO's and other social institutions. Listing of such organizations and Ngo's to social stock exchange would provide detailed information about source and usage of such funds.

Through SSEs, investors, like in any other stock exchange, will be able to buy shares of listed entities — in this case of a social enterprise which has a mission aligned to their interests. Points will be awarded to social enterprise on the basis of social impact it has left on society in a positive manner, the more the social impact a listed organization creates, the more points they get, more the points more the shares and its value and finally which leads to greater funds.

SEBI approved a framework for the creation of the Social Stock Exchange (SSE), which is laid down hereunder:

1. The Social Stock Exchange (SSE) shall operate as a separate segment of existing stock exchanges.
2. Non Profit Organizations (NPO) and For-Profit Social Enterprises (FPE) which have as their main goal both social intent and social impact shall be eligible to participate in the Social Stock Exchange (SSE) if they undertake in a social activity out of 15 activities that shall be listed by SEBI.

3. The NPOs that are eligible for participation in the Social Stock Exchange (SSE) and are registered with SSE shall be allowed to raise funds through equity, zero coupon zero principal bonds, social impact funds, development impact bonds as well as Mutual Funds.
4. Social Venture Funds will be retitled Social Impact Funds under SEBI (Alternative Investment Funds) Regulations (SIFs). The corpus for such funds will be lowered from Rs. 20 crore to Rs. 5 crore.

## Social Stock Exchanges around the World

India takes inspiration from a set of some of most exemplary performing social stock exchanges set up by countries, including the U.K., U.S., Canada, Singapore, Brazil and South Africa. Each of those models is distinctive and suited to the needs of the country's development sector. Some of the prominent countries are:

- **UK:** Social Stock Exchange opened in June 2013. The exchange does not yet facilitate share trading, but instead serves as a directory of companies that have passed a "social impact test". It also acts as a research service for would-be social impact investors.
- **Canada:** Social Venture Connexion opened in September 2013. It holds itself up as a "trusted connector" whereby it provides social businesses with access to interested impact investors, service providers, high visibility, and a means to value their triple bottom line at affordable prices.
- **Singapore:** The Impact Exchange opened in June 2013 and is the only public SSE. It aims to function similarly to the UK SSE by providing information about valued social businesses and impact investing funds. Interestingly, it also includes non-profits in its list of issuers, which can issue debt securities such as bonds.

## Regulatory Framework

It can be suggested that the regulation should be similar to the conventional stock exchanges but there special needs must be kept in mind. A few rules can be proposed here for further debate and discussion. First, Social purpose businesses can join the Social Stock Exchanges as members and pay a fee for membership. Also, they should pay a nominal fee for any capital they raise via the exchange. All members whether a company or NGO or person, must meet a rigorous set of criteria before joining. In London Social stock Exchange, a test has to be passed before an individual can gain its membership. Further, all Members should be required to publish and submit social impact report on an annual basis, to demonstrate performance against social impact targets. These reports

should also have year on year improvement in the standards and targets; they set for achieving their social impact. It would be desirable that reports listing achievements must provide verifiable evidence of their work.

## Benefits

The ability to channel social stock exchanges for the purpose of upliftment of society will certainly be a game changer for those who have fire to do something for the society but lack resources. It is a boon both for the society as well as the company as:

- India's social enterprises ecosystem is growing rapidly, but in a recent survey conducted by the British Council India on the status of social enterprises, 57 per cent of the entities surveyed said that access to debt or equity is a huge barrier to growth and sustainability. It can be a burdensome task to overcome this barrier. However, this barrier can be jumped over by bringing social enterprises and investors on a single platform, and solution is social stock exchange.
- Listing on SSE will be a seal of quality for a social enterprise and would provide investors' confidence that due diligence has been undertaken.
- An SSE will not only give social enterprises access to capital but will actually make the exercise much cheaper for them by standardization of the process and does away with the need to engage and negotiate directly.
- Easy and cheap capital means that the dependence of social enterprises and welfare organizations will not be dependent on aid from private foreign donors, which comes with 'strings attached' in most cases. The Narendra Modi government has been cracking down on non-government organizations after intelligence agencies accused NGOs such as Greenpeace, Cordaid, Amnesty, and Action Aid for reducing India's GDP by 2-3 per cent per year. Over the last few years, the government has acted against 13,000 NGOs till 2019 and this, in turn, says Brain & Company, has led to a 40 per cent decline in the flow of funds from external sources.
- Given that listing on SSE would involve regular audit of impact that social enterprises create, it will promote competition between firms and encourage market discipline. The securities of the best performing social enterprises will carry a premium, and, in turn, the companies that are not efficient will be penalized by the market.

- Establishment of SSE will help the rapidly growing impact investment market in India to become a more regulated capital market. The proposed SSE will be regulated by the Securities and Exchange Board of India.
- As impact investment becomes more accessible with the help of SSE, money flowing into sustainable development would increase, reducing the burden on the government.

## Conclusion

Social enterprises are businesses that are dedicated to solving social problems. They are non-profits and for-profits that have a mission to improve society. Social enterprises are a growing trend in social entrepreneurship but have been around for decades. Social enterprises have become increasingly popular in recent years and have even been called "the next big thing in business". A Social Stock Exchange is an unexplored concept in India and has the potential to revolutionise private and non-profit sector providers by directing capital for social good. It can work as a medium to raise funds for social enterprises immersed in creating a favourable ecosystem for social impact, and therefore help finance solutions for some of India's most pressing development challenges.