

Social Stock Exchange - An Evolution and Evaluation

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I. Introduction

Human Society has been emerged and evolved to protect the common interest of the members of the society. The history of social evolution also can be considered as the history of the trade. In the various stages of human history, the society has been empowered with divergent economic transactions. These economic transactions mostly intended to satisfy human wants and to meet the needs of the society. This economic transaction was emerged with a object of mutual benefit or individual financial growth and empowerment which caused for advent of the concept of trade. Trade has been dawned and evolved as a universal concept. Over a period this activity has become an organised activity to achieve the objective of an individual in micro level or a society in macro level. This organised activity termed as trade.

Philanthropy in India is not a new phenomenon, it is embedded in the culture and tradition. The Vedas, specially Rig Veda, a Hindu scripture of about thousands years ago, has a chapter devoted to charity. The concept of ‘daan’ (the act of donating) is centuries old practice taking many forms, which include volunteering social service, giving food, clothes or financial help to the needy. The philosophy of giving back to the society has been an integral part of the Indian society and culture which has also been imbibed in Indian business since ancient times.

In *Ishopanishad*², it is proclaimed that a man must live for hundred years remaining ever engaged in actions for enjoying only such things which God has apportioned for him and must not greed for wealth of others, for everything in this world, movable or immovable, is owned by God and belongs to God.

It is on this holistic vision that Indians have developed the work ethos of life. They found that all work, be it physical or mental, management, governance, leadership, administration have to be directed towards a single purpose, the manifestation of the essential divinity in man by working for the good of all beings. This vision of a holistic universe was presented to mankind by the Indian sages in the very first line of the Isha Upanishad “ *Isha vasyam idam sarvam yat kincha jagatyam jagat*” (Whatever exists in the universe is enveloped by God, the all pervading Reality). How shall we enjoy this life then if all are one ? The answer is given in

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² Ishopanishad is the shortest of all the Upanishads. Though it contains of only 18 verses, it contains many riddles.: A Glimpse into Ishopanishad - Swami Abhiramananda (Bulletin of the Ramakrishna Mission Institute of Culture, August, 2018)

the next line : “ *Tena tyaktena bhunjeetha ma gridhah kasyasvid dhanam*” (enjoy and strengthen life sacrificing your selfishness by not coveting other’s wealth). Shankaracharya, while interpreting the sloka says “ one should not covet even one’s own wealth and accept gracefully whatever has been apportioned by God from his all pervading treasures³.

The Vedic philosophy of “ *Sarva loka hitam*” means the well being of all stakeholders, has regained importance in the current business environment. The concept has evolved over the years and now used as strategy and a business opportunity to earn stakeholder goodwill. This old principle of concern, care and share applies to present day corporate where the corporates need to be concerned for the society, particularly the less privileged class, care about their well being and development and in order to do that shall share the part of wealth they have or they earn.

Markets and socialism have been strange bedfellows since the start of the industrial revolution, and in India, until recently, most of us have considered them mutually exclusive states of affairs. Typical corporate practices have until recently been following a shareholder concept rather than a stakeholder concept. “ Stakeholder” as compared to “ Shareholder” is much larger and wider and also includes the “ Society” and the “ Environment”. The realisation that Corporates have their responsibility towards society also concurrently is now gradually beginning to settle in the minds of the progressive segment of the Indian Corporate.

The purpose of a stock exchange is to offer an environment for trading investment products. Participants in the exchange make money or lose money by betting on a certain investment in the hopes of a higher return. It is a critical institution in the for-profit world, providing information on how companies are evaluated in terms of their ability to make profits. India has now revealed its intention to extend this well known, market-based approach to the emerging realm of social impact investing.

A social stock exchange (SSE) is a platform that allows investors to buy shares in a social enterprise that has been vetted by the exchange. Social Stock Exchanges are forms of regulated markets. They deal with public information and facilitate transaction services using financial tools like debt instruments and equity. As a result, this form of market helps to generate financial returns for investors and also produce a positive impact in the social environment in addition to the financial environment. Globally, SSEs were established to develop a “ market-

³ Corporate Governance lessons from ancient Indian Wisdom - Subhrendu Gangopadhyay, Past President, ICSI

based approach to social problem solving” owing to the inefficiency of public spending on philanthropy, development assistance and social welfare⁴.

This concept came into existence in 2003 when first Social Stock Exchange was introduced by Brazil. In the Indian context, the proposal for setting up an electronic fund-raising platform in the form of SSE under the regulatory framework of SEBI was announced in the Union Budget presented in July 2019. This regulated market has been proposed in India by the Securities and Exchange Board of India (SEBI). The SEBI report proposes a system which will facilitate listing of securities and financial instruments by Indian social enterprises.⁵

“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”. - Nirmala Sitharaman

II. SOCIAL STOCK EXCHANGE - AIMS AND OBJECTIVES

A Social Stock Exchange is a system that is designed as a two-way mechanism between investors and beneficiaries. The beneficiaries in this case are non-profit organisations (NPOs) and for-profit social enterprises (FPEs). Hence the Social Stock Exchanges in India and all over the world are typically designed keeping in mind both its stakeholders.

Social Enterprises - SSE

- i. **Raise awareness :** One of the primary goals of SSE is to make people aware about the role played by social enterprises in the economy. Increasing knowledge about these institutions could facilitate funding and help in their growth. The SSE can function as a database with all relevant information available to investors, customers, and issuers to make an informed decision.
- ii. **Standardised mechanisms :** The setting up of the SSE will aid in establishing standard procedures for financial transactions and help tackle the challenges and needs of the social enterprises.
- iii. **Integrate capital with social causes :** In the contemporary world, even if there is abundance of capital it often doesn't reach the organisations involved in creating a social impact.
- iv. **Ensure adherence to CSR :** The SSE will help regulate working of the social enterprises and hold them accountable for utilisation of funds in creating a positive

⁴ Dadush, Sarah, “Regulating social finance: can social stock exchanges meet the challenge “U. Pa. Int'l L. 37 (2015)

⁵ Technical Group Report, SEBI

social impact. With the help of social auditors, this system will ensure the maintenance of an adequate standard of corporate governance and CSR of corporations and management.

Investors - SSE

- i. Investors Network : Creating a single platform for investors across the country will help create a robust network of investors and experts, which will also benefit the social enterprises.
- ii. Promote transparency : The existence of a comprehensive system like the SSE will bring transparency to the transactions and funding to ensure prevention of money laundering and tax evasions.
- iii. Diversity Investment Portfolio : Since the SSE will provide a number of reliable investment opportunities to potential investors in the form of social enterprises.

III. SOCIAL STOCK EXCHANGE - INDIA

After much discussion and deliberation, the expert panel set up by SEBI released a report on 1st June 2020 with a detailed framework of the proposed working structure of the SSE in India. The entire system is primarily set up for the non governmental and non profit organisation operating in India. A major part of their earning is through donations, government aid, Socially Responsible Investing or SRI, Corporate Social Responsibility or CSR or any other acts of philanthropy. This was one of the main objectives behind setting up a Social Stock Exchange in India.

The SSE is planned out as a separate segment of the stock market which will operate parallel to the stock exchanges currently taking place. The key participants involved in the structure will include the social enterprises, the social auditors and any potential investor willing to fund the enterprises. In terms of social enterprises, only those organisations will be eligible for listing which can prove its credibility and capability of creating strong and positive impact on the society and can continue to do so in the future. Additionally, social auditors will be appointed in the system to closely the social impact of these organisations and verifying it with the reports provided by the organisations themselves. Both individuals and companies are eligible to invest in the enterprises listed by the SSE. Investors buying these stocks will be entitled to tax benefits as given under Section 80G of the Income Tax Act, 1961⁶. On the other

⁶ Social Stock Exchange of India : From Commerce to Conscience : Trisha Shreyashi , National Institute of Securities Markets , Advisory Council, Harvard Business Review (HBR) - Chartered Secretary, July 2022

hand, companies buying these stocks will be considered to be carrying out an act of Corporate Social Responsibility.

Instruments - Non-Profit Organisations

- ❖ **Mutual Funds :** With the use of this financial instrument an asset management company will have the option of offering investors closed end mutual funds units in order to raise capital. Once the mutual fund units are sold the returns could be tracked back to the organisation making the offering.
- ❖ **Pay for success Models:** This model is similar to the form of model used in CSR funding. In this the investors can not only invest in the projects of the organisations making the offering. This way the fund house or asset management company acts as an intermediary between NPOs and the investors establishing a transparent channel of funding.

IV. CORPORATE GOVERNANCE - SSE

“ Systems and processes associated with assuring the general direction, effectiveness, oversight, and accountability of an organisation ”⁷

Organisations have different forms of governing mechanisms like monitoring systems, governing boards or signalling mechanisms to analyse and report about the standards of behaviour being followed in any social enterprise. In comparison to financial and accounting metrics and monitoring, the concept of social impact is relatively new in India. Thus there is limited awareness about the use of instruments which act as indicators of social performance and monitor the impact of an organisations activities on the society.

As a result, monitoring of social business is limited. As a result, governing boards are extremely important for social companies since they facilitate dynamic interaction and dialogue between managing authorities and stakeholders.⁸ In addition, boards provide monitoring and signalling tasks. Because of this, the emphasis of this handbook will be on boards.

Social business, which have as a fundamental strategy the objective of tackling society's most urgent problems, must frequently balance both financial and social duties, coordinate across numerous stakeholder groups, and manage complicated trade-offs. When a social business is

⁷ Comforth, C. (2003). The governance of public and non profit organisations : what do boards do ? Oxon : Routledge Taylor & Francis Group.

⁸ Ebrahim, A. (2003) Accountability in practice : Mechanism for NGOs. World Development, 31(5), 813-829.

well governed, it may assist to protect the purpose while also allowing the management team to fulfil the needs of a range of stakeholders, such as investors, clients, workers, or beneficiaries as well as abide by the government rules and legislations. Governance also a method for strengthening leadership and empowering stakeholders, which enhances their incentive to play a part in an organisations success. Incorporating stakeholders also allows you to take decisions and frame policies that reflect their interests.

Exchanges regulatory function is carried out within the confines of an existing legislative framework. The power of relevant market regulations and the legislature/executive responsible for promulgating securities and corporate legislation clearly limit the capacity of exchanges to adopt and implement restrictions. Stock exchanges have the greatest direct ability to ensure compliance with those criteria that are also included criteria for listing.

V . SSE - KEY PARTICIPANTS

There are three key participants involved in the operation of the SSE. This includes – social enterprises, social auditors and investors.

i. Social Enterprises

Any organisation working for a social cause in India has the option to categorise themselves as a Company , Trust, Society or Partnership⁹. Any organisation which works for a social cause and is able to demonstrate the social impact it causes can be termed as a social enterprise, which is a key participant in the SSE. These are the beneficiaries in the proposed system who will receive funding from investors in order to carry out their social or philanthropic activities. Hence, any organisation, whether FPE or NPO, if capable of creating a positive social impact and maintain a minimum standard of reporting can be defined as a social enterprise.

ii. Social Auditors

As per the recommendations of the Technical Group formed by SEBI, a social audit for any social enterprise will include two aspects. First, a financial audit and second, a non financial audit which will include and analysis of the social impact caused by the organisation through

⁹ The WG on SSE in its report defined a social enterprise as a class or category of enterprises that are engaging in the business of “ creating positive social impact” by requiring such all SE to state an intent to create positive social impact, to describe the nature of the impact they wish to create, and to report the impact that they have created.

their projects and activities. Hence, a social auditor can be a professional who is a financial auditor or a non financial participant in the system. These social auditors can be appointed as per their certifications and qualifications.

iii. Investors

Investors constitute the third essential part of the SSE. An investor can be an individual or a company. These are entities responsible for providing funding to the social enterprises to carry out their activities. The SSE aims to benefit investors by providing them reliable investment opportunities in the form of social enterprises that have been listed in the SSE after fulfilling the required threshold prescribed by the market. As a result, investors get to diversify their investment portfolio and contribute in several philanthropic activities.

VI. SSE - REGULATORY FRAMEWORK

The Central Government in the notification published on 16/10/2022 made it mandatory that only listed NPOs will be allowed to raise funds through ZCZP and the security shall be registered in the SSE segment of a Stock Exchange in accordance with regulations made by SEBI

A new chapter (Chapter IX-A), comprising Regulations 91A to 91F is already introduced by SEBI by amending the SEBI (LODR) Regulations 2015 and lays down the framework for SSEs effective from 25th July, 2022. On the same day SEBI has also notified the amendment of the SEBI (ICDR) Regulations (Third Amendment) 2022 and a separate chapter (Chapter X-A) is introduced exclusively for the purpose of Social Stock Exchanges. The said regulations mainly deal with the eligibility criteria of SEs to be listed, avenues available for SEs to raise fund, procedure for issuing securities for raising funds, Disclosure and Reporting of information and other obligations as may be discharged by SEs. Some of the reports are to be furnished by the SEs periodically and some other are to be furnished on the occurrence of some specified events.

SEBI Regulations - Key Features

SEBI listing in a stock exchange is done only for those securities that is issued by a company for raising capital. The amended SEBI (ICDR) Regulation has a very unique feature that the registration of a SE itself can be done irrespective of the fact whether the SE is seeking to raise

fund by issuing ZCZP or not. ICDR Regulation has categorically mentioned that an enterprise can be identified as a SE provided the primacy of social intent can be established by satisfying all the 3 conditions as below :

- A. the Social Enterprise shall be indulged in at least one of the 16 specified activities and engaged in any other area as may be identified by the SEBI or Government of India from time to time.
- B. the Social Enterprise shall target underserved or less privileged population segments or regions recording lower performance in the development priorities of central or state government
- C. the Social Enterprise shall have at least 67% of its activities, qualifying as eligible activities.

VII. CONCLUSION

The Government and the Regulators have already played their role in regularising, formalising and regulating the unstructured sector of SEs. The Government and the Regulator will depend on the successful implementation of the policies and legal framework made by them. Resistant to the changes is a very common human behaviour. There is every possibility that the SEs may have many doubts, confusions and they may require many more clarifications before they fully adapt themselves to the new environment, as was witnessed during the time when the country was in the transformation mode of the capital market.

NPOs are not under statutory obligation, unlike corporates, to appoint a Merchant Banker to prepare the draft issue document for issue of securities. Further, the SEs under the new regulatory regime, would need to manage their functions professionally to adhere to the compliance and reporting obligations. It can, therefore, be easily understood that a regular support from competent governance professionals, who would not only give the support for compliance management but also extend the expertise for governance management would be at the demand for success of SEs in the new regulated environment.

It is the right time that Practicing Professionals like Company Secretaries shall tighten their belt and get ready to extend their expertise as governance professionals to the SEs in a win-win situation. The profession will grow along with the growth of the SEs and the cumulative impact of the same will contribute to the socio – economic development, which in turn will

contribute of the government, as specified in the NGO DARPAN Portal, will be fulfilled “SABKA SAATH, SABKA VIKAS, SABKA VISHWAS, SABKA PRAYAS”

“ Social Stock Exchange is aimed at unlocking private capital for social enterprises. It is pioneering move to facilitating raising funds by non-profit organisations by leveraging existing and innovative structures within the securities market domain”

- Ajay Tygi , Former Chairman SEBI