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Role of Social Stock Exchange in Indian Economy

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Abstract: A Social Stock Exchange (SSE) is a platform where social enterprises (SE) and voluntary organisations can raise funds from the public for social welfare. This paper aims to delve deeply on the role of social stock exchange in the Indian economy. In order to attain the objectives of the paper, secondary data are used and these data are gathered from various published reports of SEBI, newspapers, news channels and websites. Discussions with eminent persons of non-profit organisations (NPOs) are also used. The present paper is qualitative in nature and focuses on the concept, features and need of the social stock exchange. It highlights the global scenario of social stock exchange and journey of the same in India. It also finds the new opportunities after establishment of social stock exchange and suggests tax incentives to investors. It also discusses the qualified companies, their eligibility for registration on the SSE, and the various fund-raising options available to non-profit organizations and for-profit social enterprises (FPE). Further, it tries to identify the challenges and limitations of social stock exchange in Indian context. The study also shows how this new concept will significantly contribute to the achievement of the United Nation's Sustainable Development Goals (UN SDGs) by 2030, as well as India's transition to Viksit Bharat in 2047.

Introduction

India is the only country in the world that mandates corporate social responsibility along with economic return and this shows the commitment for inclusive growth and economic prosperity for all stakeholders. To address the social issues, finance is always a constraint. The impact investing ecosystem can be a solution that combines private sector efficiency and funding from the public to solve social and environmental issues and lead to more sustainable development. The concept of Social Stock Exchanges across the globe is a response to the ever-increasing need to channel capital meeting the scale levels required for socially impactful projects from the point of view of long-term sustainability. The exchange mirrors the atmosphere of an ordinary stock exchange. A social stock exchange's goal is to establish a productive, open market environment where companies and investors of all shades can make a bigger difference through capital raising or capital allocation for socially beneficial purposes such as healthcare, education, renewable energy, poverty alleviation, and many more. The idea of a Social Stock Exchange (SSE) can have a vital effect in realizing the vision of Viksit Bharat by 2047. Viksit Bharat envisions a developed India by 2047, characterized by inclusive growth, social equity, and environmental

sustainability. Integrating a Social Stock Exchange into this vision implies leveraging the financial market as a driver for positive social change. Through the SSE, enterprises whose activities are contributing to Viksit Bharat's objectives can access capital, fostering their growth and impact. Furthermore, the SSE can incentivize businesses to adopt responsible and ethical practices by providing a transparent platform for investors who prioritize social and environmental considerations. This fosters a conducive ecosystem for enterprises committed to Viksit Bharat's principles, promoting a sustainable and socially conscious economic landscape.

Review of Literature

According to **KPMG (2020)**, the purpose of SSE is to improve market access, transparency, accountability, and synergy between investors and investees to achieve social goals.

Adhana (2020) discussed the term Social Enterprise and Impact investment in detail with the help of real examples of social enterprises in India. The study explained the need, current challenges, and regulatory framework in detail. He concluded that SSE is a useful tool if implemented properly.

Narasimhan and Pitre (2021) clarified the idea of social stock exchanges and their worldwide scope. They also explain the SSE's suggested structure and a critical study of it in India. This study concluded that, if SSE is only assessed from a social impact perspective rather than a commercial one, they can create an ecosystem that is favourable for the growth of the social sector, support non-profit organizations, open up new impact investment avenues for investors, and open up new funding sources for social organizations.

Patel and Patel (2022) studied a 360° view of SSE in a real sense. They have covered the Operational mechanism regulatory aspect of SSE from an Indian perspective. Global perspective is well presented in table format making it easy to understand and compare. They concluded their study by stating that generating profit for social purposes is a crucial aspect of sustainability.

Kumar and Lohiya (2023) gave a brief overview of the timeline of SSE in India. They have explained the difficult framework related to SSE in comprehensive table form making it very easy to understand. They concluded their study by stating that The SSE's priorities should include enhancing social enterprises' capital attraction, promoting a long-term investment perspective, and educating stakeholders. Emphasis on securing organizational funding for non-profits and addressing sustainability concerns can mitigate challenges faced by small enterprises and prevent domination by larger organizations on the SSE.

Challapalli and Pilla (2023) in their study titled "Social Stock Exchange - A Global Perspective with Indian Feasibility" presented global initiatives in-depth, and to check Indian feasibility, they discussed SSE drivers, regulation, the inclusion of profit and non-profit organizations, advantages and limitations in a structured manner. They concluded that, despite several drawbacks that may limit the effectiveness of Social Stock Exchanges (SSEs), they have the potential to be an effective tool for impact investment.

Objectives of the Study

This study has the following specific objectives:

- To know about the concept of SSE.
- To discuss the framework of SSE.
- To analyse the global scenario of SSE, journey & features and need of SSE in India.
- To identify the challenges and limitations of Social Stock Exchanges.
- To suggest new opportunities after the implementation of the Social Stock Exchange in India.

Research Methodology

This study is purely based on secondary data and some discussions with eminent persons of Non-profit organizations. Other important information/data have been collected from newspapers, news channels, and various published reports/research reports of SEBI. This Descriptive study is also based on data collected from assorted research articles, SEBI Notifications on SSEs, and Information available on various websites such as bsesocialstockexchange.com and nseindia.com/sse.

Concept of Social Stock Exchange

Whenever we think of stock or stock market, it is always to earn money or return but think of the stock exchange where you are prioritizing social change, environmental change over return. The place

where one can earn a return, not in the form of money but in the form of mental peace, and satisfaction of doing something for society, and the name of that place is SSE. A novel way of raising money, the Social Stock Exchange connects Impact investors with Social Purpose Organizations. Impact investors are those who are prepared to fund their initiatives and development programs in exchange for social shares. "Impact Investment" refers to the specific term used for investments made by social enterprises. SSE is a platform to facilitate the investment specifically dedicated for Positive Social or Environmental impact.

Global Scenario of Social Stock Exchanges

The Social Stock Exchanges are still in their initial stages of evolution. Though they have existed for more than a decade, only three SSEs in Canada, Singapore, and Jamaica are active as on today as compared to seven SSEs that were set up. Brazil Stock Market (BOVESPA) launched the world's first social stock exchange in 2003 with 30 carefully selected social projects. In later years, 8 projects became fully funded, and the market cap reached a level of \$ 1.1 million. It shows the bold and innovative initiative by BAVESPA toward its corporate social responsibility. The following table lists the SSEs at the global level:

Table 1: Social Stock Exchanges at Global Level

S. No.	Country	Social Exchange	Establishment Year
1.	Brazil	BOVESPA Social Stock Exchange	2003
2.	South Africa	SASIX	2006
3.	Portugal	Portuguese Social Stock Exchange	2009
4.	United Kingdom	UK Social Stock Exchange	2013
5.	Canada	Social Venture Connexion (SVX)	2013
6.	Singapore	Impact Investment Exchange (IIX)	2013
7.	Jamaica	Jamaica Stock Exchange (JSSE)	2018

Source: Authors' Compilation

SSEs of Canada, Singapore and Jamaica are active and the rest of the remaining four countries are no longer in operation.

Social Stock Exchange in India

• Journey of Social Stock Exchange in India

SSE is a very novel concept. The Social Stock Exchange (SSE) is an enabling and comprehensive framework for facilitating and stimulating impact investing. The seed for the establishment of an SSE was sown in the 2019-20 Budget Speech when the Finance Minister of India stated to bridge a gap between capital markets and various social welfare objectives. When presenting the Union Budget 2019-20 in July 2019, the Hon'ble Finance Minister of India Smt. Nirmala Seetharaman made a significant statement of intent by announcing the establishment an electronic fund-raising platform in the form of a Social Stock Exchange (SSE) regulated by the SEBI "SSE is a regulated platform that brings together social organizations and donors to facilitate the funding and growth of social enterprises. SSE establishes a system and mechanism to regulate the functioning of Social Enterprises. SSE acts as a facilitator of social finance and provides a common platform for Social Enterprises, donors, and investors."

The journey of the SSE in India is summarised as follows:

Table 2: Journey of SSE in India

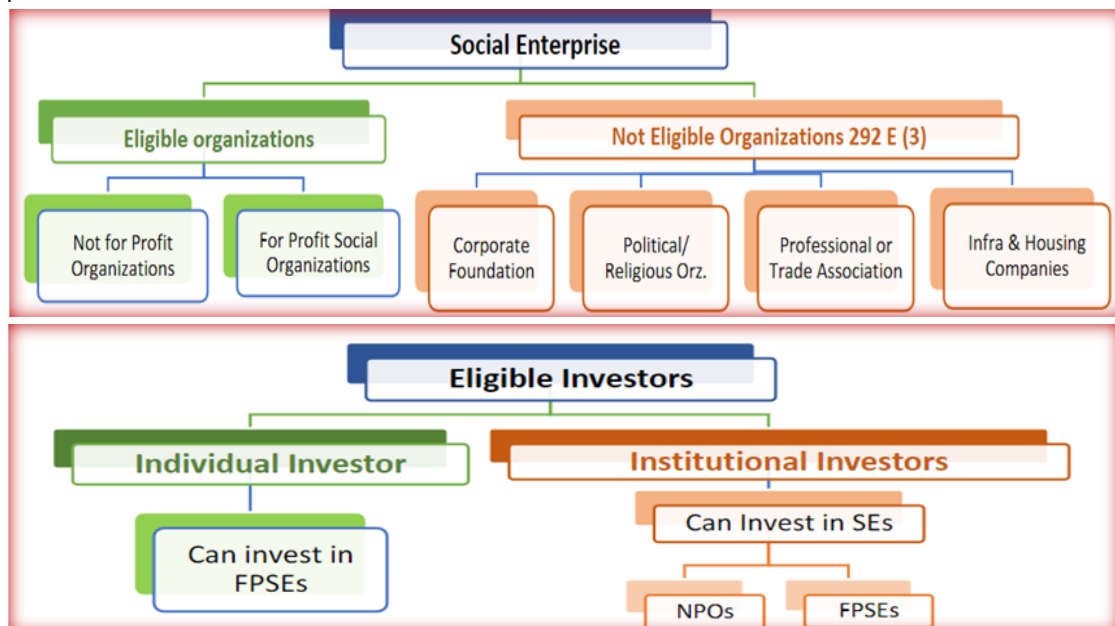
S. No.	Time	Key Event	Details
1.	July, 2019	Proposal for SSE in Budget Speech	In the 2019 budget speech, the finance minister proposed a fundraising platform for social enterprises and voluntary organizations.
2.	June, 2020	Formation of the SSE Working Group	SEBI formed a WG on SSE, which subsequently released a report containing recommendations.
3.	May, 2021	Technical Group Framework Report	A Technical Group developed the framework for SSE and released its report.
4.	Sep., 2021	SEBI Approval of SSE Framework	SEBI approved the framework for SSE, incorporating recommendations from both reports, in its board meeting on 28th September 2021.

5.	July, 2022	Recognition of Zero Coupon Zero Principal Instruments	Zero Coupon Zero Principal Instruments, the primary funding source for Non-profit Organizations (NPO), were declared as securities under the Securities Contract Act in July 2022
6.	July, 2022	Introduction of SSE Framework in Regulations	SEBI introduced new chapters in SEBI (ICDR Regulations) and SEBI (LODR Regulations) in July 2022, laying down the frame work for SSEs in India. Amendments were made to SEBI (Alternative Investment Funds) Regulations.
7.	Sep., 2022	Circular on SSE Registration Requirements	A Circular was issued in September 2022 outlining minimum requirements for SSE registration, disclosure obligations for raising funds, and annual disclosures for NPOs.
8.	Dec., 2022 and Feb., 2023	SSE Establishment Approval	Approval was granted to establish SSE segments at the Bombay Stock Exchange(December 2022) and National Stock Exchange (February 2023)
9.	Ongoing	Registration and Offer Documents	Over 32 social enterprises have registered on BSE SSE and 57 on NSE SSE platforms, and some have released offer documents.

Source: Authors' Compilation

• Features of the Social Stock Exchange

SSEs are regulated finance platforms that allow social entrepreneurs and non-profits with a social mission to raise capital. The primary goal of an SSE is to improve financial access for businesses that want to effect positive social change. An SSE gives non-profit and non-governmental organizations an alternative structure for generating funds by enabling them to list on stock exchanges. It can be listed on the BSE or NSE. For conventional capital to collaborate with social capital to address the significant difficulties posed by COVID-19, the SSEs will seek to unleash sizable pools of social capital and promote blended finance models. In addition to being a venue for the "listing" of securities or other funding arrangements, an SSE is a collection of protocols that serve as a filter, admitting only those organizations that are producing quantifiable social effects and disclosing them. The SSE will function as a distinct division inside the current stock exchanges. An SSE offers the necessary infrastructure for social enterprises to be listed and for information about them to be disclosed. Companies' investments in SSEs will be seen as a component of their CSR (Corporate Social Responsibility) programs. Experts predict that the SSEs will work to promote a diverse financial framework and release significant social capital pools.



Source: Authors' work

- **Need & Importance of Social Stock Exchange in India**

In India, the social sector responded to the COVID-19 pandemic by offering timely and vital last-mile interventions, which significantly lessened the situation. But raising money for the social sector is a difficult endeavour. The main obstacle here is investors' lack of confidence.

Given this, it was felt that the planned SSE needed to have a supportive regulatory environment with the least amount of burdensome compliance for businesses, social entrepreneurs, and investors. One of the SSE's objectives is to increase openness in this process; therefore, it will attempt to close this gap between investors and social businesses. Establishing strong criteria for social impact and financial reporting to guarantee openness and accountability, as well as facilitating performance-based philanthropy, are the primary goals of SSE in India.

The importance and need of an SSE in India is felt more due to the following factors:

- **Availability of capital:** Social enterprises and voluntary organizations face many problems in raising the required capital to meet their daily needs and to run the activities of the organization. To solve this problem, the Social Stock Exchange makes capital easily available to these organizations through a proper and regulated platform.
- **Transparency and Accountability:** Listing on a social stock exchange requires social instruments to comply with accounting and reporting standards and demonstrate the social impact of the enterprise's activities. This practice builds trust in the enterprise among investors and stakeholders, ensuring accountability and transparency of the enterprise.
- **Sustainable Funding:** Grants and donations are the main sources of funding for social enterprises, but long-term projects require a secure and structured source of funding which can only be provided by a Social Stock Exchange.
- **Encouraging Social Investment:** Investors prefer to invest in instruments that have good profitability and solvency, but if an investor wants to invest in ventures that have a good social impact, then the Social Stock Exchange provides an appropriate platform for them. In this way, investors are getting interested in social investment.
- **Economic and Social Development:** By facilitating the flow of capital to social enterprises, SSEs contribute to broader economic and social development goals, addressing issues such as poverty, education, and healthcare.

Thus, the main objective of the Social Stock Exchange is to create such a mechanism for social enterprises so that these enterprises can achieve their social welfare goals. Overall, SSEs play a crucial role in creating a more inclusive and sustainable financial ecosystem that supports social enterprises in achieving their missions.

New Opportunities after Implementation of SSE

The concept of SSEs was hitherto unknown in the Indian context. However, once the SSEs take actual shape as expected by the regulators it would open up the following opportunities:

- Providing greater market access for social organizations and donors/investors;
- Tapping potential funding and new capital;
- Aid in democratizing philanthropy and codifying donation options;
- Provide higher confidence for the donors/investors with appropriate due diligence procedures;
- Creation of robust impact measurement framework;
- Establish an enabling regulatory framework for non-profits and social enterprises.

Proposed Tax Incentives to Investors

- Exemption from LTCG when selling securities through SSE
- Social stock exchange trades are exempt from STT.
- Donations to NPOs benefiting SSE are tax-exempt at 100%.
- Removal of 10% income cap under 80G
- Tax deductions for CSR expenditure to SSE

- Tax deduction for NPO securities listed on SSE.
- 100% tax exemption to first-time retail investors on investment in SSE MFs (<Rs. 1 Lakh)

Some of the proposed tax incentives for social enterprises include a five-year tax break for FPEs on SSE listing and easier certification to get listed. Other proposed tax incentives for social enterprises include tax deductions on revenue generated by the stock exchange through SSE are also proposed.

Challenges and Limitations of Social Stock Exchanges

The following have been identified as challenges and limitations of an SSE:

- Accreditation and Definition
- SME Exchange
- Inclusion of Entities
- Coherent Sector Development
- Integration with National Vision
- Structural Concerns
- Profit vs. Social Enterprises
- Provisions and Safeguards
- Limited Impact-Focused Establishments
- Impact Measurement Difficulties
- Limited Liquidity
- Regulatory Challenges
- Capacity Building

Conclusion & Suggestions

The social sector in India has been widely dispersed, unorganized, non-regulated, and unstructured which in turn has led to a lack of resources and also accountability for Social Enterprises. SSEs have the potential to bridge the funding gap and create an investment ecosystem that provides SEs with long-term funding. SSE is a trading platform for investors seeking social returns in place of financial returns. SSE is not solely where securities or other financial instruments are listed but also provides for substantive measures that act as a filter, like listing only those enterprises that are creating considerable social impact and reporting the same. In this way, the social sector will have the necessary knowledge to promote change and sustain long-term transition. Social stock markets currently exist all over the world, and adequate global backing is expected to allow the country to flourish on pace with the rest of the world. In this context, the emergence of SSEs would not only boost the prospect of social enterprises but also contribute immensely towards serving the nation and its people on a larger scale. It is hoped that the government will provide the necessary regulatory framework to allow social businesses to obtain investment through SSEs. It is also true that the planned SSE's efficacy in India will be decided by government policies aimed at effectively managing the SSE and the government's ability to establish faith in the SSE among private investors. The SSE must have reliable systems and processes in place for determining which social companies will be listed, attracting public funding to the SSE, and providing incentives for social entrepreneurs and investors to participate in the SSE. The establishment of SSE holds immense potential as it is beneficial for both people and society, offering investors a potent opportunity to address societal needs. It acts as a bridge between social enterprises and investors. The SSE aligning with Sustainable Development Goals (SDGs), aims to transform charity habits into a culture of social investment. Experiences of global SSE along with our own culture of charity can greatly contribute to India's economic landscape. The proposed tax benefits aim to encourage market participation, offering a significant economic contribution. The SSE can play a critical role in achieving the SDGs by 2030 and the vision of Viksit Bharat @2047. The success of the SSE in India is dependent on strong government policies, efficient operations, and private investors' confidence.

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