

## *Social Stock Exchange: A way towards Impact Investing*

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### *What is Social Stock Exchange*

Social Stock Exchange (SSE) is an electronic fund raising platform under the regulatory ambit of Securities and Exchange Board of India (SEBI) for listing For-Profit Social Enterprises (FPSEs) and Not-for-Profit organizations (NPOs) working for the social welfare to raise capital as equity, debt or as units like a Mutual Fund.

The objective of SSE is to bridge the financing gap by providing alternative fund-raising instrument for achieving Socio-development goals.

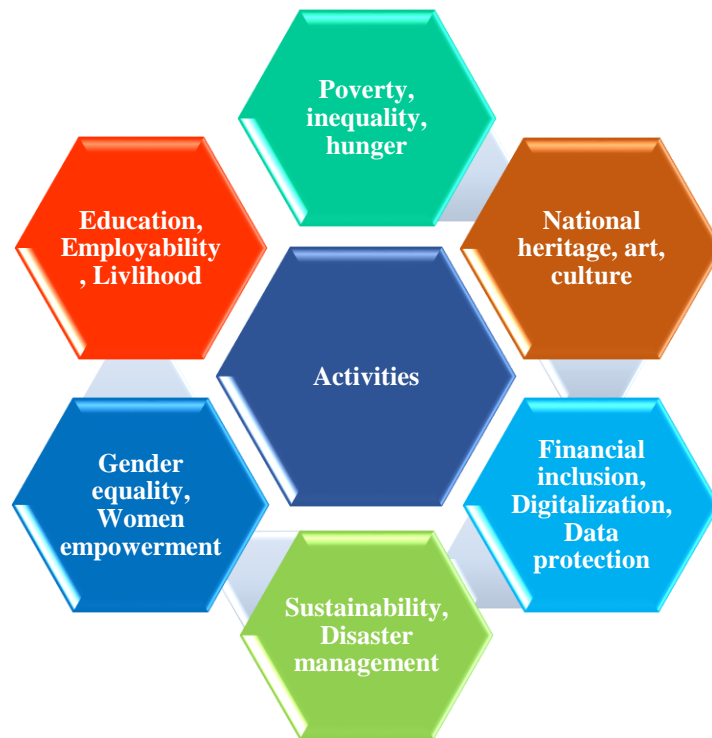
The Government announced the creation of social stock exchange in the budget speech of 2019-20 with an objective of bringing the capital markets closer to the masses and meet various social welfare objectives. In this direction, Indian SSE has been set up in both National Stock Exchange (NSE) and BSE. As of Sep 2023, there are 18 companies registered on NSE and 24 with BSE. Some of the registered companies are mentioned below:

<b>NSE</b>	<b>BSE</b>
Ekalavya Foundation	Green Age
Samvedna Development Society	People's Rural Education Movement
Gramalaya Trust	ISAP India Foundation
Opportunity Foundation Trust	AkhandJyoti Foundation
Development Management Foundation	Shramik Bharti

Currently NPOs and FPSEs usually get funding from Corporate Social Responsibility (CSR), individual investors, Government funding or through loans from traditional banking channel. But, as India is heading towards target of becoming a 5trillion\$ economy, the available sources of funds may not be sufficient. Moreover, only big and renowned NPOs/FPSEs gets large amount of funding. Small NPOs/ FPSEs face financial crunch. Considering these aspects, SSE can play a significant role in mobilizing funds for social and developmental activities.

### *More About SSE*

- A Social Stock Exchange is accessible to institutional investors and non-institutional investors.
- Every Social Stock Exchange constitutes a Social Stock Exchange Governing Council to have an oversight on its functioning.
- The Social Enterprises have to be indulged in at least one of the following activities:



➤ The funds may be raised through following means:

Not-for profit organization
Zero Coupon Zero Principal (ZCZP) Instruments
Mutual Funds
Means as specified by the Board

For Profit Social Enterprise
Social Impact Funds
Mutual Funds
Means as specified by the Board

**Zero Coupon Zero Principal Instrument**  
*Instruments shall be issued without any coupon and no principal amount shall be payable on its maturity*

***Key Components of Social Stock Exchange:***

- **Disclosure Requirements:** To get listed on an SSE, companies have to disclose about their past social impacts, ensuring that they are genuinely committed to make a positive impact in the country apart from financial returns.
- **Social Impact Metrics:** Companies listed on an SSE are required to disclose detailed information about their social and environmental performance. These disclosures allow investors to evaluate the impact of their investments.

- Investors' Base: SSEs attract investors who prefer investments for financial and societal returns. These impact investors seek to support businesses that align with their values.

### ***Significance of Social Stock Exchanges:***

- Bridging Finance gap – India is an emerging developing country, required to achieve various development related goals such as financial literacy, poverty, hunger, infrastructure, among others. India has to achieve net zero carbon emission target by 2070. The major hurdle in achieving these targets is financing gap, which can be reduced by SSE.
- Aligning Capital with Purpose: NPOs/FPSEs in India face several challenges when it comes to securing funds. The SSE will be a way for them to secure funds. SSE aims at unlocking large pools of social capital, and encourage blended finance structures so that conventional capital can align with the achievement of societal and environmental goals. This is particularly crucial in addressing global issues such as climate change, poverty and inequality, digital literacy.
- Promoting Impact Investing: Investors can have more informed decisions about investments. This will promote Impact investing. This influx of capital can support organizations financially. In addition, disclosure requirements for NPOs/FPSEs mandated by SEBI has made the process more transparent. Investors can have an idea of where their invested money is getting utilised and how much impact it will have on society.
- Additionally, the SSE will also provide capacity building support to these smaller organisations to enhance their capabilities.

### ***Challenges:***

- Measurement and Reporting: Measuring social impact is complex and subjective. Presently, organizations have to share the audit report prepared by social auditor stating the impact on target segment. Lack of uniform standards to measure the impact, which leads to concerns about the accuracy and comparability of impact metrics. SEBI's consultation paper has also invited suggestions on replacing the term 'Social Auditor' with 'Social Impact Assessor'.
- Regulatory Oversight: Striking the right balance between fostering innovation and maintaining regulatory standards is a challenge for SSEs.
- Awareness: Despite the awareness programmes by SEBI, many NGOs/FPSEs and investors are still unfamiliar with SSEs and impact investing, which can hinder their growth and impact potential.
- These institutions aim to bring a positive change in society. However, they are facing funds constraints. Creating an ecosystem for organizations with limited resources, is also a challenge.

### ***Way Forward:***

We can say that with the Social Stock Exchange, there are opportunities for collaborative efforts between multiple sources of funding (domestic philanthropy, international philanthropy, CSR) to achieve impact in various sectors from poverty to climate change and financial literacy, especially for the underserved population. This all needs spreading

awareness, clear regulations and support from all stakeholders. SEBI has floated a consultation paper on SSE to discuss the issues and inviting suggestions. As per the existing regulations, the minimum issue size of Zero Coupon Zero Principal instruments is Rs. One crore, which is under consideration. Reduction in minimum application size for NPOs issuing ZCZP from the existing limit of Rs. 2 lakhs, is also under consideration. In addition to this, the working committee has also highlighted the need for minimum reporting standards to assess the impact. Thus, SSE can go a long way in creating ecosystem for alternate financial channel.