

Social Stock Exchange (SSE) In India

Background

On July 5, 2019 during the Union Budget speech, Ms. Nirmala Sitharaman (Union Finance Minister) had said, "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. I propose to initiate steps towards creating an electronic fund raising platform – a social stock exchange – under the regulatory ambit of Securities and Exchange Board of India (SEBI) for listing social enterprises and voluntary organizations working for the realization of a social welfare objective so that they can raise capital as equity, debt or as units like a mutual fund." (The Federal, July 2019)

In India, social enterprises play a very important role in the fields of education, healthcare, women empowerment, skill development and many more. Many of the work are carried on by the local NGOs which generally receives its funding from local donors or international organizations. There has been 40% drop of funds coming from outside India in last 5 years. Therefore, raising funds is a huge challenge in today's time.

Foreign Funds contribution in India has declined to Rs.15329 crores in 2016-17 from Rs.17799 crores by the fall of total no NGOs during the same period. (Times of India, 2018)

The aim of the government is to meet various social welfare objectives related to comprehensive growth and financial benefits for all. Fund- starved NGOs will be benefitted from this move.

Before going into much detail of Social Stock Exchange, let us understand, where these models are working and what are the models:

The social stock exchange in London (UK)- opened in June 2013. It varies a lot from the traditional stock trading. In UK SSE, shares are not traded like the traditional stock exchange but the SSE contains a directory of companies, which has passed the Social Impact Test. A condition is that all organizations must be enrolled on the London Stock Exchange and breeze through a social effect test. Autonomous specialists direct the test and distribute a SSE effect report covering these zones:

- Social or ecological mission of the social business
- Target recipients

- How the business' items, administrations, and tasks convey that social effect
- How an organization includes and counsels with every one of its partners
- The proof of social effect, and how it is gathered, estimated, and announced.
(Stanford social innovation review,2015)

When the SSE was started it listed around 12 companies from different industries such as tech field, affordable housing and recycling. The first members of this exchange include the disability charity Scope, which issued £2m in bonds last year and has said it aims to release up to £20m worth.

At the beginning only London stock exchange listed companies were allowed to be listed in the London social stock exchange but companies listed on NASDAQ, NYSE and Deutsche Börse etc. will also be allowed to be listed in the UK SSE after completing the necessary tests conducted by the UK government.

As of 2016, there are around 25 companies listed on the UK SSE with a combined worth of approx. 1.8 billion euros.

The social stock exchange in Canada- The Canada SSE serves as a connector between the investors and social businesses. Launched in September 2013, Canada's Social Venture Connexion (SVX) is an online portal that connects social enterprises with accredited investors. SVX approves issuers (social ventures, impact investing funds, and nonprofits) for membership based on several criteria, including assessing social/environmental. Once an investor decides to invest, all transactions are conducted independently from SVX. SVX intends to take care of that issue from the two sides by furnishing social enterprises with an easy strategy for accessing financial specialists. As of 2014, SVX has 12 social enterprises issuers. While SVX currently only deals with Ontario-based private offerings, it has a vision to be one day be a true exchange open to the general public. In the meantime, SVX gets added social stock exchange credibility for

- (a) its registered status with the Ontario Securities Commission; and
- (b) its backing by the Ontario government, which may help catalyze and sustain a larger scale social impact strategy in the long run.

“Accredited Investor”- An accredited or sophisticated investor is an investor with a special status under financial regulation laws. The definition of an accredited investor, and the consequences of being classified as such, vary between countries. TMX, KPMG, Ontario, MaRs, BDC and Anges are some of the partners of SVX. Some important projects undertaken by SVX are as follows-:

1. SolarShare is Canada's leading renewable energy co-operative. SolarShare develops PV renewable energy systems across Ontario, and residents and

businesses are invited to invest in these projects. SolarShare has a completed portfolio of solar power projects with 6 MW of installed capacity reducing GHG emissions by 600 tonnes yearly. (SVX website)

2. Lucky Iron Fish-Lucky Iron Fish is a Guelph-based social enterprise that has developed a carefully formulated health innovation that has been shown to substantially reduce instances of iron deficiency and iron deficiency anemia. (SVX website)

The social stock exchange in Singapore- It is the only public SSE in the world and is commonly called as IIX (Impact Investment Exchange). It aims to function similarly to the UK SSE by providing information about valued social businesses and impact investing funds. It also includes nonprofits in its listing, which can issue debt securities such as bonds.

Stock exchange of Mauritius is a partner with IIX. It was started by Professor Durreen Shahnaz and is currently being headed by her. Shahnaz elaborates: "What is so unique about IIX is its community focus. IIX not only values the work of impact enterprises but also is whole-heartedly committed to helping the community of people behind the companies reach their utmost potential. On a larger scale, IIX's community focus drives us to create opportunities for everyone to participate in the impact investing ecosystem— whether an investor, entrepreneur, policy-maker, academic, or traditional professional. We are very excited to bring new partners into the impact investing space and collaborate to create equitable capital markets for all. Our new identity is a symbol of the many exciting developments to come!" (Cision, Feb 2017)

The motto of IIX is Empower, Innovate and Accelerate. Going through their motto, IIX has till now affected more than 80 million people spread across 46 countries. IIX is reaching that country which has been neglected for a long time and people are facing various problems in their day to day life. IIX has unlocked more than \$126 million of donations from all around the world and is expanding at a much faster rate than before and is collaborating with major companies around the world such as Bank of America, JP Morgan , KKR financials etc.

Stock exchange of South Africa- The South African Social Investment Exchange (SASIX) is a place where anybody can invest in social development projects. Organisations that are achieving a measurable social impact are selected to list on the exchange and give anybody the opportunity to make a contribution to them for as little as R50 per share. The South African SSE SASIX functions on traditional system of share trading and listing. Citizens who wish to buy stakes in any social

sector project can do so by investing through the SSE.

SASIX works on five main principles. They are as follows:-

1. Be driven by results
2. Have a holistic strategy aimed at solving a clearly defined social problem
3. Understand your beneficiaries and include them in your processes
4. Prioritise your organisations sustainability
5. Make strategic partnerships

The South African Social Investment Exchange provides independent research, evaluation and monitoring to ensure that listed projects meet a set of criteria, including the ability to deliver measurable returns whether these are social or financial or a combination of both. SASIX applies the same sort of due diligence consideration to projects as would be applied to purely financial investments, including assessing need and evaluating depth, breadth, permanence, strengths and risks. (SASIX website)

Though in different nations like Singapore, South Africa and Kenya, the SSE deals with various models. In addition to these Brazil in South America & Kenya in Africa have become the focal points of impact investing. A lot still needs to be done to get the momentum going. The Canadian SSE is likely the nearest to an undeniable stock trade however is open just to institutional financial specialists. Then, the Brazilian and South African SSEs are much more the same as internet matchmaking stages than venture stages. In South Africa, intrigued speculators can peruse and choose social organizations dependent on task type, mission, and area.

How it can be promoted in India

Now India is planning to create a SSE so that cost of raising funds could be minimized, more transparency in the current system, NGOs and voluntary organizations could get more funds and to increase the efficiency and effectiveness of the organizations and CSR projects.

The first-ever exercise by the govt to map registered NGOs has disclosed that India has at least 31 lakh NGOs — more than double the number of schools in the country, 250 times the number of government hospitals, one NGO for 400 people as against one policeman for 709 people. (Indian Express, July2019)

The exact number of NGOs in India is still debatable as there is no single registration windows for NGOs. Neeti Aayog tried to bring all these NGOs under their ambit but not all NGOs are registered with them. After so many NGOs, education sector, health sector remains vulnerable due to lack of funds and firm commitment. SSE will help the government to regulate the listed NGOs better and then there will be

increased accountability for the NGOs. This will also help the government to know correct number of NGOs and their impact on the Society.

Model of Indian SSE

Indian SSE could be a mix of the models of other nations SSEs. Likewise in the Singaporean model, NGOs and Social companies are allowed to be listed and they can issue bonds and securities. In the UK model the government conducts social impact test. Such test can also be adapted in India according to Indian parameters and requirements. In South Africa shares are bought of any social project and then it is traded. In India certain social projects could be identified and shares should be issued and should be allowed to traded. If proper implemented, Indian SSE could be a game changer in social sectors and could bring about a favorable change with respect to the current scenario.

Education and Awareness should be spread and government should ensure maximum participation in the SSE. NGO and CSR related policies and reforms should be carried out across the country. Just like “Swaach Bharat Abhiyaan”, Digital Kranti ongoing in the country, this too should be carried out in form of revolution.

With more than 30 lakhs NGOs operating and several other CSR projects run by various companies, SSE could help the government achieve its social objectives and become a vital part in the development of the economy and the country.

Creation of a SSE would also create a lot of opportunities for employment and could also provide huge relief to the farming sector, which employs a lot of farmers in the country.

A recent report on the Indian SSE revealed that the Indian SSE would come under NSE, BSE. The nominated agency should develop a mechanism to provide rating to these NGOs. The rating should not be based on size of funding but it should be based on number of criteria which can be decided involving credible NGOs from different segment.

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