

Interesting Aspects of a “Social Stock Exchange”

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What is a Social Stock Exchange (SSE) ?

All we know is that our Finance Minister Mrs. Nirmala Sitharaman during her Budget speech mentioned about implementation of a Social Stock Exchange.

It is a platform which connects NGO's with potential investors just like a normal Stock exchange but with a charitable objective.

It is a noble cause but however it does require deliberation.

BUDGET INCLUSION

Union Finance Minister Nirmala Sitharaman, during her Budget speech mentioned the following points :

- Ability of an social enterprises and voluntary organisations to raise capital in the form of equity or debt
- The rationale behind which is to take the capital markets closer to masses and meet the various social welfare objectives related to inclusive growth and financial inclusion under **SEBI**'s guidance

BUDGET INCLUSION contd...

- Proposed formation of an **Electronic Fund-raising Platform (EFP)** to be created for social and voluntary organisations to raise capital, debt and mutual fund.

Origin of SSE – IMPACT INVESTING

- India has been at the forefront of the Global Impact Investing Movement. On one hand, we have brilliant entrepreneurs coming up with innovative ideas to solve complex social problems faced by farmers, laborers, migrants and the environment. On the other hand, we have professional well-meaning fund managers mobilizing capital to fund them.

Origin of SSE – IMPACT INVESTING contd....

- India's impact investing market has grown rapidly in the past few years — the total value of impact investments in India since 2010 has been \$5.2 billion, according to a McKinsey Report— and \$4.2 billion of that is since 2015
- Impact investors are often the first investors in social enterprises, with private equity or venture capital firms coming in at later stages as they grow.

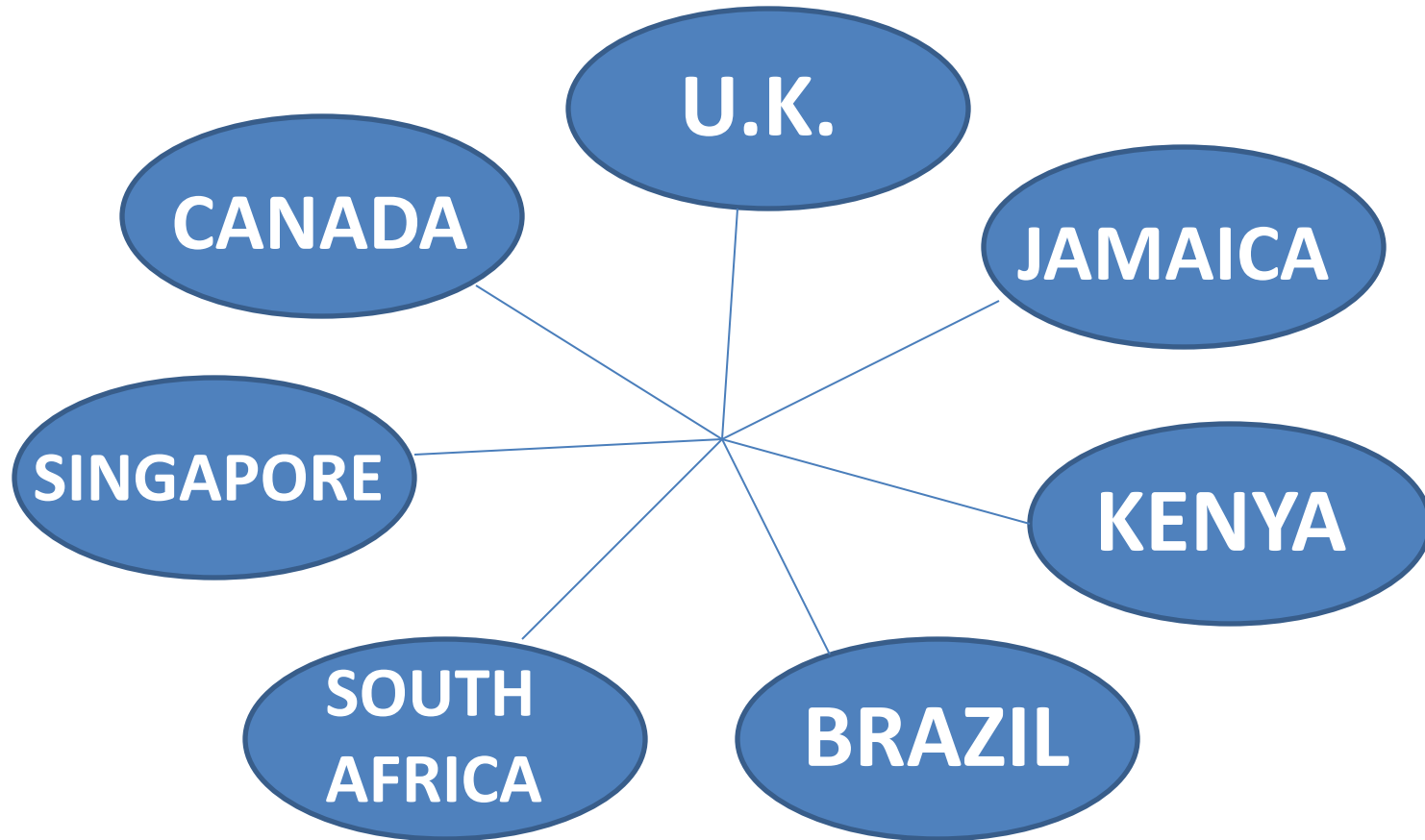
SSE the Future of Impact Investing

- Impact investing enables the growth of entrepreneurship, but a strong ecosystem for social entrepreneurs is also critical to the growth of the impact investing industry.
- With the rise of the SSE in India the impact investors will have a consolidated platforms where social enterprises will be listed. Based on their individual prospectus the investors can invest and contribute to the social objective of an enterprise.

Countries which have already implemented SSE

There are a handful of countries where this concept is already functional. But the actual functioning aspect of SSE in all these countries is not similar, in some countries it just acts like a match making platform connecting the Company with a social objective and a potential investor while in some cases the companies can issue securities and investors can subscribe to the same.

Countries which have already implemented SSE



GLOBAL MODELS

- **Canada:** In Canada the Social Stock Exchange concept is called as SVX (Social Venture Connexion) which serves as an online platform where even retail investors can invest in funds/companies with a social impact. However concept is functional only in Ontario as it is backed by the Ontario government, not entire Canada. The SVX is a platform which is registered as a restricted dealer with the Ontario Securities Commission (much like the SEBI in India)

Global Models contd...

- **UK:** The Social Stock Exchange in London functions more as a directory connecting social enterprises and potential investors, as well as a research service so as to facilitate an interaction between potential investors and companies. Launched in 2013, it only accepts companies that pass its independent assessment on social impact. Unlike the Canadian Stock Exchange it is not a market atmosphere it does not facilitate share trading. The Brazilian stock exchange is quite similar to the UK one as they thoroughly vet projects before listing them.

Global Models contd...

- **Kenya:** The Kenya Social Investment Exchange connects social enterprises with both foreign and domestic impact investors.
- **Singapore:** The Impact Investment Exchange runs a social stock exchange in partnership with the Stock Exchange of Mauritius, which is open to limited accredited investors who want to invest in social enterprises. It includes nonprofits in its list of issuers, which can issue debt securities such as bonds.

Global Models contd....

- **South Africa** :It works like a conventional social stock exchange and offers ethical investors a platform to buy shares in social projects according to two classifications: sector and province. **Brazilian** SSE is similar to the South African model
- **Jamaica**: The Jamaica Social Stock Exchange (JSSE) carefully selects the organizations and projects that can seek funding via its platform and then the JSSE will monitor, evaluate and report on the projects once successfully funded, i.e. “listed”.

Advantages of SSE

- The creation of regulated funding platforms known as social stock or impact exchanges (SSEs) has been proposed as a necessary step towards democratizing and popularizing impact investing.
- Unified Platform will create transparency for nonprofits
- Social stock exchange will help social service organizations - working in areas like health, agriculture, skill development etc - to raise funds to carry out their works. This will operate on the lines of the stock exchanges.

Advantages of SSE

- Investors can carefully scrutinize the exact social cause they want to donate to and provide the same

Disadvantages of SSE

- Ambiguity as to which enterprises will classify as a Social enterprise eg. Private Schools.
- Issue regarding the returns to be obtained by an investor if any. If profits are generated by a social enterprise will they have to pay the investors
- Problem arising if a social enterprise is listed then trading of their securities, a fixed plan regarding the mechanism needs to be set which highlights the functioning of the exchange.

Disadvantages of SSE

- Issue is still accreditation at all levels— among investors, social businesses, and the intermediaries that act as vital brokers and valuation experts in the field as who will be in charge of verifying the expenditure process once public money is collected.

Burning Questions regarding the Implementation of the SSE

- What would come within the purview of the term “social enterprise” would it include only section 8 companies or also include Public Charitable Trusts and Societies.
- The inclusion of Public Charitable Trusts would raise an issue regarding the Trust being controlled by certain individuals only.
- What objects would be allowable ? Would the 20% limit for commercial activities be run through legitimate investors donation who donated for a particular social cause? Who would regulate the same?

Burning Questions regarding the Implementation of the SSE

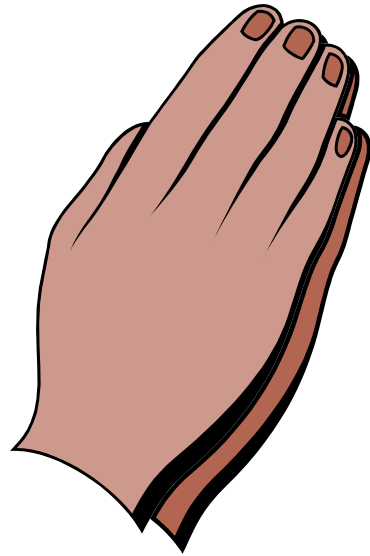
- Whether the Social Enterprises to be listed should have a section 12AA registration/FCRA Registration? (Lead to less autonomy in the hands of the Social Enterprise as if registered have to follow particular rules)
- What additional charges would be applicable to the Social Enterprise if they consider getting listed on the SSE. (Eg: Transaction charges in BSE)

Suggestions for Implementation of SSE

- Social Enterprises having a past track record of at least 5 years should be allowed to be listed.
- The listing should be done after thorough vetting of the organization as well as checking whether the social enterprise has been penalized in the past for misappropriation and other offences.
- A legitimate website displaying the projects undertaken and pending should be a prior condition for all the social enterprises who wish to be listed and a link to this website should be present on the proposed electronic fund raising platform

Suggestions for Implementation of SSE

- For greater transparency, a list of the Trustees/ Managing Committee members should be publically displayed.
- To attract investors as well as social enterprises a separate deduction should be allowable by the government higher than the present 50% allowable limit of 80G so as to boost the use of the SSE.
- To have a facility where the Social Enterprises can raise loans from only accredited investors such as bonds,etc.
- Transparency should be followed and social enterprises should be held answerable



THANK YOU