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Social Stock Exchange: Concept and Future in India

Anima Chordia [1*], Palash Birla [2], Shurveer S Bhanawat [3]
[1] Senior Research Fellow, Department of ABST, Mohanlal Sukhadia University, Udaipur, Rajasthan, India
[2] Research Scholar, Department of ABST, Mohanlal Sukhadia University, Udaipur, Rajasthan, India
[3] Professor, Department of ABST, Mohanlal Sukhadia University, Udaipur, Rajasthan, India

* Corresponding Author: **Anima Chordia**

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Abstract
Socialism and markets have been odd bedfellows since the beginning of the industrial revolution, and most of us thought they were mutually exclusive until recently. It's going to change shortly. Social business, impact investing, and now social stock exchanges (SSEs) comprise the third dimension that is gradually making its way into the classic market duality. As of right now, the Indian government, corporate social responsibility (CSR), philanthropy, and retail charity are the main sources of funding for the social development industry. Through consistent procedures for funding, use, impact generation, measurement, disclosures, and reporting, an SSE would aim to provide consistency across many platforms. This study tries to explain the concept of Social Stock Exchange in India as well as its global evolution.

Keywords: Social, Stock, Exchange, Finance, Impact, Responsibility

Introduction

A distinct division of the current Stock Exchange, the Social Stock Exchange (SSE) enables Social Enterprises to raise capital from the general public via the stock exchange system. Through the attraction of moral investors who are prepared to fund companies with a combined corporate and social goal, SSEs serve as trading platforms that enable social entrepreneurs and non-profits to raise money. SSE will serve as a liaison between funders and social enterprises, assisting the latter in identifying and identifying those organisations that are making quantifiable contributions to society. Not-for-profit organisations (NPOs), which are a specific kind of social enterprise, can register on SSE and commit to regularly disclosing their social effect as long as they meet the registration requirements. These non-profit organisations may decide to raise money through the SSE or not, but they will still report to stock markets on their social impact, among other things. Before raising money through SSE, a for-profit enterprise is not required to register with Social Stock Exchange.

Objectives of SSE

Social Stock Exchange are set up with the following objectives:

a) Facilitates finance and the expansion of social enterprises;
b) Provides a regulated platform that unites donors with social enterprises;
c) Provides an enabling framework to guarantee strong standards of financial reporting and social impact

The SSE was created with three main goals in mind: meeting investment demand to help social enterprises that are struggling financially; ensuring transparency and accountability to make sure funds are used properly; and rewarding high-performing initiatives through performance-based philanthropy.

Social Enterprise

The following two categories of social enterprises are recognised by Social Stock Exchange as having the highest priority for their social intent and actively generating positive social effect.

i) A not-for profit enterprise
ii) For-profit social enterprise

Any firm, whether a for-profit social enterprise (FPE) or a not-for-profit organisation (NPO), must satisfy all three requirements listed in Regulation 292E(2) of the ICDR Regulations in order to demonstrate the predominance of social intent. In a nutshell, these requirements state that the entity must target underprivileged or underserved population segments or regions that have performed worse in the Central or State Governments' development priorities, as well as engage in the activities outlined in Regulation 292E(2)(a).
Furthermore, a company must show that 67% of its operations qualify as eligible activities for the target community in order to be recognised as a social enterprise. This can be done by demonstrating one of the following:

a. The provision of eligible activities to members of the target population accounts for at least 67% of its revenue from the immediately preceding three-year average;
b. The provision of eligible activities to members of the target population has resulted in at least 67% of the immediately preceding expenses; or
c. The eligible activities must be provided to members of the target population who account for at least 67% of the total customer base and/or total number of beneficiaries in the immediately preceding three-year average.

Corporate foundations, professional or trade groups, political or religious organisations or activities, infrastructure, and housing companies—except affordable housing—will not, however, be qualified to be classified as social enterprises. NPOs would also be considered ineligible if they received more than 50% of their funding from corporations.

Progress to date of Indian SSE

The National Stock Exchange (NSE) and the BSE (previously the Bombay Stock Exchange) both housed the Indian SSE as of April 2023.
A wide range of stakeholders are currently working to create the three main components of this social trading platform, with the government playing a crucial role as the influencer and market maker:

1. Demand-side ecosystem composed of social institutions,
2. The supply-side network of investors, and Infrastructure, which includes the SSE and its intermediaries.

Finding the appropriate investment and instrument, however, is a difficult problem that affects stock exchanges as much as investors. The Securities and Exchange Board of India (SEBI), the government-appointed SSE regulator, has established an Advisory Committee to oversee the operation of the SSEs, assist in creating the ecosystem, and provide guidance to individuals participating in order to ensure that this is done correctly.
Only a handful of financial instruments have been authorised and disclosed as of now:
Mutual funds: provide for the future redemption of the main amount while the activities of social groups are funded by the returns on the parked capital (principal).
Social impact funds: two operational models are allowed: a 25% grant-in/grant-out model and a 100% grant-in/grant-out model.
Zero Coupon Zero Principal (ZCZP): bonds are a recently developed and authorised financial instrument. These may be given to non-profit organisations (NPOs) for social development initiatives or programmes in which the NPO has shown experience. They have no coupon and no principal due at maturity. ZCZP promise a social return on investment to the funder, even though they might not provide the investor with the same financial returns as traditional investment instruments.

Global Evolution of Social Stock Exchanges

The idea behind SSEs did not originate in India. It existed and still does in numerous nations worldwide. Nonetheless, each nation has a unique SSE working method. SSEs function differently in India than in other countries, where they are either an impact investment tool or a stand-alone matchmaking platform integrated into already-existing stock markets. At least seven nations, including the UK, Canada, Singapore, South Africa, Jamaica, and Portugal, established social stock exchanges (SSEs), with Brazil being the first to do so in 2003. Only Jamaica, Singapore, and Canada are still operating out of the countries listed below
• **UK:** In June 2013, Social Stock Exchange launched. The exchange functions as a directory of businesses that have passed a "social impact test" and as a research tool for potential social impact investors; it does not currently allow share trading. Up till 2015, the Exchange has raised 400 million euros.
• **Canada:** In September 2013, Social Venture Connexion opened. It presents itself as a "trusted connector," giving social enterprises access to impact investors and service providers that are interested, as well as high visibility and a cost-effective way to evaluate their triple bottom line.
• **Singapore:** The sole public SSE, Impact Exchange, debuted in June 2013. Its purpose is to provide information about impact investment funds and valuable social firms, much like the UK SSE does.
• **South Africa:** The second worldwide SSE was SASIX. It debuted in June 2006 with the goal of giving unidentified social entrepreneurs access to critical funding. It provides a platform for moral investors to purchase shares in social initiatives based on two categories: sector and province, and it functions similarly to a traditional social stock exchange. As of 2009, 2.7 million dollars has been raised, with 15 projects on the list.
• **Brazil:** The São Paulo-based Brazilian Stock Exchange, or BOVESPA, was the world's first stock exchange to sign up for the UN Global Compact. The Social Stock Exchange (SSE), a ground-breaking social responsibility initiative from BOVESPA that emphasises how business is changing society, was introduced in June 2003. In its 15 years of existence, the Exchange has raised R$ 19 million (~$3.6 million USD) for over 188 projects.
• **Jamaica:** The Jamaica Social Stock Exchange (JSSE), which was founded in 2018, aims to involve the whole Jamaican economy in advancing the social capital market. Up to now, the exchange has gotten donations totalling 251 million dollars, 14 projects, and 4 funded projects.
• **Portugal:** On November 2, 2009, the Gulbenkian Foundation, EDP Foundation, and Euronext Lisbon established the Portuguese Social Stock Exchange (Bolsa de Valores Sociais (BVS), a European first. It is intended to assist NGO-supported social and environmental projects and is modelled after the first social stock exchange programme, which was started in Brazil by Bovespa, the São Paulo Stock Exchange. By 2012, it had raised two million Euros, and by

2015, it had 26 projects registered.

Future of SSE in India

At this point, we need to take a few steps to give the SSE concept some context:

• **Raising awareness, education, and training:** All market participants must share a consistent knowledge of measures and adopt the appropriate long-term perspective when making investment decisions. This would enable social enterprises to draw funding and distinguish themselves from conventional for-profit ventures as a unique "asset class."

• **Establishing social enterprises:** While some work has been done to establish and assist social enterprises, more is still required. Many people still believe that the first three years are "the make or break" period for any new venture, and social firms are particularly susceptible to failure because of their limited funding and unstable conditions.

• **Regulation and policy:** The most effort can be done in this area, thus governments should help establish social finance markets and then support them with the appropriate combination of laws and policies. For instance, in many nations, fund managers are still prohibited by law from making investments in social finance; type B-Corporations receive little to no guidance; and there are little to no tax or other incentives for investors to finance social enterprises.

• **Development and research:** Here's another area where modest initial efforts could have a big impact down the road. More seed money is required from investors, including foundations, charitable groups, and local governments, in order to better assess the factors that influence impact investing and strengthen the social sector's organisational capabilities. With this information, investors would be able to make more comprehensive selections that take social firms and SSEs into account.

Conclusion

In the end, social finance has an impact on significant choices about the distribution of capital, entrepreneurship, and creativity. It has an impact on the expansion of commodities, corporate structures, and new markets inside established societies. Interestingly, private sector fund managers—who saw true benefit in developing a more comprehensive investment market—were the unusual actors who responded with SSEs. It is still up to us all to foster supportive environments for SSEs so that they don't end up as just another trend but rather a regular way of thinking and living on par with traditional markets, in order to enable this parallel economy to flourish.

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