Social Stock Exchange

In June 2020, a panel constituted by the Securities and Exchange Board of India had recommended that non-profit organizations be directly included in the Social Stock Exchanges.

In the wake of the economic downturn brought about by COVID-19 pandemic, this was seen as a welcome move to ease some of the difficulties faced by the populace at large.

This article will give details about Social Stock Exchange within the context of the IAS Exam

Definition of Social Stock Exchange

A Social Stock Exchange allows the listing of a Non-Profit Organization on stock exchanges that provide an alternative fund-raising structure.

There is much potential for SSE's in India as there are 31 lakh NPOs more than the number of schools and 250 times the number of government hospitals. This means that there is one NPO for 400 Indians. That way the a foundations for a robust welfare state can be aid

As per the draft of the SEBI report, a Social Stock Exchange may be helpful in rebuilding the the livelihoods of people who are affected during the COVID-19 pandemic

According to exports SSEs will aim at unlocking large pools of social capital and encourage a mixed financial structure, so that conventional capital can partner with social capital to meet the serious challenges of COVID-19.

Proposed Mechanism for Fund-Raising in SSE

Social Stock Exchanges aim to effectively deploy fundraising instruments and structure available under specified guidelines. These instruments depend on the nature of social enterprise seeking funding. The instruments are different for NPOs and for-profit enterprises

Instruments for non-profit social enterprises are as follows:

1. Zero coupon zero principal bonds: Allowing NPOs to directly list on the SSE through issuance of bonds in the form of zero coupon or zero principal bonds. This is a feasible option to unlock funds from donors, philanthropic foundations and CSR spenders. These bonds would carry a tenure equal to the duration of the project that is being funded, and at tenure, they would be written off the investor's books.

2. Social Venture Funds (SVF): An SVF is a category 1 Alternative Investment Fund (AIF) that is already allowed by SEBI to issue securities or units of social ventures to investors.

3. Mutual funds: An asset management company could offer closed-end mutual fund units to investors. The units could be redeemable in principal terms, but all of the returns could be channelled towards suitably chosen NPOs by the fund which acts as the intermediary.

4. Pay-for-success models: Pay-for-success models through lending partners or through grants are highlighted as effective mechanisms to ensure a more efficient and accountable deployment of capital.

For for-profit social enterprises (FPEs):

1. Equity listing: FPEs would list equity on the SSE subject to a set of listing requirements, including operating practices (financial reporting and governance) and social impact reporting.

2. Social Venture Funds (SVFs): AIFs and SVFs already exist for FPEs but do not require social impact reporting.

The set-up of SSE would bring under the fold of the minimum reporting standard all FPEs that receive funding through the AIF/SVF channel. (Social impact reporting is highlighted in detail later in the article).

Benefits of Social Stock Exchange

Building an ecosystem that will enable the SSE to thrive and flourish in India will give the following benefits:

1. Social impact reporting: Common minimum standards for reporting on social impact have been suggested for both classifications (FPEs and NPOs), to reduce information asymmetry.

The working group also suggests operating a “capacity building fund” for enhancing reporting capabilities by NPOs. Over time, it is also envisaged that a new category of auditors—social auditors—will perform an independent verification of NPOs’ impact reporting.

2. Tax benefits: To increase the reception of these funding models amongst various classes of investors, the committee has also recommended several tax exemptions, benefits and other supportive regulatory clarifications.

3. Rigorous regulatory scrutiny: Listing of FPEs on the SSE must not be based only on self-reporting social impact. To ensure that only bonafide FPEs are able to associate with SSE, SEBI, in consultation with the existing specialist entities, should work out a mechanism for assessing credentials of the social impact dimensions self-declared by the FPEs.