

Social Stock Exchange as a Pillar of Welfare and Development in the Indian Economy

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ABSTRACT

India's finance minister, Smt. Nirmala Sitharaman, proposed the creation of "Social Stock Exchange (SSE)" in her 2019-20 budget speech. The SSE works like the BSE and NSE. Normal stock markets allow profit-driven enterprises to offer their securities to attract profit-seeking investors and raise capital. Similarly, SSE would allow social businesses to list their securities to attract philanthropic donors to finance their public welfare initiatives, such as boosting education and developing health care facilities. SEBI created the "SEBI SSE Working Group" in 2019 to recommend SSE operating procedures. Working Group report released in June 2020. In September 2020, SEBI established a Technical Group on SSE, which advanced the work of the SEBI SSE Working Group by recommending eligibility criteria for listing 'social enterprises' on SSE, the mechanism for listing social enterprises, the mechanism for auditing social enterprises, and the disclosure norms to be followed by social enterprises, etc. In India, SSE is a new concept. Not yet. In this paper, the author examines SSE's idea, necessity, operation mechanism, regulatory standards, the role of social businesses, operation of SSE in other countries, problems SSE may face, and ways to overcome these barriers so SSE can achieve its objective.

KEYWORDS: SSE, Social Stock Exchange, SSE in India, Social Enterprises, SSE Working Group, Technical Group on SSE

INTRODUCTION

United Nations in the year 2015 adopted Sustainable Development Goals (SDGs) which seeks to provide a peaceful and prosperous life to all the people globally by eliminating poverty and hunger; promoting education; providing clean water and hygienic environment; taking actions for environment protection; reducing income disparities; creating employment opportunities; eliminating AIDS; empowering women; and by adopt many other social welfare measures. These SDGs are to be achieved by 2030.

To give effect to SDGs and for promoting social welfare, Smt. Nirmala Sitharaman, the Hon'ble Finance Minister, in the Budget Speech of 2019-20, proposed the idea of the creation of Social Stock Exchange (SSE). The social stock exchange is a new concept in India, and it is intended to benefit the private and non-profit sectors by channelling more

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resources to them. The SSE will work under the ambit of Securities and Exchange Board of India (SEBI). SSE will help poor and deprived masses to gain access to greater capital through voluntary charitable organizations working for improving the quality life of such people.

The SSE will function as normal stock exchanges like National Stock Exchange or Bombay Stock Exchange. SSE will provide a platform where Non-Profit Organizations (NPOs) working with welfare objectives and For-Profit Enterprises (FPEs) which besides earning profit also intends to invest in social development, will be able to raise capital for welfare objectives from philanthropic investors by issuing securities to them. NPOs and FPEs will be able to list their securities on SSE which will be bought by philanthropic investors including retail donors, companies under their CSR³ activities, and charitable

organizations and thus raise fund from such investors for financing their public welfare activities like providing health care facilities; imparting quality education; creating employment opportunities; etc. The philanthropic investors can be simply described as donors and the purchase of securities by them can be described as donations for social development. The listing of securities by NPOs and FPEs on SSE will be regulated by SEBI. Though SSEs are already functioning in many other countries like UK and South Africa from several years, the concept of SSE in India has recently been introduced⁴. It is still in developing stage and the planning has been done by Working Group (SEBI SSE Working Group) and Technical Group (Technical Group on SSE) which were constituted by SEBI in 2019-20. These groups have recommended SSE's working mechanism, eligibility criteria for listing social enterprises, the listing process, the auditing mechanism, social enterprise norms, etc.

A. Literature Review

Deepak Kumar Adhana (2020) in his study "Social Stock Exchange-An Innovative Financing Platform For Social Enterprises In India", highlighting the need of SSE in India says that India must undertake social development at war footing in order to achieve the UN Human development targets. It will require a huge amount of effort and capital

which cannot be met merely by government agencies and government expenditure. Citing the Brookings Institute Report⁶ the author said that India is facing a deficit of \$ 564 billion for achieving SDG targets for which UN has fixed the year 2030 as deadline for all the nations. Therefore, there is a need to include social enterprises in developmental efforts and to make them financially capable for undertaking welfare activities. The author also listed the possible challenges in the success of SSE. Those challenges include lack of trust among investors; spreading awareness about SSE among the stakeholders; assessment of the impact created by a social enterprise with the fund raised through SSE; government cracking down on NGOs on inputs from intelligence department which has led to a 40% reduction in foreign aid to NGOs till the year 2019. The author concluded by saying that if the government becomes successful in building the trust of investors, then SSE has a huge potential for bringing about social development of India.

B. Research Gap

The earlier researchers did not analyse the different kinds of securities that can be listed on Indian SSE. It did not study the role of social enterprises, the financial challenges faced by them and how SSE will help them to raise capital. They also did not deal with

the difference in the nature of capital that can be raised by SSE as compared to the nature of capital that is raised by normal stock exchanges like NSE and BSE. Some researchers have not incorporated the guidelines formulated by SEBI SSE working Group and Technical Group on SSE set up by SEBI. In the proposed study an attempt has been made to deal with those issues.

C. Objectives of Study

- To study the concept and working mechanism of SSE
- To study the role of social enterprises and how SSE will help them in raising capital for funding their welfare activities
- To study the listing criteria for social enterprises on SSE.
- To understand the need for assessment and reporting by social enterprises for raising capital through SSE

D. Research Methodology

The study will be an exploratory research seeking to gain insight into how the proposed social stock exchange will work and how it will contribute to the social development in India. It will be a doctrinal study in which published documents will be studied and analysed.

E. Limitations of the Study

In India, the concept of SSE has been recently introduced and it is still in the process of creation. Hence, there is hardly any research work available in this area. The mechanism of SSE and its regulatory framework is still in the process of construction. Therefore, it is not possible to analyse its performance. The impact of SSE on social development can be measured only after the proposed SSE starts functioning.

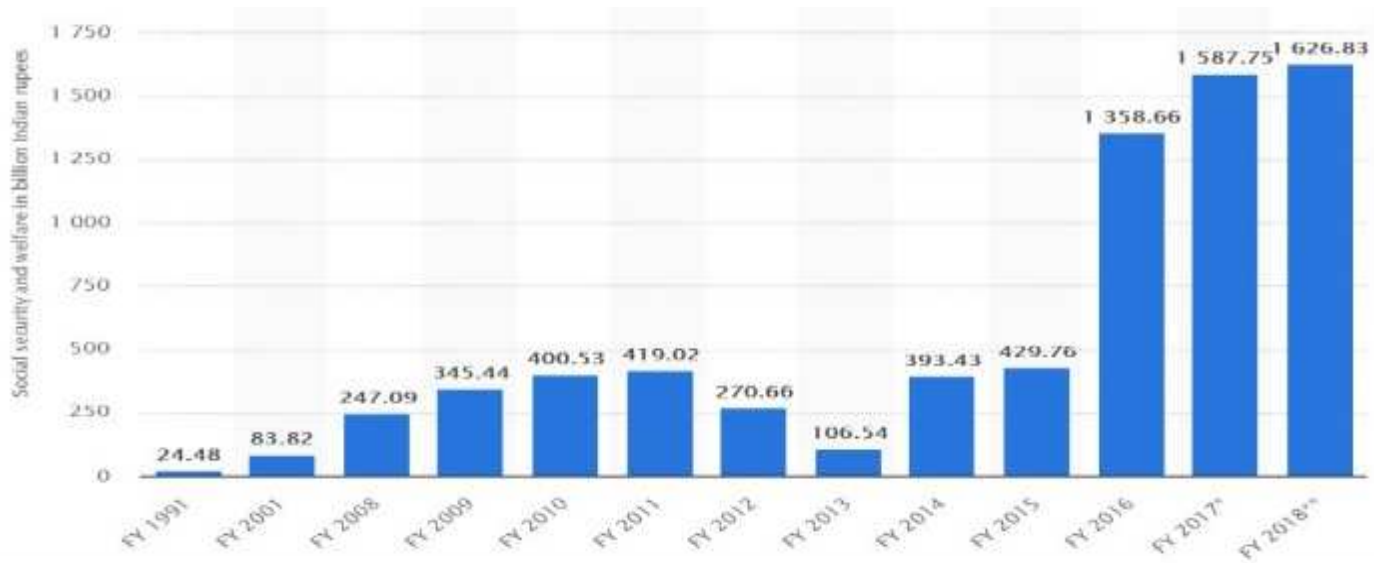
F. Role of Social Enterprises

According to World Bank databank, in the year 2015, the number of people in India who lived in extreme poverty were 176 million. The report further says that due to lock down in the wake of Covid-19 pandemic will adversely affect the economy depriving 11% of self-employed persons and persons working in unorganized sectors of their employment. **According to UN estimates in the year 2019**, the number of poor persons in India is 364 million (28% of Indian population).

India is said to be a nation with mass poverty. India is witnessing the problem of high unemployment rate, low consumption, high infant mortality, high illiteracy, lack of adequate health care facilities, malnutrition, AIDS, etc. These problems have become more severe because of almost stagnated

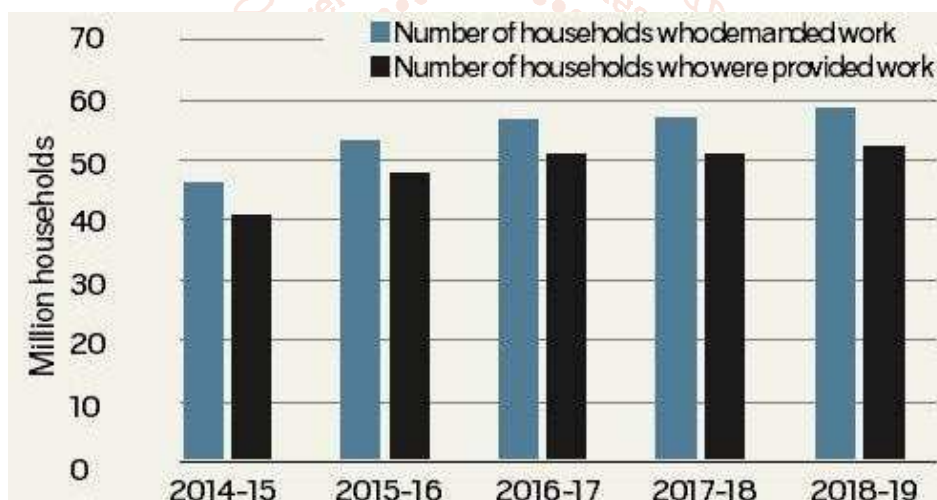
government spending on social security and public welfare.

A snapshot of expenditure (in billion rupees) of Indian government (central & state) on social security and public welfare from Financial Year 1991-2018



Even MGNREGA has failed to provide employment to all the unemployed persons.

A snapshot showing comparison between number of households which demanded work and number of households which were provided work



Herein comes the role of social enterprises which work with public welfare objectives and supplement the role of government in promoting equitable development. Social enterprises work for the poor and deprived sections of humanity and provide them several kinds of services for protecting and promoting their interests. The services provided by social enterprises include health care facilities; employment opportunities; food distribution; clean environment; women empowerment; childcare; old age homes; orphanage; educational institutes; skill development; educating people on social evils like dowry, child marriage, female infanticide, drug addiction; etc. **Aadil Altaf Lone said,** “The voluntary organization has long been an enabler and driver of equitable growth in India as well as in world and has made a significant contribution to the welfare of the community”.

To earn wealth is natural phenomena of every person for his future necessarily side by side it should help the growth of country’s economy. As much as skills are required to earn money, it is required in equal measure in spending it wisely¹². Voluntary organizations are commonly known as Non-Governmental Organizations (NGOs), though they may be known by many other names. **In 2009 there were around 3.30 million NGOs operating in India which meant that for every 400 Indians there was one NGO¹³.** However, it is not only the NGOs that are working for social development. There are many other organizations as well like not-for-profit companies¹⁴ and for-profit-enterprises which beside earning profit also invest in welfare objectives. **All such organizations working for social development and public welfare can be clubbed under “social enterprise”.**

G. Challenges Faced by Social Enterprises

The social enterprises are playing a critical role for the welfare of deprived classes, but they are facing several challenges as well and **the most significant challenge is the scarcity of capital for financing their welfare activities.** Dr. K. Prabhakar (2014), in his study “Voluntary Organisation and Challenges in India”¹⁵ citing the report of Society of Participatory Research in Asia (PRIA) said that in the year 1999- 2000 around 1.20 million NGOs operated in India and the total fund they received was a meagre amount-approximately 18,000 crore which was hardly one percent of India’s GDP.

The NGOs had a very limited mechanism for raising capital which consisted of loans, grants, and donations. **The NGOs relied heavily on donations including** foreign contributions under Foreign Contribution (Regulation) Act, CSR funding, government funding and multiple individual donors scattered over large areas and donating small amounts. **But the donations too had become difficult because of lack of trust of donors in NGOs and poor visibility of NGOs among investors because of which they fail to raise adequate capital.** The capital raised by NGOs were not even sufficient for managing their operating cost which included payment of rents and utility bills, staff training, salary to employees, etc. **resulting in the inability of many NGOs in carrying out the welfare activities.** Besides financial scarcity, the NGOs also faced other challenges like poor governance, low visibility among investors, lack of transparency, lack of accountability, poor communication with investors and beneficiaries, etc.

H. How Will SSE Help Social Enterprises In Raising Capital?

The profit-oriented enterprise attracts conventional capital wherein the investors seek early and profitable return on their investments. **On the other hand, social enterprises require patient capital** wherein the investors do not seek early profitable return or do not seek any return at all.

The purpose of SSE is to enable social enterprises raise patient capital. This has been planned to be done by allowing social enterprises to list their financial instruments on the SSE and those financial instruments will be bought by the investors thereby providing capital to the social enterprises. The SSE will function in a manner similar to normal stock exchanges like NSE or BSE. In fact, it is proposed that SSE will utilize the structures of normal stock exchanges and it will work under the regulatory framework of SEBI.

The various modes by which social enterprises will be able to raise fund from SSE have been proposed by “SEBI SSE Working Group” and “Technical Group on SSE”. Those modes include:

1. **Equity and debentures:** Equity refers to the shares of the company and the person who buy shares pays to the company the value of shares. He becomes shareholder of the company and becomes entitled to dividend¹⁶. Debenture is debt instrument. When a person buys debenture of a certain amount, he gives that amount as a loan to company for certain specified period after which the company repays the principal amount and in the meantime the company keeps paying the interest to the investor. Debenture holders are the creditors of the company and company becomes the debtor. **Not-for-profit companies by listing their instruments can raise capital in two ways.** (i) investors who will buy those instruments will pay their cost which will go to the company, and (ii) instead of paying dividend to shareholders and interest to debenture holders, the company will reinvest the profit, and it may also reinvest the interest accruing on debentures back in the company for financing their welfare objectives. Such companies will be allowed to list their instruments on SSE within the existing legal framework because they are registered as companies. For other social enterprises which are not registered as companies like those registered as societies and trusts, certain method will be required to be devised by SEBI so as to enable them to list their instruments on SSE.
2. **Zero coupon zero principal bond (ZCZP bond):** This is a new type of bond proposed for raising capital on SSE. When an investor will buy a ZCZP bond of a particular social enterprise, he will be pay an amount equal to the face value (denomination) of the bond. **But the company will neither pay him any interest nor it will repay the principal amount.** In other words, the money invested by an investor in buying that bond will be like a donation which will be utilized by that social enterprise for social development. The return on investment will instead of going to the individual investor will go to the society. That means, the return will be a social return.
3. **Mutual fund structure:** In mutual fund, Asset Management Companies (AMC) like banks combine the fund of several clients with common investment objectives and on behalf of those clients invest the fund on the securities of various companies. The returns from the funds invested by AMC in the securities go to the clients in

proportion to their fund and that is the profit of the clients. AMC charges a commission for its mutual fund service. **In case of SSE, AMCs will create a mutual fund by combining the fund of clients with philanthropic objectives** and the returns from the mutual fund will instead of going to the clients will go to NPOs and FPEs listed on SSE. The AMC will invest in the equity, debentures, or ZCZP bonds of the NPOs and FPEs selected by AMC. The AMCs instead of investing in the equity, debentures, or ZCZP bonds of the NPOs and FPEs, may make a direct donation to the selected NPOs and FPEs. The principal amount will return to the clients. In this way, mutual fund structure can help in raising capital for social enterprises.

4. **Pay-for success-structure:** In this fund-raising model AMCs will combine the conventional capital provided by banks or other financial institutions (FIs) with social capital coming from individual donors, institutional donors, CSR funding, or other sources and invest the combined fund in the selected social enterprises. Banks/FIs will earn return on their conventional capital only when social enterprises successfully create an impact on social development while providers of social capital will not earn any return.
5. **Social impact bond and development impact bonds:** These are also the other modes suggested by Technical Group on SSE for funding of social enterprises

Many social enterprises are small in size and scale, scattered, and hardly known to investors. Therefore, Social enterprises suffers from the problem of low visibility because of which they are unable to get the attention of investors. Listing of social enterprises on SSE will enhance their visibility thereby helping them attract more investors.

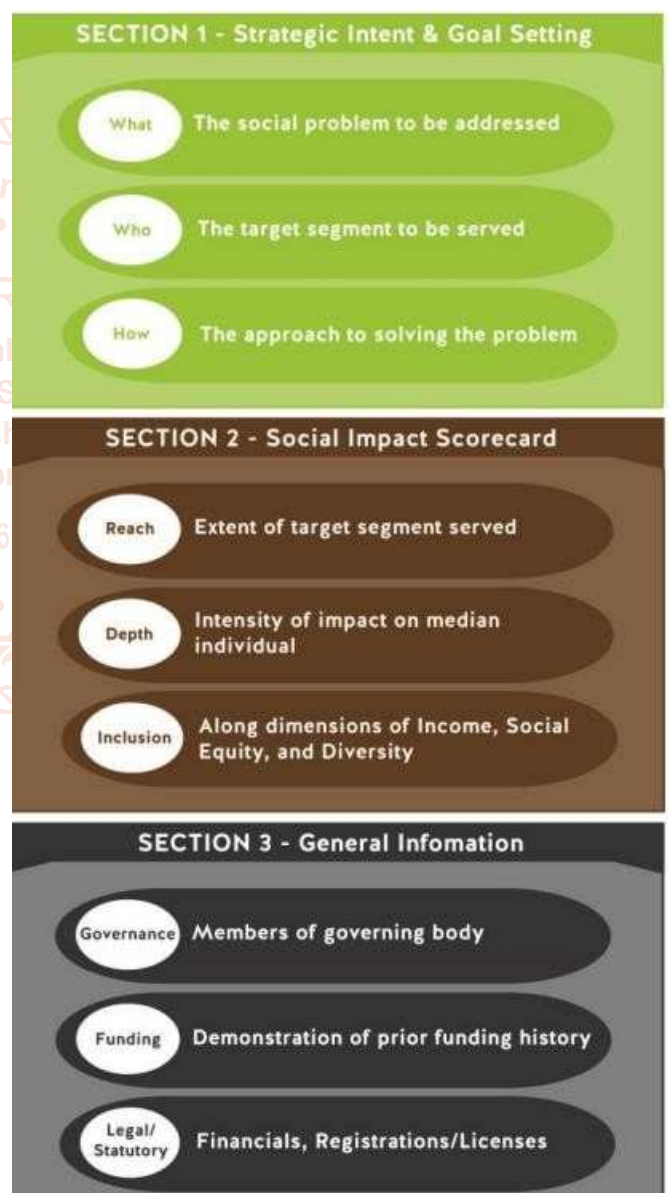
I. Listing Criteria for Social Enterprises on SSE

The Technical Group on SSE has suggested several eligibility criteria for a social enterprise in order to get listed on SSE. It must be registered in India either as a charitable company under Companies Act, or as a public charitable trust, or as a society under Societies Registration Act. At the time of listing, the NPO must be in existence from at least 3 years, its registration certificate must not be expiring in the next 12 months. Besides, it must be engaged in one or more of the 15 broad areas laid down by Technical Group which include poverty eradication; elimination of hunger and malnutrition; employment generation; education; women empowerment; empowering LGBTQIA+ community; protection of environment, forest and

wildlife, disaster management; slum development; etc.; and must be serving the depressed and deprived classes like SC, ST, OBC, children, and migrants.

J. Assessment and Reporting Requirements

For investing in a social enterprise, it will be necessary for the investors to know the nature of welfare activities that it is pursuing and social impact it has created, that is, how successful the social enterprise has been in achieving its mission. Therefore, each social enterprise will be required (i) to adopt assessment standards in order to measure the social impact it has created. (ii) to adopt reporting standards so that report its assessment to the investors through SSE. **SEBI SSE Working Group has formulated a common minimum reporting standard presented in the chart below:**



Conclusion

For timely achievement of the target set by UN Sustainable Development Goals and to facilitate reconstruction of the economy devastated by Covid-19 pandemic which led to financial destruction of millions of households and uncountable job losses, the

Hon'ble Finance Minister in 2019-20 Budget Speech proposed an innovative idea of Social Stock exchange (SSE). The SSE is supposed to work under the regulatory framework of SEBI. The concept of SSE is though new to India, it has already demonstrated its success in many other foreign countries like South Africa, Brazil, and Singapore. The concept holds a lot of potential for India as well. SSE is expected to serve as a platform where social enterprises will be able list their securities like equity, debentures, zero coupon zero principal bonds which will be bought by philanthropic investors and thus provide capital to the social enterprises for financing their welfare objectives. SEBI SSE Working Group and Technical Group on SSE have formulated the detailed guidelines for the proposed SSE.

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