



International Journal of Finance and Commerce

www.commercejournals.com

Online ISSN: 2664-715X; Print ISSN: 2664-7141; Impact Factor: RJIF 5.42

Received: 01-01-2021; Accepted: 02-02-2021; Published: 14-03-2021

Volume 3; Issue 1; 2021; Page No. 01-03

Social stock exchange

Uday K Teke

Professor, Assistant Professor, Department of Commerce, M.S.G. Arts, Science and Commerce College, Malegaon Camp, Maharashtra, India

Abstract

Social finance is considered to be the mainstream problem in India for goods and services which targets the disadvantaged and poorer sections of the society. It is proposed by Indian finance ministry in the recent budget speech to create a separate system to for fund raising to help the disadvantaged people of society. Social stock exchange is a platform on which social enterprises, volunteer groups and welfare organizations will be listed so that they can raise capital. The proposal has attracted much attention, and social entrepreneurs, among others, have said that the move can have a revolutionary effect on how they tap investors for capital. With social finance, impact investors put their capital behind enterprises that profitably cater to underserved populations by expanding access to critical goods and services, such as healthcare, affordable housing, credit, and quality employment. However, before one can understand what a Social Stock Exchange is, two terms 'social enterprises' and 'impact investment' need to be understood. A social enterprise is a revenue-generating business, but its primary objective is to achieve a social objective. It does not ignore profit but its primary goal is social service. While pursuing social goals, the social enterprise does not do away with profit because it ensures the sustainability of the entity. The cornerstone of the philosophy is that even social enterprise can be highly profitable. Impact investment is the investment made into businesses with the aim to make a noticeable social, economic and environmental impact. At the same time, it generates a wide range of returns, ranging from profit to publicity to creating awareness, to educating masses etc.

Keywords: social stock, social finance, impact investment

Introduction

Social stock exchange in contrast with conventional stock exchanges. So, what a stock exchange is? It is a platform to trade financial instruments and the value of these financial instruments depends on future earning capacity of the issuing entities.

A social stock exchange is a platform that allows investors to buy shares of social enterprise that has been vetted by the exchange. In the social stock exchanges the value of instruments like shares depends on the social impact of organization or the company on the society.

Before going to understand what an SSE, two terms social enterprises and impact investment need to be understood.

Social Enterprise

A social enterprise is a revenue-generating business, but its primary objective is to achieve a social objective. It does not ignore profit but its primary goal is social service. While pursuing social goals, the social enterprise does not away with profit because it ensures the sustainability of the entity. The cornerstone of the philosophy is that even social enterprise can be highly profitable. The profit these entities generate is not used for payouts to investors, but reinvested into their social programs.

A continuous flow of profit helps social enterprises plan and execute long-term programs, and bring on board the required technology and professionals. Profit, which makes social enterprises sustainable, differentiates them from charities. Charities also have a social mission, but they are fully dependent on donations. The social sector is widely dispersed, comprising a variety of organisations usually considered outside the confines

of the market and lacking the structure and resources required to achieve scale and generate impact. There are more than 2 million social enterprises/organisations that prioritise social or environmental mission over profits provides direct employment and skills training to underserved communities, with women forming up to 65% of their part time workforce. But their contribution to our economy has not been duly acknowledged and they do not form part of the growth of the Indian entrepreneurship ecosystem.

Several forms of social enterprises exist in practice, these can broadly be categorised into Non-Profit Organisations (NPOs) and For-Profit Social Enterprises (FPEs). NPOs are usually structured as non-governmental organisations, companies registered under section 8 of the companies act, trusts or societies. FPEs can be private limited companies, partnerships or sole proprietorships.

Impact Investment

The investment by social enterprises is described by a different term called Impact Investment. Impact investment is the investment made into businesses with the aim to make a noticeable social, economic and environmental impact. At the same time, it generates a wide range of returns, ranging from profit to publicity to creating awareness, to educating masses etc. One way to understand impact investment is as an alternative mode of financing for socially beneficial goods and services. It involves bringing private capital and market-based business solutions to bear on the world's most pressing social and environmental problems.

Since the term impact investing was coined in 2007, it is seen that increasing amounts of funds being channelized into Impact Investment. The idea of impact investment has the potential to change how and which socially beneficial services and goods (e.g. housing, health, education, and electricity) are financed. This demands special consideration, especially for those interested in improving global social welfare.

The Global Impact Investing Network (“GIIN”), an industry association for social finance, defines impact investments as follows:

Impact investments are investments made into companies, organizations and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on the circumstances.

Social Stock Exchange

A social stock exchange (SSE) is a platform on which social enterprises, volunteer groups and welfare organizations are listed so that they can raise capital. This is a revolutionary concept to provide an avenue to these organizations, so that they can approach and tap the reservoir of investors for capital. One of the main concerns of the society has been to remove poverty and transfer the benefits of economic growth to the last person in the line.

A social stock exchange (SSE) as envisaged by a recent report by the Securities and Exchange Board of India (SEBI) the SEBI Report enables Indian social enterprises to list their securities or other financial instruments, providing them with an avenue for raising capital for their operations and growth, and reducing their dependency on ad hoc funding like grants or donations. This would operate as a separate segment under existing Indian stock exchanges, enabling socially minded investors to diversify their investment portfolio and developing a strong social securities market in the country.

Functioning of social stock exchange

Social stock exchange would function in the same manner as a normal stock exchange. But this stock exchange will be created to serve the society, generating source from the society and giving back to society in the form of welfare, upliftment through providing great infrastructures like roads schools hospitals etc. In such a system investor can buy and sell such shares but, don't need any dividend from that company or organization which is listed on social stock exchange. It's the pleasure investor get from helping through investment.

Groups or institutions, companies or people creating funds in the form of debt equity or mutual funds will be benefitted through social stock exchange. Social stock exchange and electronic fund-raising platform will be created with regulations of SEBI to list all the NGO's, self-help groups and any institution who wants to do social help in any sense for the welfare of the society. Government in present considers that need special donors in the form of investors to lead social campaign to help the society. There has always been a question over funding of Ngo's and other social institutions and non-profit organization, when such organizations and NGO's are listed over such social stock

exchange it gives a transparency about source and usage of such funds.

Importance of Social Stock Exchange

SSE will bring together social enterprises and impact investors on a common platform. A social stock exchange, broadly, is understood as a platform that allows investors to buy shares in a social enterprise that has been vetted by the exchange. The Social Stock Exchange provides access to the world's first regulated exchange dedicated to businesses and investors seeking to achieve a positive social and environmental impact through their activities. On this platform, investors, like in any other stock exchange, will be able to buy shares (basically trading of securities or potentially debt, in the form of bonds) of listed entities. On the exchange, a listed entity's value will be linked to its social impact, that means there will be some point system. Points will be awarded to social enterprise on the basis of social impact it has left on society in a positive manner, the more the social impact a listed organization creates, the more points they get, more the points more the shares and its value and finally which leads to greater funds.

SSEs would help improve visibility and knowledge, among all stakeholders, especially funders, issuers and customers, about the contributions of social enterprises to the economy. They would also establish procedures to standardize social finance transactions, build awareness about the needs and challenges of this sector and develop social capital. These stock exchanges would bridge the funding gap for social enterprises and enable a growth of strong professional networks of investors and subject matter experts in order to guide social enterprises. They therefore create the necessary social investment ecosystem for enterprises and investors, whose objective is to generate maximum positive social impact and place environmental, social and governance (ESG) features within the pursuit of profits and growth.

Social Stock Exchange in Indian context

1. India's social enterprises ecosystem is growing fast, recent survey conducted by the British Council India on the status of social enterprises, 57 per cent of the entities surveyed said that access to debt or equity is a huge barrier to growth and sustainability. This barrier can be overcome by bringing social enterprises and investors on a single platform i.e. social stock exchange.
2. SSE will not only give social enterprises access to capital, but will actually make the exercise much cheaper for them by standardization of the process and does away with the need to engage and negotiate directly.
3. Brookings India survey says, over 27 per cent impact investors in India find impact measurement difficult. At least 25 per cent said that finding high-quality investment opportunities was a challenge. Despite the development of tools such as the Global Impact Investing Rating System and Impact Reporting and Investment Standards, evaluation and monitoring the impact of investment and social returns remains a tricky issue. However, for SSE, stakeholders will develop a framework for monitoring of impact, and social enterprises accessing the platform for capital will be vetted before listing, thus ensuring quality and eliminating some of these issues. In simple terms, listing on SSE will be a seal of

quality for a social enterprise and would provide investors' confidence that due diligence has been undertaken.

4. Same Brookings India survey report says that over 44 per cent of impact investors find 'difficulty in suitable exit options' as a challenge. Lack of a liquid market place means the investors will be overly cautious, resulting in net investment going down. Solution to this difficulty is SSE, because SSE offer exit routes.
5. The British Council Report observed that 32% of Indian social enterprises have seen a general lack of understanding among banks and financial organizations about their work and 20% reported a lack of awareness amongst community members about their goals, functions and objectives. The report also found that about 33% of Indian social enterprises felt that their limited networks act as a barrier to accessing investors.
6. Given that listing on SSE would involve regular audit of impact that social enterprises create, it will promote competition between firms and encourage market discipline. The securities of the best performing social enterprises will carry a premium, and, in turn, the companies that are not efficient will be penalized by the market.
7. Establishment of SSE will help the rapidly growing impact investment market in India to become a more regulated capital market. The proposed SSE will be regulated by the Securities and Exchange Board of India.
8. As impact investment becomes more accessible with the help of SSE, money flowing into sustainable development would increase, reducing the burden on the government. If developed with the right framework, SSEs can emerge as an important channel for international development finance.

In July 2019, during the announcement of the Union Budget FY19-20, India's Finance Minister Nirmala Sitharaman proposed a social stock exchange to help enterprises and voluntary organizations working for social welfare raise capital through debt, equity or mutual funds. "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", she said in parliament. The social stock exchange was proposed to be set up under the ambit of Securities Exchange Board of India (SEBI). The move was welcomed as a harbinger of greater inclusive growth and commitment to support social enterprises in India. Following this announcement, an expert panel was set up by SEBI in September 2019. Under the chairmanship of Mr. Ishaat Hussain, Director at SBI Foundation and former Finance Director at Tata Sons, the committee's objective was to suggest a feasible architecture and outline recommendations for setting up an SSE mechanism in India. The panel consisted of representatives of active stakeholders in the realm of social impact investing, Finance Ministry, stock exchanges and NGOs.

The panel released its comprehensive report on 1 June 2020. It sets out a structure for an SSE in India, recommending that it be housed under existing national exchanges such as the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

Conclusion

At present, India has a number of avenues through which the social sector (non for profits and for-profit social enterprises) receive funding. These are Corporate Social Responsibility

(CSR), impact investing, Socially Responsible Investing (SRI), philanthropic/Government grants, amongst others. The SSE aims to achieve an integration of all these diverse avenues into a common national platform and establish a uniform framework in reporting and measuring financial and social returns. Thus, the SSE has an instrumental role to play in unlocking greater capital available for social impact funding by i) enhancing visibility of social enterprises, ii) institutionalizing innovating fund-raising instruments, and iii) building confidence amongst funders by formulating a common standard for reporting and evaluation.

References

1. Wendt, Karen. "Social Stock Exchanges - Democratization of Capital Investing for Impact." SSRN Electronic Journal – Researchgate, 2017, 1-39. English.
2. Saini, Sandeep. <https://www.financialexpress.com>, 2019.
3. Chhichhia, Bandini. *The Rise of Social Stock Exchanges*. Stanford, 2015.
4. Arvind, Indulekha. *Economic Times*, 2019.
5. <https://www.theindiaforum.in/article/social-stock-exchanges>
6. <https://www.drishtiias.com/daily-updates/daily-news-analysis/social-stock-exchange>
7. <https://www.investindia.gov.in/team-india-blogs/advent-social-stock-exchange-india>