SOCIAL STOCK EXCHANGE

Financing NGOs

The SSE can be a gamechanger and is expected to produce a major shift in how social sector projects get funded

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The Government of India took the lead in proactively announcing the creation of a Social Stock Exchange (SSE) a year ago in July, 2019. This is expected to produce a major shift in how social sector projects get funded and can prove to be a gamechanger for the sector, especially considering the post-Covid scenario.

While the current crisis has reaffirmed the need and relevance of NGOs, it has also exposed the survival challenges that many of them are facing as their funding sources are drying up.

A functioning SSE is an opportunity for NGOs for scaling up social action while at the same time ensuring a reasonably stable financial pipeline with integrated accountability frameworks.

What are such exchanges and why do we need them? The SSEs are trading platforms that allow social businesses to raise capital by attracting ethical investors willing to invest in businesses that have a dual corporate and social mission.

India has chosen to have this embedded within the Securities and Exchange Board of India (SEBI). Several countries have attempted full-scale SSEs or equivalents of them with differential levels of success.

The United Nations Development Programme (UNDP) estimates that India needs $1 trillion per annum to meet the UN Sustainable Development Goals by 2030, and the financial funding gap estimated is $560 billion per annum.

The growing momentum around social entrepreneurship and innovation provides a perfect opportunity to consider social enterprises as a key tool to enable sustainable development and reach the SDG goals.

Keeping in mind the reduced ability of the government to spend on social development in a sluggish economy, it may be imperative to enlist the support of the private sector while the SSEs could serve as a platform to facilitate their participation.

Existing challenges: Any social trading platform needs a robust demand-side ecosystem - the social organisations, a robust supply-side ecosystem – the investors, and infrastructure - SSE and its intermediaries.

Currently, the country is not fully ready on any of these three key building blocks and there is preparatory work that is required across all stakeholders, with the government having the key role of the market maker and influencer.

Both for investors and stock exchanges, finding the right investment and instrument is a complex task. Our legal and regulatory frameworks need considerable tweaking as they currently discourage stakeholders from engaging in social financing on one hand, and NGOs from generating profits on the other.

A listing of social enterprises will essentially operate at the intersection of finance and philanthropy, the hybridity

does present a regulatory challenge and policymakers will have to design a platform that bridges this regulatory gap.

The road ahead for NGOs: The NGOs in India are either trusts, societies or non-profit (Sec 8) companies. While they are bundled together under the common name of NGOs, each has a different kind of structure, tax and legal framework governing them.

A Trust operates differently from a Society or a Section 8 company or a voluntary organisation. This is further complicated by the fact that no legal definition of a social enterprise has been framed under any of the existing laws.

Having a common definition and bringing them all under common law for the purpose of an SSE will be the critical first step.

India can draw inspiration from laws from other countries and learn from their experiences too. The law closest to the Indian context is that of Britain and it defines a social enterprise as "a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners."

The NGOs, irrespective of the laws under which they were created need to be provided with a clear roadmap to transition themselves into a social enterprise.

They also need a different kind of talent pool to enable them to operate with an expanded mindset of doing social good and generating profits for their investors.

More importantly, they need a new regulatory structure to enable them to hybridize themselves and learn to operate as social enterprises.

Clear processes to identify social enterprises and distinguish them from conventional businesses operating within ESG (Environmental, Social and Governance) guidelines also needs to be put in place.

Consistent taxation applicable across all organisations under the definition of social enterprises and ideally across all states and Union Territories will be the next step.

Internal capacity

The SEBI should be appropriately enabled to govern the social enterprises and will need to build its internal capacity to differentiate them from other for-profit companies.

Though NGOs undertake several pioneering social initiatives, many are generally reluctant to define and measure the impact that they are creating.

Accountability, transparency, consistent measurement and reporting of results will be crucial to ensure and encourage effective investment in them.

Setting standardised data collection, measurement and reporting frameworks that will help investors assess the short-term efficacy of their investment based on outcomes, financial and operational indicators and the final long-term developmental impact achieved is existential to the success of the SSE.

If India has to ensure investments on human capital stay a priority in the post-Covid era, it needs the various stakeholders - government, investors, businesses, financial intermediaries, regulators, philanthropic organisations, and NGOs to partner, collaborate and co-invest.

And this can happen when the SSE, which is on paper today, becomes a fully functional exchange as early as possible.

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