

# Next In Social Stock Exchange



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Building investor confidence by creating a major shift in social sector project funding

**T**he finance minister announced the setting up of a Social Stock Exchange (SSE) in July 2019 with the expectation of producing a major shift in social sector project funding. A fully functional SSE can prove to be a game changer for the sector, considering the scenario. Companies providing social support in areas like health, education, transport and solar energy can seek listing in this exchange.

**Why do we need them?** Social Stock Exchanges (SSEs) are trading platforms that allow social businesses raise capital by attracting ethical investors willing to invest in dual corporate and social mission. While several countries have attempted full scale SSEs or equivalents with differential levels of success, the Indian government has asked Securities and Exchange Board of India (Sebi) to prepare the roadmap and set up SSE.

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 p.a. Keeping in mind the reduced ability of government to spend on social development in a sluggish economy, it may be imperative to enlist the support of private sector and 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 - the SSE and its intermediaries. Currently India is not fully ready on any of these three key building blocks. Finding the right investment and instrument is a complex task. Indian 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. As listing of social enterprises will essentially operate at the intersection of finance and philanthropy, the hybridity does present a regulatory challenge and policy makers will have to design a platform that bridges this regulatory gap. No legal definition

of a Social Enterprise has been framed under any Indian law.

**What needs to be done?** Having a definition that includes both 'for-profits' and the 'not-for-profits' and bringing them all under a common law for the purpose of a Social Stock Exchange will be a critical step. Clear processes to identify SEs and distinguish them from conventional businesses operating within ESG (Environmental, Social and Governance) guidelines also need to be put in place. A consistent taxation structure applicable across all organisations will be the next step.



**Getting investors interested:** The SSE as conceived today in Sebi report assumes that there already exists a critical mass of investors who are open to expanding their investment into what they would typically treat as "non-profit" areas, possibly as an extension of their traditional philanthropic work. This is not true and one needs to fine tune several aspects from the point of view of the Investor universe. The current investment instruments mentioned are fairly complex and difficult for people other than in the financial sector to use. One needs to define who the participants

in this universe will be - corporates, HNWIs, philanthropic trusts, venture capitalists or individuals, or even the government. Setting guidelines on what kind of funding approaches will be allowed for investment and disclosure norms and regulations required by the source/type of funds and the financial instruments which they can participate in, has to be crafted. Clarity in fiscal incentives to the investors in terms of tax breaks apart from other non-monetary incentives has to emerge (status/branding/accreditation/social credits). Investor confidence needs to be created.

All this is hard and long drawn work but 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 becomes a fully functional exchange. 

