

Social Stock Exchange

Inputs from CSR, Foundations, HNWIs and Everyday Givers

Key findings January 13, 2020





Section I Institutional Funders

Conducted an extensive survey and qualitative consultations across a wide spectrum of funders to identify benefits, role, barriers and enablers towards the success of SSE in India

Survey Methodology

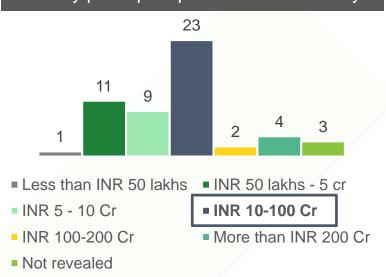
Online institutional survey

- Circulated to 150+ organisations
- Responses obtained from 52 institutional funders
- Online survey

Qualitative consultations

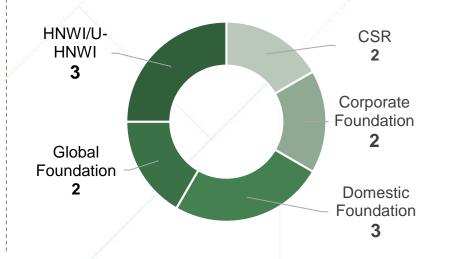
 Conducted with 12 funders across, through telephonic interviews

Survey participant profile – Annual outlay



Survey Participant Profile – Funder type HNWI/U-HNWI 6 Global Foundation 5 Corporate Foundation 11

Consultation Participant Profile – Funder type



Recommendations

Incentives for adoption by institutional funders are critical to figure out. To enable adoption and pool in diversified capital, 'alignment with existing laws' is critical



Opportunity

1

Massive opportunity in unlocking convenient capital from the institutional funders – CSR, corporate foundations, domestic foundations, HNWIs and global foundations



Survey Findings

1.1

73% of respondents seem keen on adopting the SSE, global foundations are more apprehensive than the rest (due to foreign fund flow norms/FCRA/FEMA)

1.2

77% funders believe that the most critical roles of the SSE are to unlock more capital through diverse financial instruments and to increase outcome accountability.

Incentivising funders was one of the key findings in qualitative consultations.

1.3

75% of funders across all archetypes placed 'alignment with existing laws' as the biggest enabler to the adoption of the SSE.



Recommendations

1.

Understand and address the specific needs of different funder archetypes towards the design of the SSE

1.2

Get a set of strategic institutional funders and government to **provide initial push and incentives** for adoption by funders

1.3

Amend CSR law to allow them to fund instruments on the SSE such as impact bonds

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While SSE can reduce time and effort for due diligence and discovery, 'transparency' and 'governance' emerge as significant enablers



Opportunity

2

SSE has an opportunity to reduction in cost, time and effort of discovery and due diligence for all types of funders



Survey Findings

2.

80% of the funders see the SSE has having a comprehensive list of credible social organizations and programs



60% funders (79% domestic foundations in particular) identified the need for having a sustainable business model for the SSE



Recommendations

2.

Bringing in transparency for both funders and SPOs by designing a credibility framework to include:

- Detailed financial statements
- Compliance metrics
- Independent impact evaluation reports
- Standardised input and output metrics

2.2

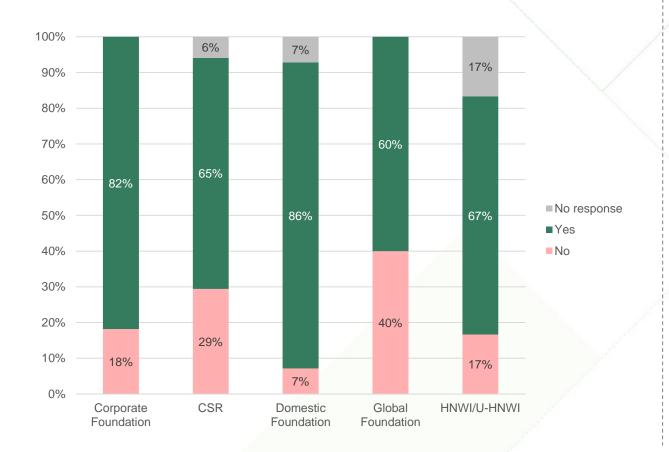
Have a **governance system similar to the NSE**, but with a social sector representation

Look at the feasibility of scale through retail everyday givers

Survey findings

73% of respondents seem keen on adopting the SSE, global foundations are apprehensive

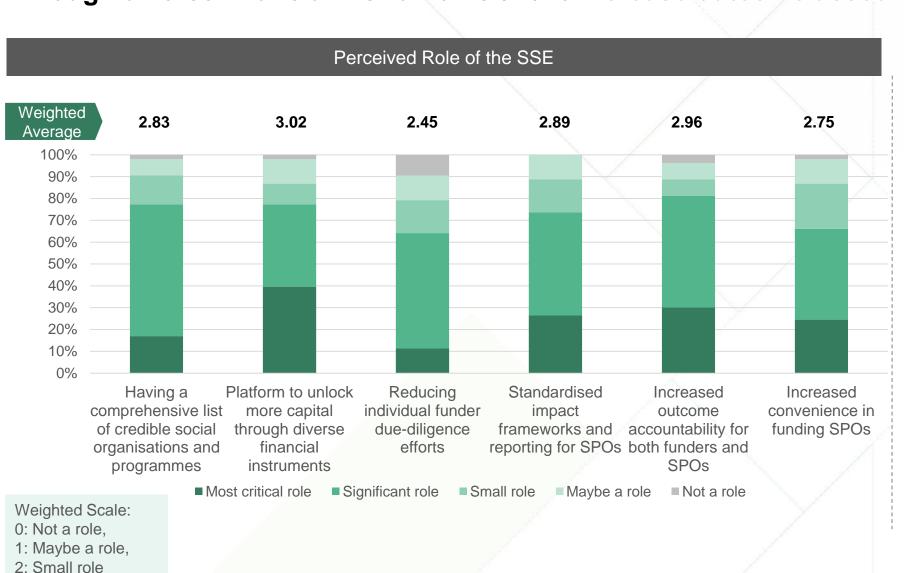




Adoption highlights in consultations

- Amendment in the CSR law to allow for funding SEs and in exchange-traded instruments will be a significant enabler for CSR to come in
- **Donor awareness and education** to ensure prominent institutional funders adopt the platform first.
- Enablement of foreign institutional funding into the Indian SSE (FEMA regulations etc)
- Bringing in transparency for both funders and SPOs
- Incentives through awards and rating recognitions for innovation =
- Successful design of the exchange expansion of working committee to include representation from business, rating organisations (CRISIL) etc.

Role



3: Significant role4: Most critical role

Highlights by organisation type

62%

CSRs and CSR Foundations (18/29) agree that in addition to the top two roles, the platform has a significant role to play to reduce Individual Funder due-diligence efforts

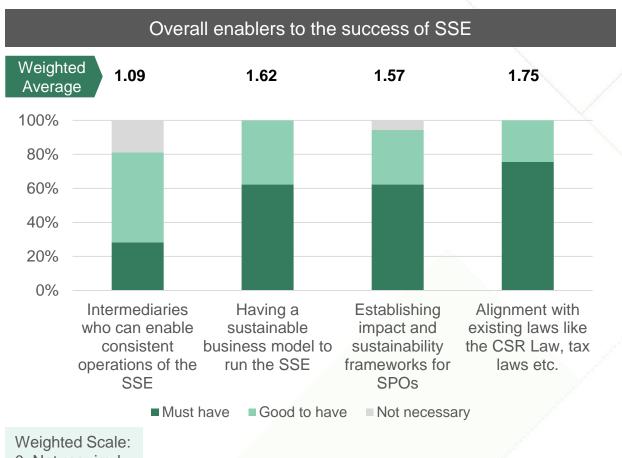
83%

HNWI/ U-HNWI's (5/6),in particular, agree that the platform also has a significant role to play to reduce Individual Funder due-diligence efforts

Top perceived roles of the SSE were discoverability and transparency, reduced cost and effort, increased accountability and as a platform to channelise different forms of finance

- Diverse financing mechanisms for listed entities is of value including bonds, DIBs, SIBs, debt, guarantees, revolving funds etc
- Can enable infusion of capital from mainstream investors including VCs and PE funds into SSE.
- Sustainable funding for entities once the traditional "impact funds" from institutions stop
- Reduction in cost, time and effort of due diligence from different investors
- Needs to go beyond being a listing 'yellow pages', so financing is the most compelling value.
- Provides **private capital for impact themes that have strong industry cohesion** e.g. Agriculture and Skill, which were impeded by only receiving philanthropic capital
- Marketplace for for-profit social enterprises, provided clear definition (e.g. B-corp equivalent) exists
- SSE can bring in funder **transparency** along with SPO transparency show existing funders for the SPOs, help the funders in justifying their grants
- CSR's would be interested in the discoverability of NGOs, the simplifying and reduction of cost of regulatory/compliance norms aspect of this platform and the foundations would take up a little more time since they already receive a of applications and don't have those many compliance norms

Funders have strongly identified with 'Alignment with existing laws' and 'Having a sustainable business model to run the SSE' as critical enablers to the SSE





82% CSRs (14/17) identified the need of *Establishing common* impact and sustainability frameworks for SPOs as a Musthave enabler for the SSE

79% Domestic and Family Foundations (11/14) identified the need for *Having a sustainable business model to run the SSE*' as a Must-have enabler

All Individual investors or HNWIs/ UHNWIs (6/6) clearly identified *Alignment with existing laws like the CSR law, tax law etc.* as a Must-have enabler

0: Not required,

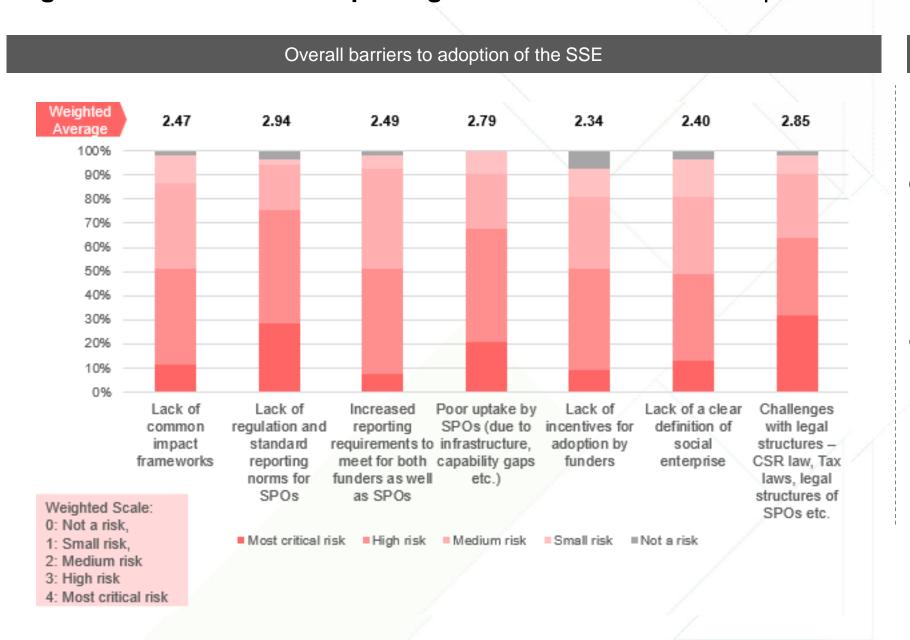
1: Good to have,

2: Must have

A phased strategy for starting the SSE with specific enablers at each stage will be critical in setting up the SSE successfully for adoption

- Starting with institutional funders and a matching contribution for the initial seed funding, could be an enabler for the SSE till the time it starts giving returns
- Amendment in the CSR law will be critical to unlock unspent CSR funds:
 - Allow for funding SEs and in exchange-traded instruments
 - Unspent amount after 3 years can go to SSE
 - A certain component of CSR funding can go to SSE every year
- Reduction in project management fees and due diligence charges will be a significant enabler for smaller CSRs to participate
- Donor awareness and education to ensure prominent institutional funders adopt the platform first.
- Clarity and enablement of foreign institutional funding into the Indian SSE (FEMA regulations etc)
- Incentives through awards and rating recognitions for innovation etc.
- Expansion of working committee to include representation from business, CRISIL kind of organisations for ratings etc.

Barriers



Highlights by organisation type

97%

16/ 17 CSR's have particularly identified 'Challenges with legal structures – CSR law, Tax law, legal structures of SPOs' as a Most-critical or High risk barrier

4/5 Global Foundations have

identified 'Increased reporting requirements to meet for both funders as well as SPOs' as a Most-critical risk or

High risk barrier

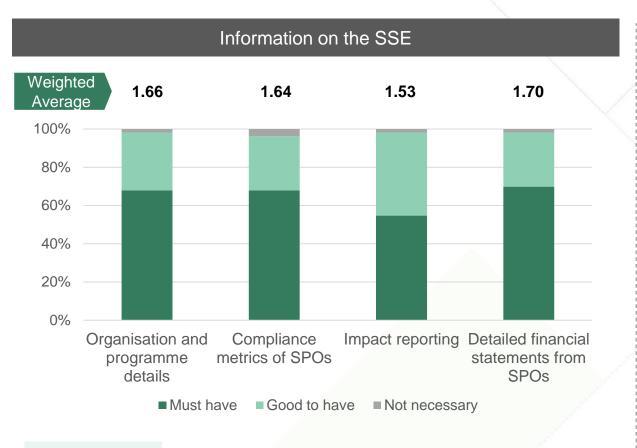
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Top perceived risks and barriers to adoption of SSE - Qualitative Consultations

- Governance of the SSE needs to be planned for. The model has to sustain itself for smooth functioning.
- If the SSE has to on-board social enterprises, the definition a social enterprise will be critical
- Social Stock exchange would be a transactional platform, not a human interaction platform. Emotion-led giving has been the reason for success of crowdfunding and the SSE might not work too well with retail donors
- Social entities going public without going through mainstream VCs who prepare them for the main market through rigorous due diligence
- Will change the nature of transaction from personal and social to transactional as a commodity
- Absence of any rigorous risk assessment frameworks developed so far for social sector
- Non-adoption by investors (most think SPOs will list)
- SSE might move funds from funding for long-term change to funding for short-term solutions
 - SSE might move funds to short-term approaches but long-term approaches is what sector needs
 - SSE might move SPOs towards working on elements that can be measured and funded, than elements that will move the
 needle on impact

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To make the SSE attractive to funders, detailed financial statements, compliance metrics and independent impact evaluation reports are critical



Weighted Scale:

- 0: Not required,
- 1: Good to have,
- 2: Must have

Credibility highlights in consultations

- Government investing in credibility frameworks will raise the confidence of funders
- Combination of qualitative and quantitative metrics to prevent elbowing out of several kinds of social work
- Starting with objective metrics and gradually increasing complexity as the market uptake increases
- Bringing in rating agencies like CRISIL for credible ratings framework creation, as credibility of framework is a significant determinant for funders to adopt
- Risk robustness is key to long-term viability of the SSE

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Due diligence and risk assessment framework should be designed to protect funder interest by including legal documentation, organisational robustness and expertise/track record of the organisation

Areas that the due-diligence framework should consider:

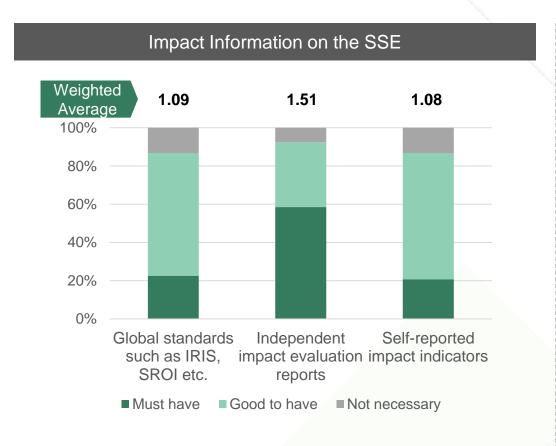
- Governance structure of the non-profit all **documentation** in order, including adherence to laws
- Robustness of **internal processes** SOPs, approval processes
- Expertise available in the organisation given the social cause and impact areas
- Track record in terms of handling scale/size of funding, community outreach scale, impact numbers

Documents that will be useful for funders:

- · Legal structure documents
- Balance sheet
- Governance structure
- Expertise in different domains
- People in organisation number and credibility
- Other partners
- %Project management fees
- Previous performance: plan vs actual

Design

Independent impact evaluation reports and framework were called out as must-haves by all categories of funders



Impact highlights in consultations

- Placing emphasis on third-party impact reporting and standards DOW sustainability standards for example
- Standardisation of impact reports might be infeasible, report most respondents
- Balance between qualitative and quantitative metrics is required

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For **impact reporting**, start with a requirement of third party assessments and set high-level guidelines on frequency, rigour and process of conducting assessments

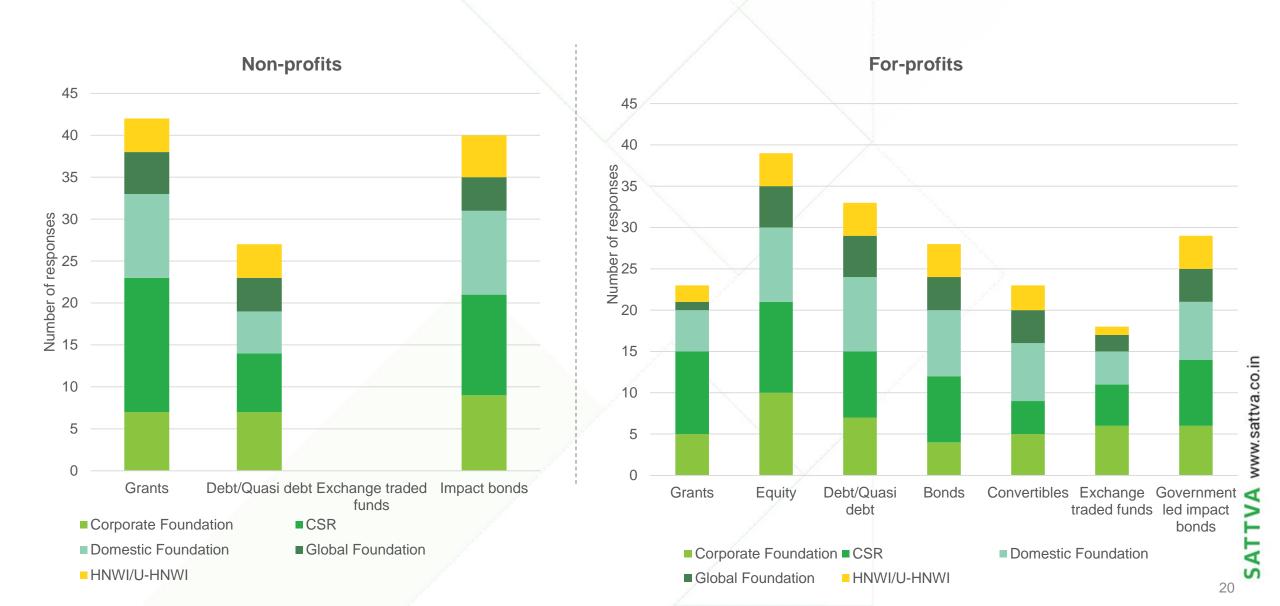
- Start with a requirement for third party assessments till third party agencies are set up.
- Placing emphasis on third-party impact reporting and standards DOW sustainability standards for example
- Standardisation of impact reports might be infeasible but there can be some high-level guidelines on frequency,
 time, rigour. However, you can standardise:
 - Frequency
 - Process (statistically representative samples)
 - Scale of assessing impact
 - Need for baseline/midline/endline depending on the scale and timeline of projects
 - Actions taken on the basis of impact evaluation process
 - Disclosure process for impact evaluation
- · Balance between qualitative and quantitative metrics is required

Top insights on SSE listing - Qualitative Consultations

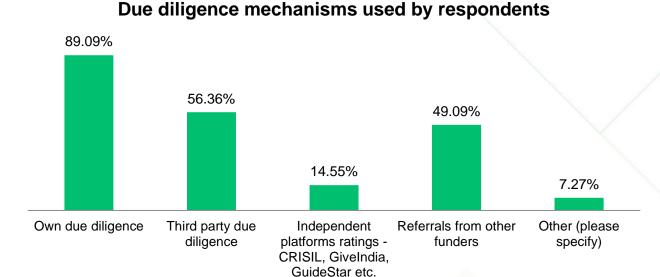
What entities can be listed?

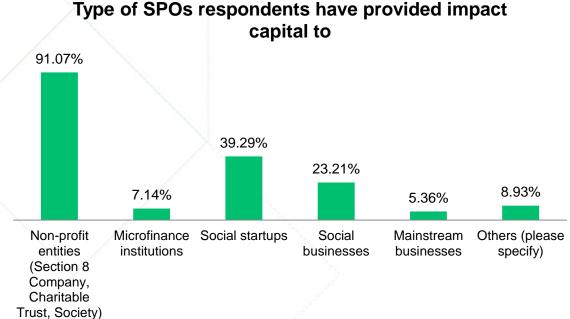
- •How do you define a social enterprise effectively and prevent the likes of Ola/Uber/Reliance also being a part of this?
- •Most divided views in terms of listing non-profits on the same exchange as for-profit social enterprises. Current perspectives:
 - Non-profits already have platforms such as GiveIndia, this should be for those scaling/growing SEs which struggle for capital and innovative financing to scale.
 - However others say that the platforms, even on scaling, will not be able to raise as much retail funding as potential for NPOs.
 - Cannot be a one-stop solution for both, and the metrics are extremely tricky to integrate. Keep NPOs out or atleast out in Phase 1.
 - Have two different exchanges for NPOs and SEs
 - Bringing NPOs here has the risk of skewing 'funding for change' to 'funding for solutions', 'non-profits for their compliance rather than commitment.' which is what the CSR law also had the danger of introducing.
 - Non-profits will find it hard to keep up with the metrics of reporting, standardisation. Which some others say is the exact reason to bring them in, as it provides an aspiration to scale and bring in systems and processes for this scale.
 - SSE might not lend itself to NPOs working on human rights and other elements where the impact metrics are intangible.
- •Other social entity types such as FPOs, women entrepreneur organisations, Government programmes (which receive 80% 80G exemption) would be good to list as they have no current financing channels, and are worthy investments.
- •Most interviewed agreed that some growing thematic areas of work climate change, agriculture, skill would be more ready to take in SSE capital versus human rights work etc.

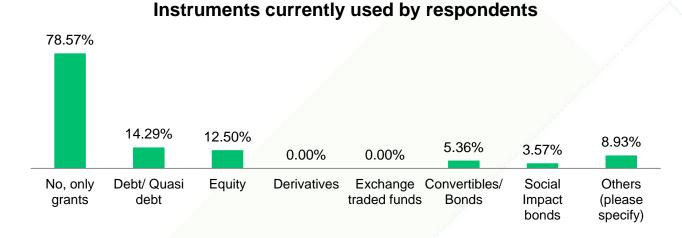
Equity is the most preferred financial instrument for social enterprises, followed by debt and impact bonds. Grants and impact bonds are preferred for non-profits

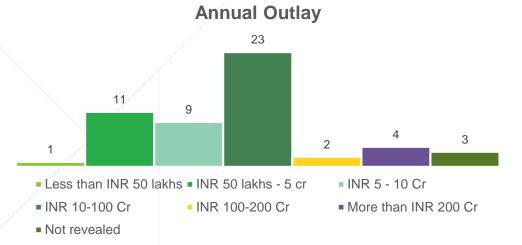


Survey respondent background









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Voices from the ground

Diverse financing mechanisms for listed entities is of value including bonds, DIBs, SIBs, debt, guarantees, revolving funds

Do we need the SSE for for-profit social enterprises or should they go into the mainstream market for their financing?

Inclusion of SSE usage in the CSR law to encourage use of the SSE will be a significant enabler for CSR Need to go beyond a yellow pages model, capital is the most compelling value proposition Donor awareness and incentives/matching models to bring prominent institutional funders in first phase is critical

Can bring private capital for scaling impact themes that have strong industry cohesion - e.g. Agriculture and Skill, which were impeded by only receiving philanthropic capital

Absence of any rigorous risk assessment frameworks developed so far for social sector. Hence the design of the ratings needs to be rigorous and well thought through

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Comparison of global stock exchanges and learning

Social Stock Exchanges	Active/ Inactive	Establ- ished	Recipient	Target Funders	Financial Instruments	Impact Assessment & Reporting Framework	Comments
SVX (Canada)	Active	2013	Only for-profit social enterprises	High ticket minimum contributions, primarily for institutional funders	Equity, Bonds, Notes, Debentures, LPs	B Impact Assessment framework	
IIX (Singapore)	Exists, but very little activity	2013	Lists both nonprofit and for-profit	Open to public	Equity investments as well as debt securities such as bonds.	Enterprises need to have a 'Social Purpose'	Very little activity on IX as of 2017, with only 1 Bond listed
UK SSE	Active	2013	For-profit (more business angle than social)	Impact Investors	NA	Customized 'Social Impact Test' for all listed enterprises	Not a transactional platform, only listing of vetted enterprises
BVSA (Brazil)	?	2003	Primarily nonprofits	Open to public	Donations		
SASIX (South Africa)	?	2006	Primarily nonprofits	Open to public	Lower-ticket size shares for a program (Assesses donations as a social investment)	Impact reports are present	
Kenya	Inactive	2010	Lists both nonprofits and for-profits		Two tier platform- One for financial instruments for for- profit, and the other for only donations		Primarily a listing platform
BVS (Portugal)	Inactive	2009	Primarily nonprofits	Open to public	Donations		

Section 2 Retail Donors

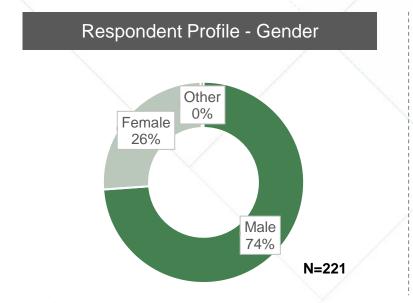
Computer Aided Telephonic Interviews – 8 cities

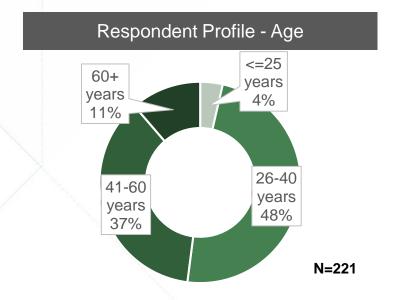
Conducted an extensive survey across 8 Indian cities to understand public donation behaviour towards non-profit organisations

Survey Methodology

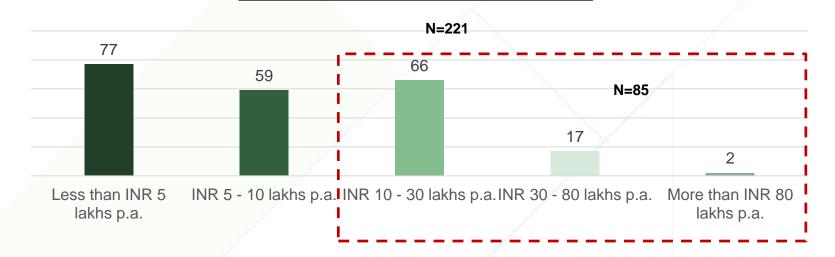
Retail survey

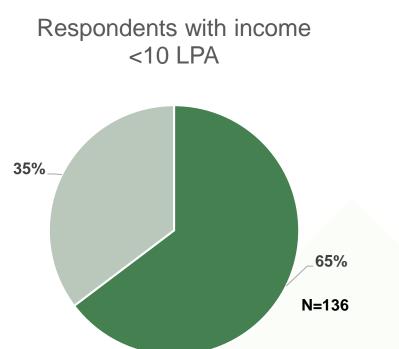
- Targeting upper middle class of individuals having salaries > 10 LPA
- Responses obtained from 221 individuals, of which 85 had an income of greater than 10 LPA
- Online survey via SurveyMonkey



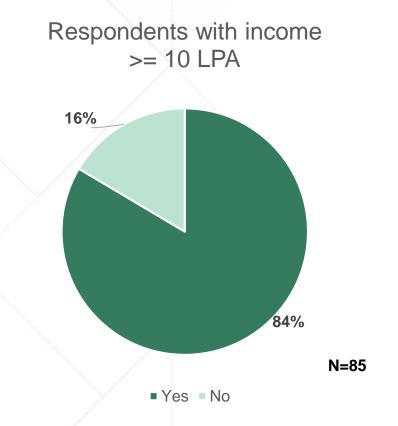




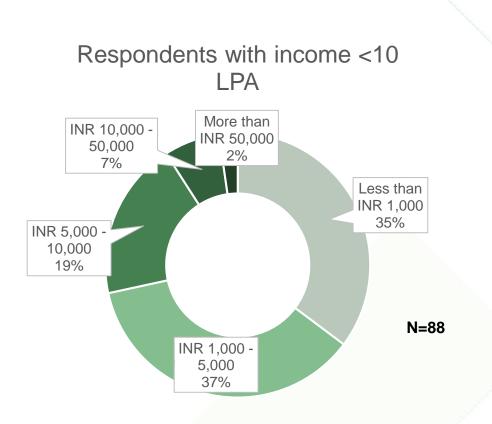


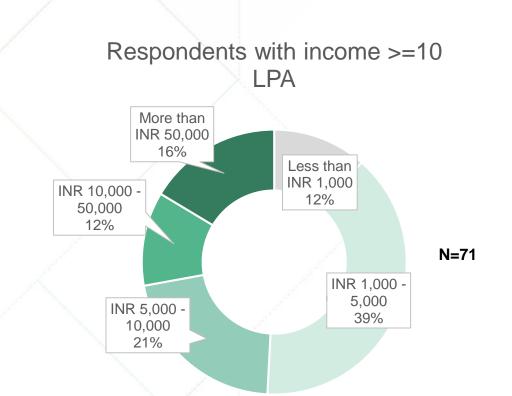


■ Yes ■ No



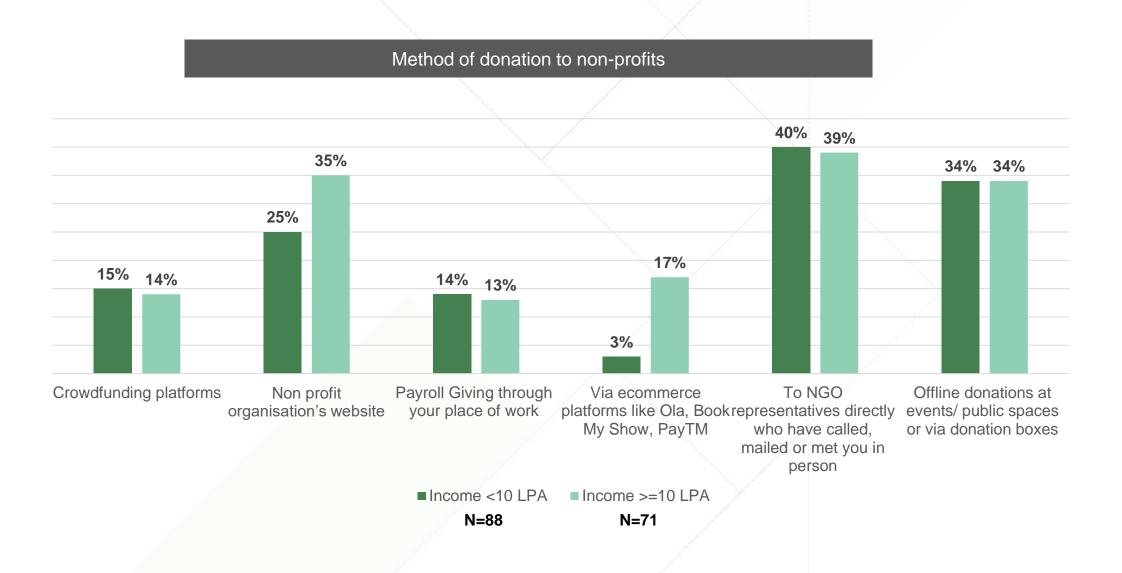
Average annual donation to non-profits





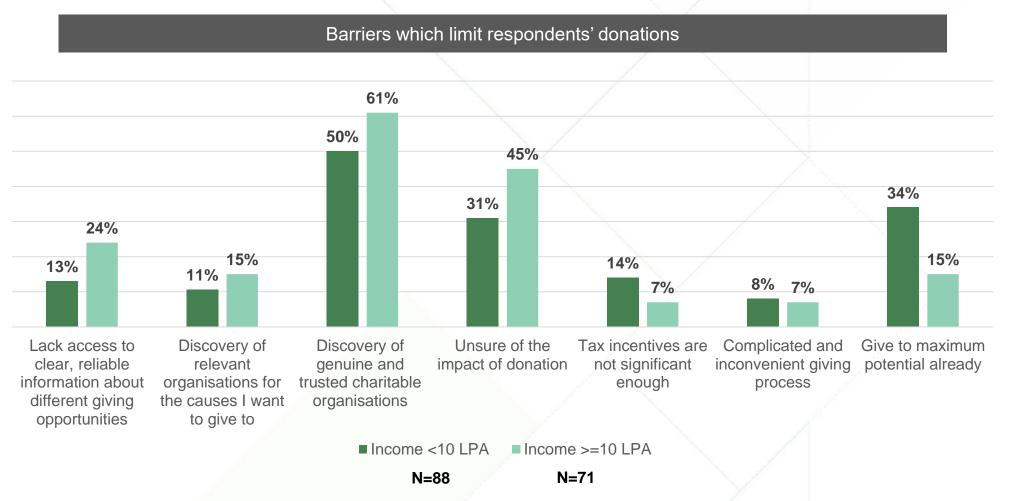
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Majority of the respondents primarily donate via offline donations – either in person or at public events or donation boxes, irrespective of their income slabs



Discover of genuine & trusted charitable organisations and no being sure about the impact of their donation are the largest barriers which limit donations of individuals, regardless of income

Prior donation - YES



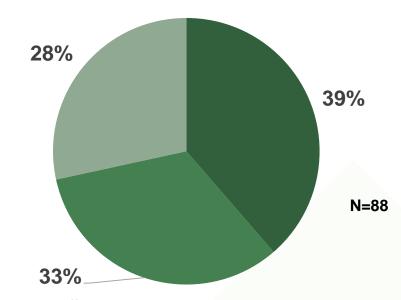
15%

Percentage of people earning >= 10 LPA feel that they give to their maximum potential as compared to 34% of people who earn <10LPA. **Higher earning people have greater untapped potential to donate more to non-profit organisations**

Most respondents do not feel that the proposed government backed platform shall have any impact on their donation behaviour, irrespective of income slabs

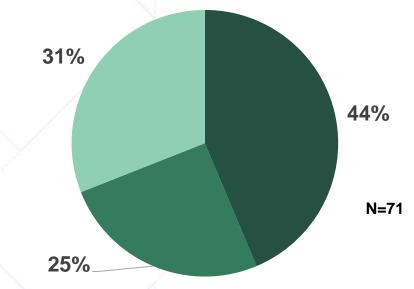
Impact perception of government backed non-profit listing platform

Respondents with income <10 LPA



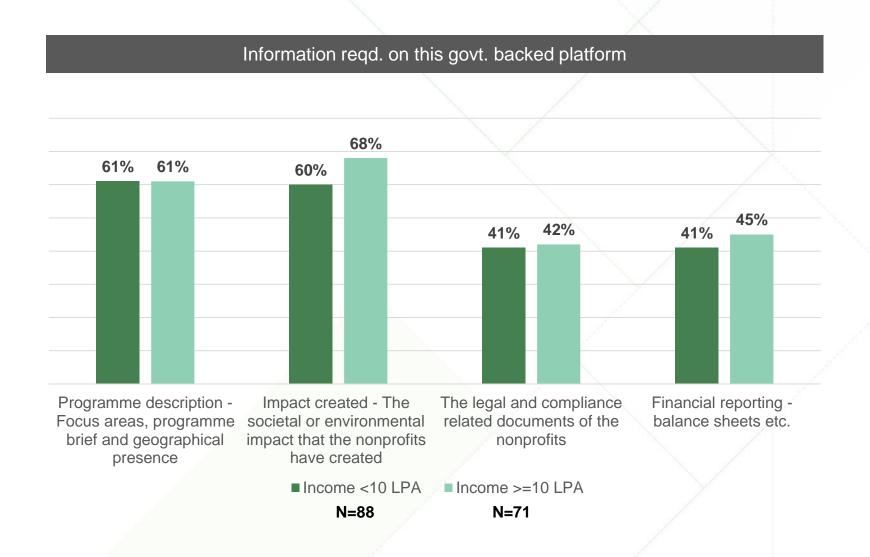
- It will not affect my donation behavior
- Switch medium of donation but not increase overall donation amount
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Respondents with income >=10 LPA

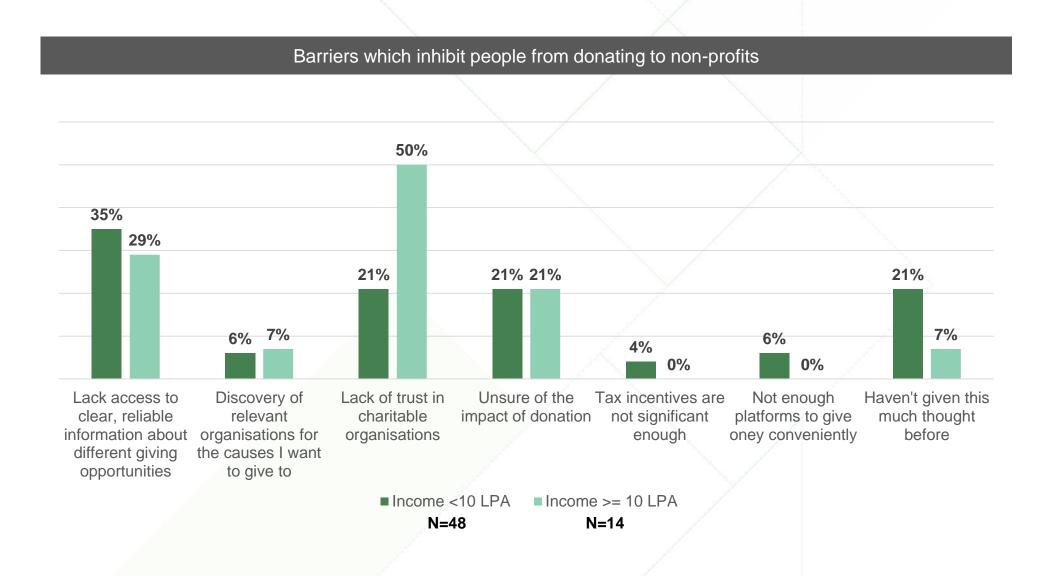


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Information about programme description, focus areas and the impact created by non-profits would be most useful for retail donors, irrespective of income slabs

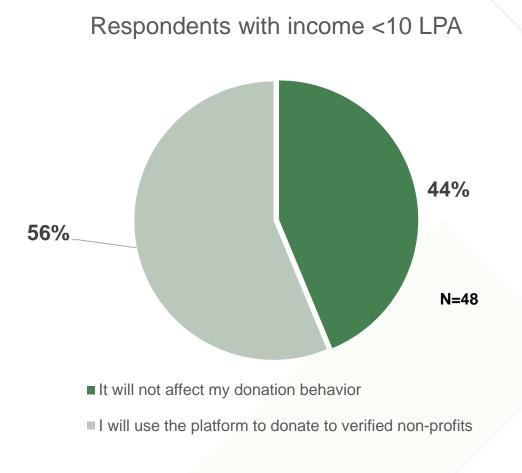


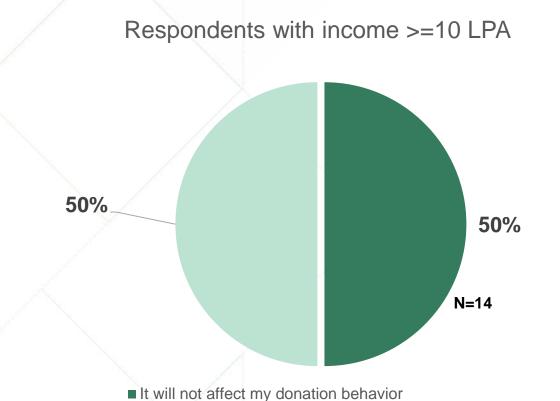
Lack of access to clear, reliable information about giving opportunities and a trust deficit in charitable organisations are the major barriers inhibiting people from donating to non-profits



>50% of people, who do not currently donate to non-profits, are open to using the govt. backed platform to start donating to non-profits

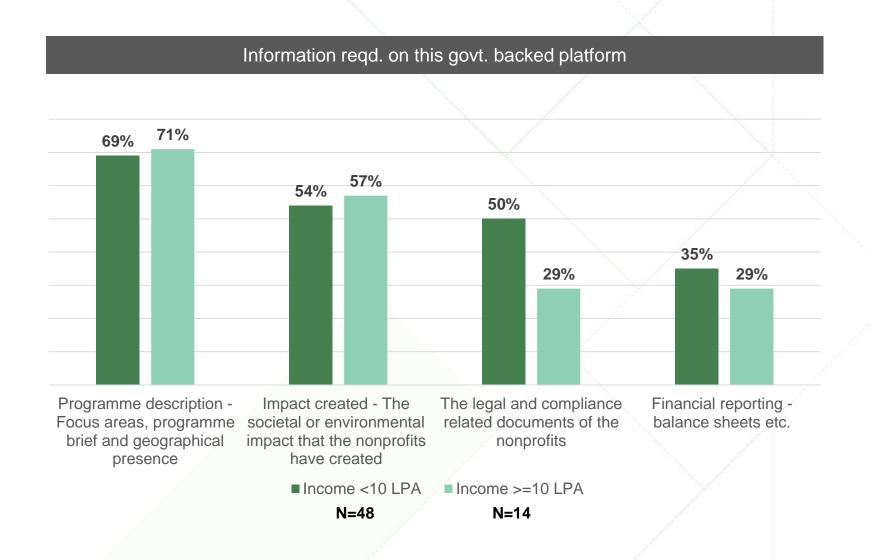
Impact perception of government backed non-profit listing platform





■ I will use the platform to donate to verified non-profits

Information about programme description, focus areas and the impact created by non-profits would be most useful for retail donors who do not currently donate to non-profits



Online survey

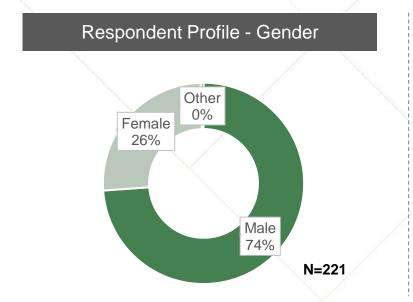
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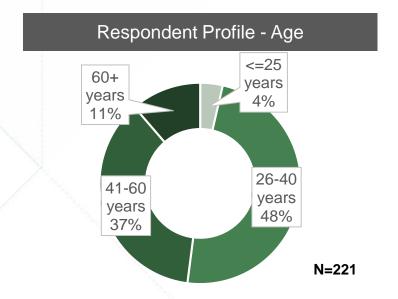
Survey Methodology

Retail survey

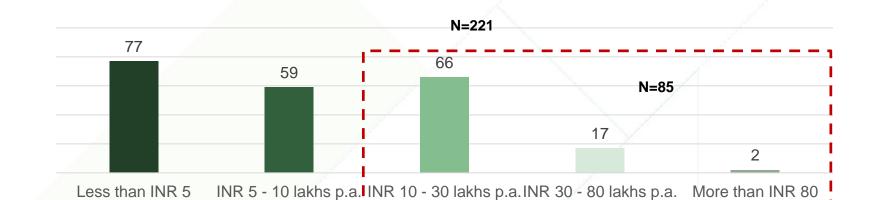
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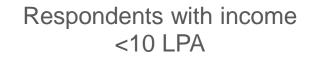


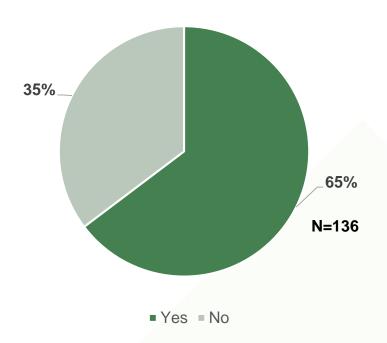


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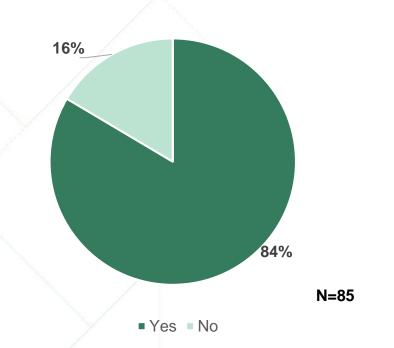


Respondent Profile - Income



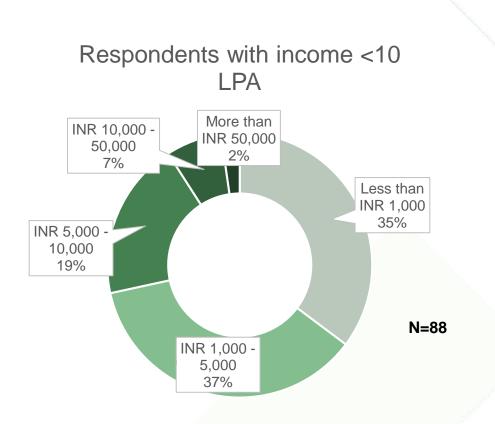


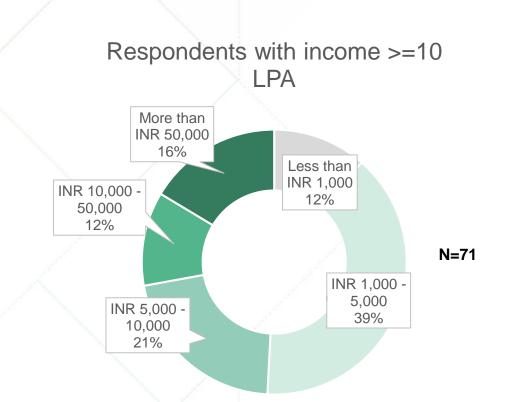
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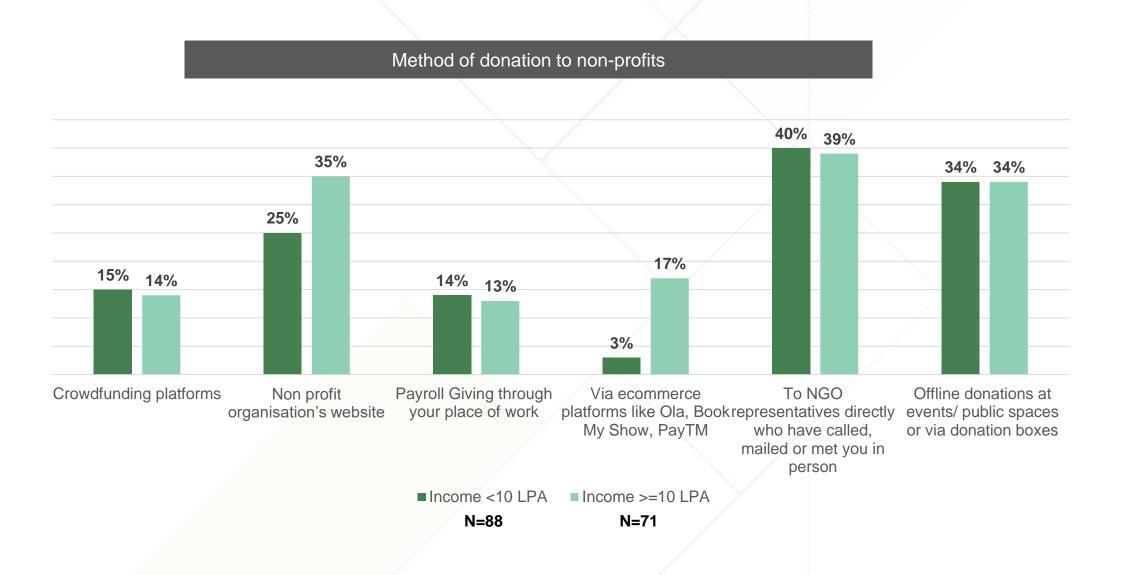
Higher earning individuals generally donate higher average annual amounts to non profits

Average annual donation to non-profits



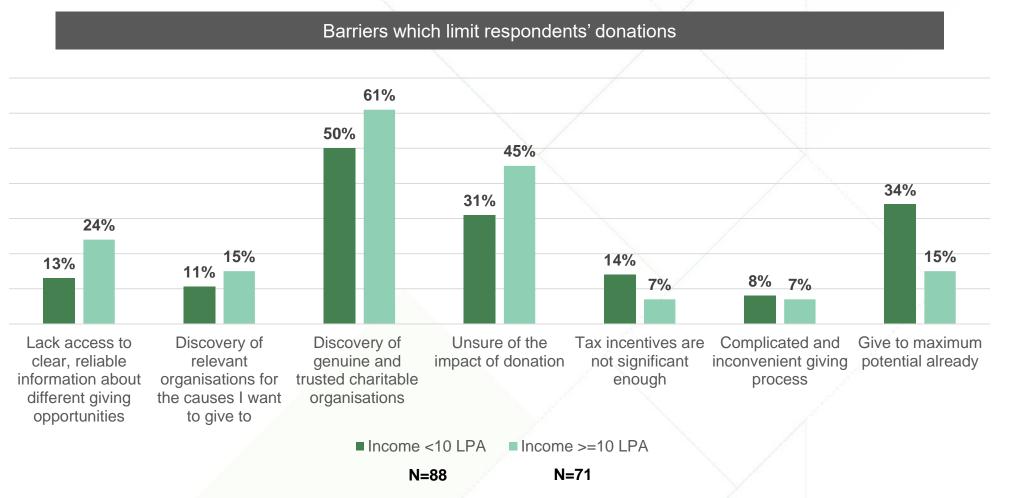


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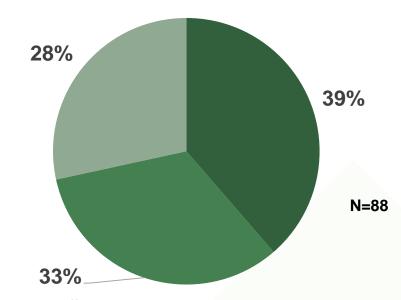
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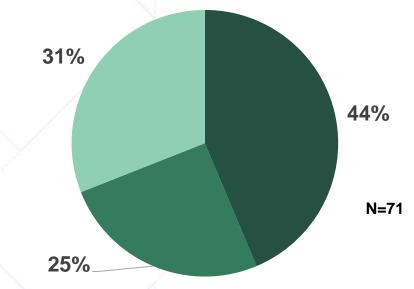
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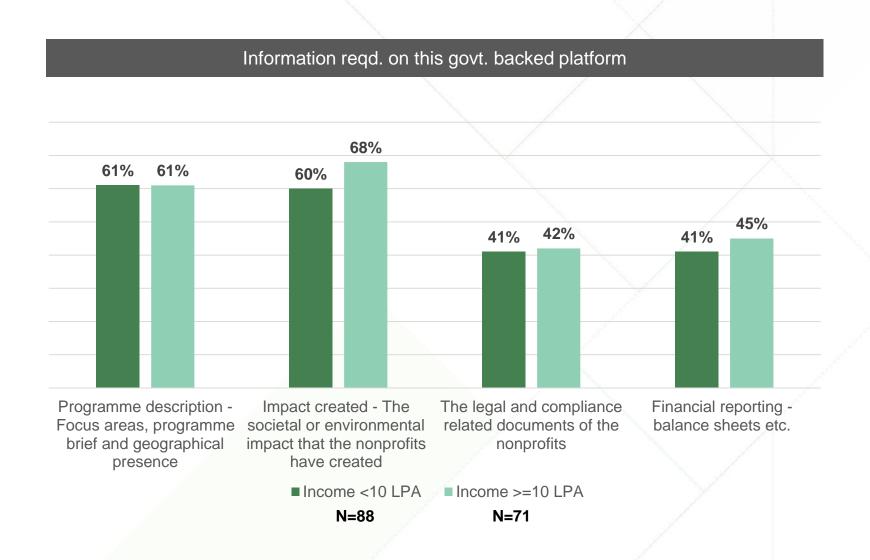
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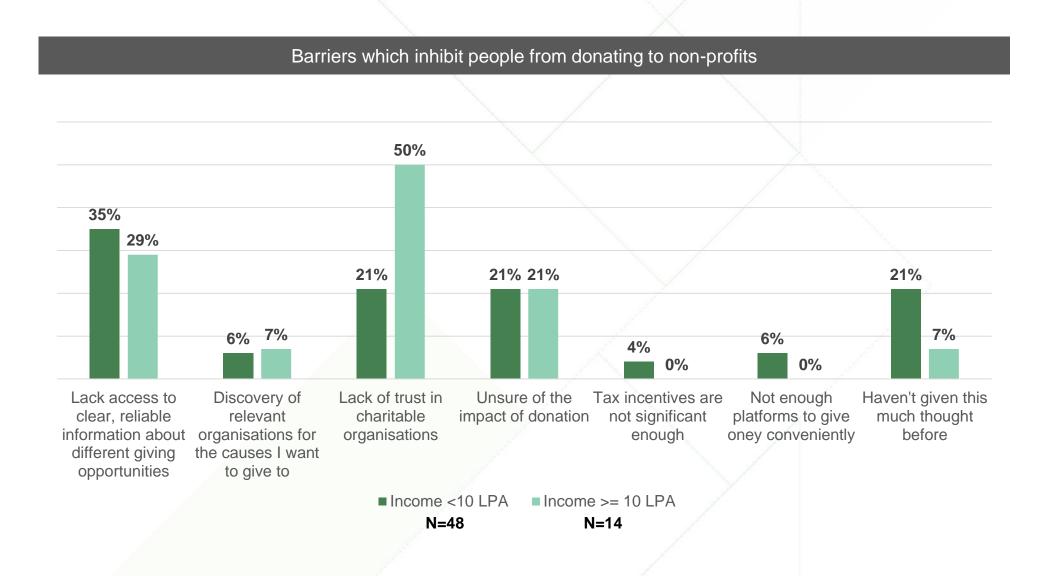


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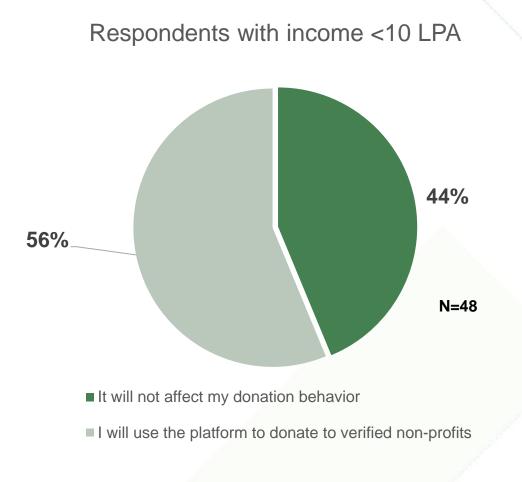


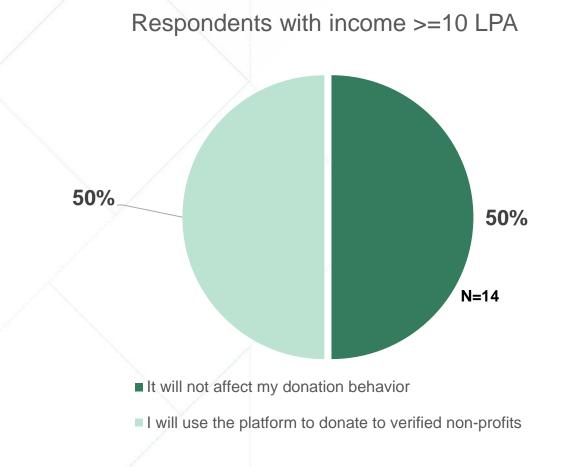
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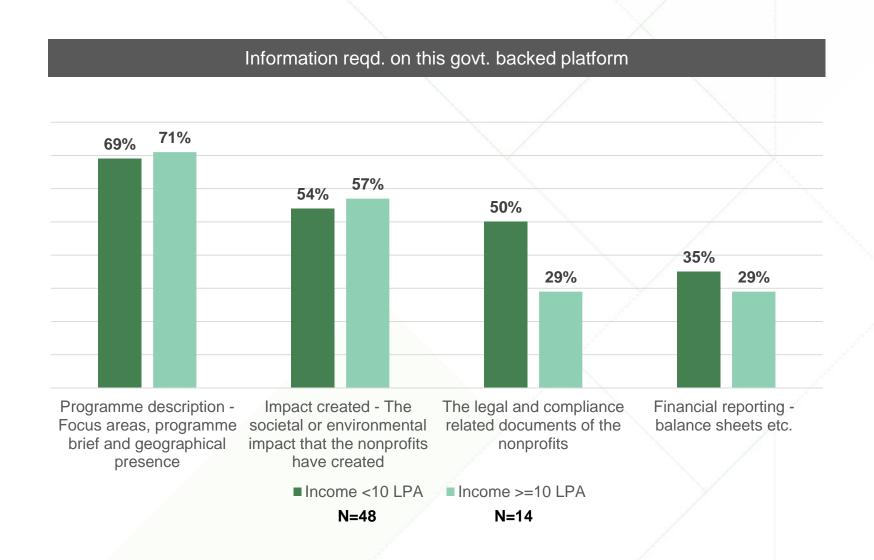
>50% of people, who do not currently donate to non-profits, are open to using the govt. backed platform to start donating to non-profits

Impact perception of government backed non-profit listing platform





Information about programme description, focus areas and the impact created by non-profits would be most useful for retail donors who do not currently donate to non-profits



About Sattva

Since 2009 we have driven social impact action in emerging economies in collaboration with:







Foundations







Governments and Multilateral agencies









































































































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IRRATIONAL COMMITMENT TO SOCIAL IMPACT

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We are driven by impact and powered by knowledge. We bring the right balance of the head-heart-hand to our work. We believe that age-old problems need new-age thinking and rigorous implementing, with empathy at the core. And that's what we deliver for our customers and partners.

Talk to us today to see how we can co-create maximum social impact.



