Sattva Knowledge Institute SKI primer

INVESTING FOR IMPACT: SOCIAL STOCK EXCHANGE IN INDIA

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Acknowledgements

Contributors

Piyush Agarwal and **Palagati Lekhya Reddy.**

Review

Srikrishna Sridhar Murthy, Rathish Balakrishnan, Anantha Narayan and **Ojas Malpani.**

Disclaimer

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Sattva Knowledge Institute (SKI), established in 2022, is our official knowledge platform at Sattva. The SKI platform aims to guide investment decisions for impact, shedding light on urgent problems and high potential solutions, so that stakeholders can build greater awareness and a bias towards concerted action. Our focus is on offering solutions over symptoms, carefully curating strong evidence-based research, and engaging decision-makers actively with our insights. Overall, **SKI aims to shift intent and action toward greater impact by influencing leaders with knowledge.** All of our content proactively leverages the capabilities, experience and proprietary data from across Sattva.

Editing: Anagha Wankhede | **Design:** Usha Sondhi Kundu; *cognitive.designs@gmail.com*

CONTENTS

EXECUTIVE SUMMARY

The Social Stock Exchange (SSE) is envisioned as a regulated stock exchange that will bring together non-profit organisations (NPOs), for-profit enterprises (FPEs), donors, and investors to direct more capital towards the development sector. The National Stock Exchange of India (NSE India) received in-principle approval from the Securities Exchange Board of India (SEBI) to set-up SSE as a separate segment in December 2019. In November 2022, a detailed framework for the SSE, specifying minimum and compulsory organisational disclosure requirements for NPOs and FPEs, was published by SEBI.

India sees a combined capital inflow of over USD 10 billion, to the development sector, from philanthropic organisations, impact funds and others, underscoring the potential for an SSE to to bridge the gap between the development sector, and philanthropic and private capital. There is much potential for SSEs in India, where more than 3.1 million Non-Profit Organisations (NPOs) and 220 For-Profit Enterprises (FPEs) saw a capital investment of USD 1.6 billion in 2016. In the wake of the economic downturn brought by COVID-19 pandemic in India, the SSE could also be helpful in rebuilding the livelihoods of people who were affected. SSE can provide a unified funding channel, to the listed Social Enterprises (SE), including NPOs and FPEs, thereby giving the potential to uplift those enterprises that are working with the population at the bottom of the socio-economic pyramid. Further, with SEs impacted due to the COVID-19 induced lockdown, SEBI had recommended direct listing of NPOs and FPEs through the issuance of bonds and a range of funding mechanisms.

Globally, countries like Brazil, Portugal, South Africa, Jamaica, the UK, Canada & Singapore have already established Social Stock Exchanges (SSE). However, only the ones in Canada, Jamaica and Singapore are active. This is because of the lack of a common taxonomy or metrics to measure social and environmental impact. This combined with self-assessments and self-reporting by listed organisations led to capturing only outputs, not outcomes or impact. The composition and nature of eligible listed enterprises also varies.

In India, NPOs and FPEs with strong social intent and impact as their primary goal will be eligible to participate in the SSE. Such an intent should be shown by its emphasis on social goals that are appropriate for under-served or less privileged sectors, populations or areas. The NPOs and FPEs aspiring to be listed on SSE will have to engage in at least one social activity out of 17 broad activities listed by the SEBI. These include promoting healthcare, education, employability, and livelihoods; eradicating hunger, poverty, malnutrition, and inequality and supporting incubators of social enterprise and gender equality empowerment of women and LGBTQIA+ communities, among others.

The SSE ecosystem aims to empower NPOs/FPEs to understand the platform, the process and stakeholders involved, and deploy adequate awareness across the ecosystem through three primary initiatives. The Capacity Building Fund will be established to assist ready or near-ready NPOs to understand stakeholders and the process of the SSE. Social Venture Funds (SVFs) will be promoted among investors and donors as an alternative, consisting of investment funds pooled in together which can then be used in investing private equity, hedge funds and so on. **Social Audits** to improve organisation’s social and ethical conduct will also be undertaken.

Looking ahead, six key steps would be crucial to shape the Indian SSE:

- **A blended revenue structure** involving ideation and identification of various revenue structures
- Establishing **standardised data collection, measurement and reporting frameworks** to measure developmental, financial and environmental returns
- **Building awareness among the NPO community** about the advantages of listing on the SSE, as it would be crucial in expanding the scope of investment transactions
- **Encouraging NPOs and FPEs working in the Aspirational Districts (ADs) to list on SSE** and featuring them could attract more investments to ADs.
- **Easing tax deduction restrictions** could significantly encourage donations and investments.
- On the basis of global learnings, the ecosystem should avoid an "all at once" approach and **continue to refine the working of the SSE,** as it grows.

OVERVIEW OF SOCIAL STOCK EXCHANGE (SSE)

The Social Stock Exchange (SSE) is envisioned to be a regulated exchange that brings together non-profit organisations (NPOs), for-profit social purpose organisations, donors, and investors to facilitate funding and growth in the sector.

Social Stock Exchanges have emerged in recent times as institutions that propose to address some of the challenges faced by civil society, **by bridging the gap between the social sector, and philanthropic and private capital.**

OPPORTUNITY SIZE OF CIVIL SOCIETY

The civil society in India is heterogenous and dynamic, working across a range of social issues, across a spectrum of roles, from service providers and innovators, to advocates, watchdogs and researchers.

3.1 million+ NPOs in India (including hospitals, schools, and religious institutions)

0.22 million NPOs formally tax-exempted organisations listed on the IT Department's website

220 For-profit enterprises (FPEs) received USD 1.6 billion in capital investment in 2016

SIZE OF PHILANTHROPIC AND MAINSTREAM CAPITAL

Indian philanthropic funding is growing at a fast pace. Multiple mainstream market players in India are inquisitive about impact investing to reap positive social, environmental, and financial returns.

USD 7.7 billion philanthropic capital, of which 40% is from HNI/HNWIs

USD 435 million invested by impact funds in impact enterprises

USD 906 million Private Equity & Venture Capital investments in impact enterprises

Civil Society

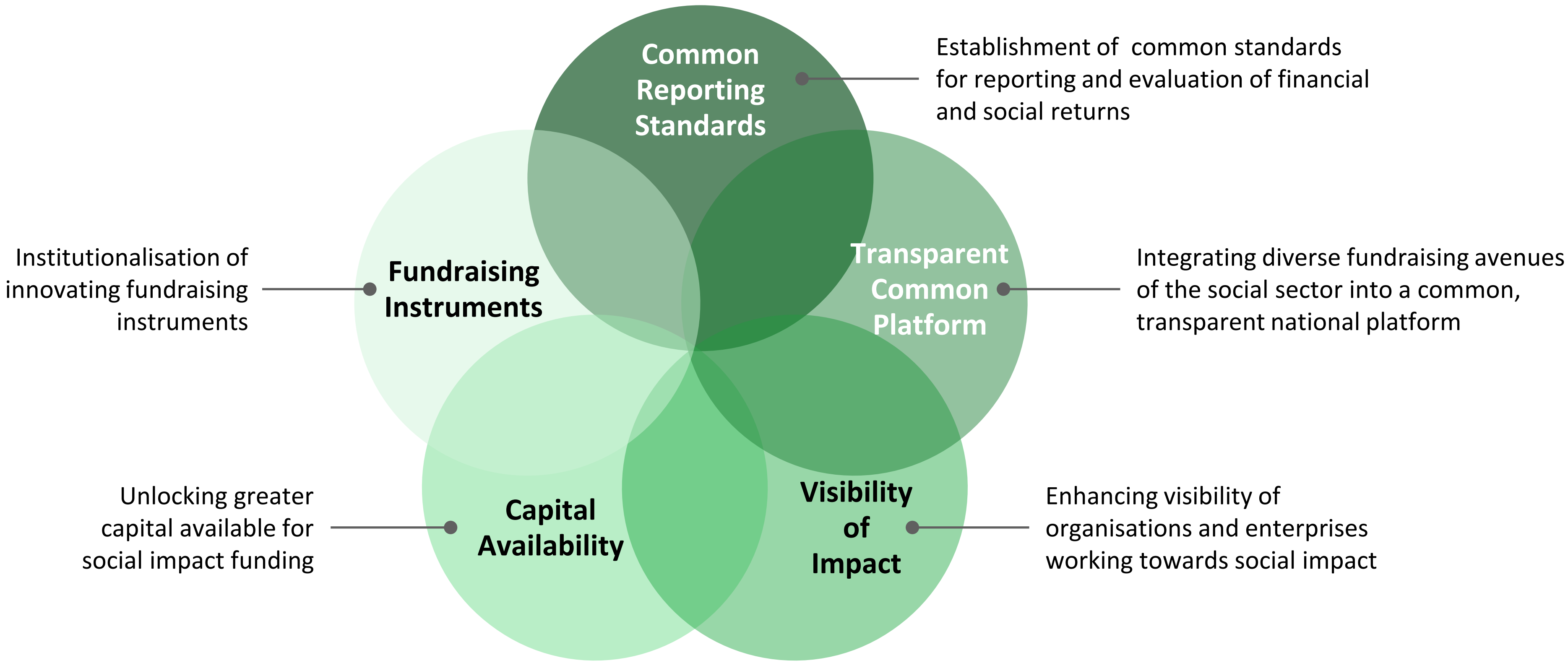
Opportunity gap that can be bridged by

SSE

Funders and Investors

Source: Affidavit filed by the CBI in the Supreme Court (2015), The Indian Impact Investing Story- Intellcap (2000-2014)

The primary objective of SSE is to allow enterprises with a social purpose to unlock greater capital for social impact funding. (1/2)



The primary objective of SSE is to allow enterprises with a social purpose to unlock greater capital for social impact funding. (2/2)

Registration on SSE serves three purposes:

1. Brings interested **NPOs and FPEs onto a common platform of legal requirements** for the purposes of accessing the SSE

2. Inculcates a cultural shift in NPOs and FPEs, and enables **transition towards a disclosure-driven fundraising system**

3. **Provides means** for NPOs and FPEs (especially smaller organisations) to signal the **primacy of social impact** and the **quality of their governance and transparency**

Why do we need an SSE?

SSE facilitates a win-win situation for all stakeholders involved – investors, donors, NPOs and FPEs.

Investors	NPOs	FPEs
Financial returns: Social enterprises and non-profits listed on a social stock exchange have the potential to generate greater revenue and profits, which can provide a return on investment.	**Access to new sources of funding:** NPOs often struggle to access traditional forms of financing. An SSE can help them expand their operations and increase their impact.	**Competitive advantage:** SSE will help FPEs stand out in the marketplace, and attract customers looking for socially responsible products and services.
Aligning investments with values: Investing in an SSE provides an opportunity for investors to support organisations that are working for issues that they care about.	**Increased visibility and credibility:** A listing on the SSE would help attract new donors and investors while building trust among existing stakeholders.	**Access to impact resources and networks:** An SSE listing comes with access to tools, programmes and the ability to network with other socially responsible organisations.
Tax benefits: Investing in SSE-listed companies can provide investors with tax benefits, under Section 80G of the Income Tax Act.	**Channelise funding to underfunded areas:** SSE can help channelise funding towards projects in underfunded thematic areas or geographies.	**Access to government incentives and programmes:** In order to support social enterprises on the SSE, the Government of India has plans to offer incentives which can provide additional funding and resources.

How does it compare with the National Stock Exchange (NSE) or Bombay Stock Exchange (BSE)?

SSE allows trading of securities, such as stocks and bonds, like a traditional stock exchange. However, it focuses on organisations that have a social or environmental impact.

How is the SSE similar to NSE/BSE?

A social stock exchange is similar to a traditional stock exchange in that it allows the trading of securities, such as stocks and bonds.

- Both social and traditional stock exchanges allow the trading of securities such as stocks and bonds. These exchanges provide companies and organisations a robust way to raise capital by issuing securities, and for investors to buy and sell those securities.
- Both follow the regulations and guidelines set by the respective government bodies, and are required to maintain transparency, disclosure and fair trading practices. They also have a listing criteria, which companies must meet to be listed on the exchange.
- Lastly, both social and traditional stock exchanges have trading systems, and use market makers, broker-dealers and other intermediaries to facilitate the buying and selling of securities.

In what way is the SSE different from NSE/BSE?

A social stock exchange is different from a traditional stock exchange, in that it focuses on organisations that have a social or environmental impact.

- A social stock exchange is created to provide a platform for social-purpose organisations to raise capital, whereas traditional stock exchanges may not have such a specific focus.
- Social stock exchanges have more stringent listing and reporting requirements for organisations, including regular reporting on their social and environmental performance. This allows investors to make more informed decisions about the impact of their investments.
- Investments in social stock exchanges are considered to be more risky, but they also have more potential for impact. Returns on these investments may be uncertain and lower than traditional investments, but they help to support the growth of organisations that are working to make a positive impact on the society and the environment.

In September 2022, the BSE received in- principle approval by the Securities and Exchange Board of India (SEBI) to set up Social Stock Exchange as a separate segment.

July 2019
Ideation of SSE
SSE was mooted in the Union Budget 2019 by Finance Minister Nirmala Sitharaman.

Sep 2019
Constitution of Working Group
to examine and make recommendations on possible structures and mechanisms, within the securities markets.

June 2020
Report by Working Group (WG)
was uploaded by SEBI for public comments. It was concluded that further expert advice and clarity was needed on critical operational issues.

Sep 2020
Constitution of Technical Group
to review and make recommendations on the operational issues, in the context of the recommendations made by the WG.

May 2021
Report by Technical group
Outlining what constitutes an eligible Social Enterprise for SSE through primacy of social impact, enabling their onboarding.

Sep 2022
Detailed framework for SSE
was published, specifying minimum organisational disclosure requirements.

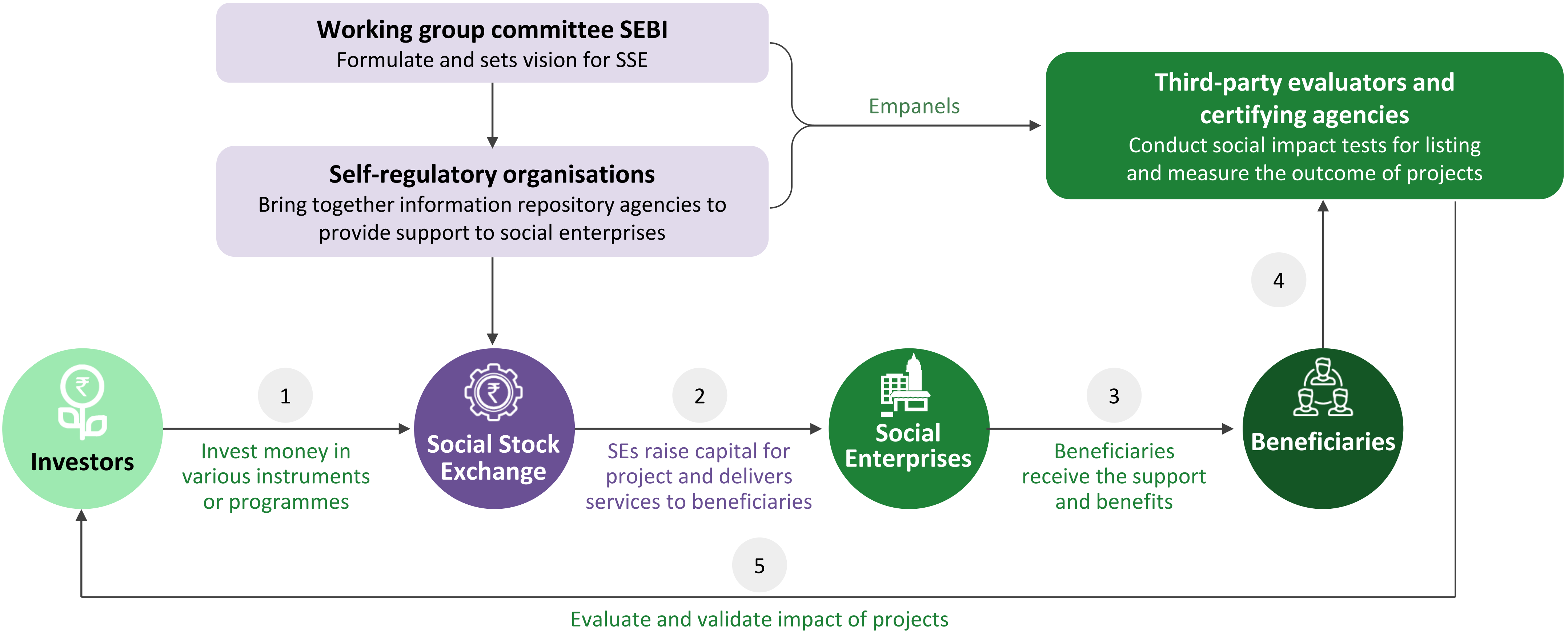
Oct 2022
Governing council
The SEBI stated that a governing council for SSE will be responsible for its functioning. Further, that the Board will specify the composition and terms.

Feb 2023
SEBI's final nod for SSE
SEBI granted its final approval to launch SSE as a separate segment on BSE.

OPERATING STRUCTURES AND GOVERNANCE OF SSE

Key governance players in the SSE ecosystem will establish rules and structures to improve visibility about the contributions of social enterprises to the economy.

How SSE will work in India



At the topmost level, SEBI has formed a Social Stock Exchange Advisory Committee (SSEAC). his committee comprises members from both the public and private sectors who play crucial roles in India's development.

The advisory committee currently has 17 members

Terms of reference

1. To advise SEBI on the issues pertaining to the development and growth of the SSE Segment and relevant enabling ecosystem.
2. To advise SEBI on the issues pertaining to Regulatory Framework for SSE including Social Enterprises and Intermediaries.
3. To advise SEBI on the matters related to regulations of intermediaries for ensuring stakeholders protection in respect to Social Stock Exchange.
4. Any other matter to be referred to the Committee by SEBI from time to time.

SGC is expected to act as a policy body…

To act on feedback	from the social auditors, the capacity building fund and other stakeholders on a regular basis.
Enure representation	by stakeholders regarding pressing matters.
Tweak	the policies and procedures related to the SSE accordingly.

A good example of its recent work is including 10(23C) and 10(46) in the NPO registration eligibility criteria on the basis of feedback from the NPOs that were wanting to register.

Further, a Social Stock Exchange Governing Council (SGC) has been constituted to have an oversight on its functioning.

The governing body will comprise of seven members with…	
Relevant expertise	Who can contribute to the development of SSE. The body should consist of members from each of the categories below: 1. Philanthropic organisations 2. Non-profit organisations 3. Information repositories 4. Social impact investors 5. Social audit profession or self-regulatory organisation 6. Capacity building fund 7. Stock exchange Further, the SGC shall be supported by administrative staff from the SSE.
Separate disciplinary benches	Constitution of separate disciplinary benches as part of the regulatory framework for maintaining high ethical and professional standards of registered Social Auditors (SA)..
A minimum of four meetings per year	During these meetings they shall prescribe the procedures, conduct reviews and form guidelines for handling potential conflict of interest, if any.

SGC is expected to provide oversight, guidance and…	
Facilitate SSE operations	regarding registration, fundraising and disclosures by SEs.
Oversee listing	of SSE and provide guidance in laying down procedures for onboarding and listing of SEs.
Ensure effective oversight	on the adequacy of disclosures made by SEs and guide development of necessary systems and processes.
Review functioning	of the SSE, including feedback received from stakeholders.
Lay down standards	of professional conduct for registered SEs and monitoring their performance.
Safeguard rights	and privileges of SEs who are its members.
Suspend or cancel	the membership of SEs who are its members, on the grounds set out in its by-laws.

QUALIFYING CRITERIA FOR SSE

Social enterprises should be able to demonstrate social intent and impact as their primary goals to be eligible to list themselves on SSE.

Primacy of social impact is to be established through the following filters

ELIGIBLE SOCIAL SECTORS

Activities undertaken by the SE must **fall under one of the 17 broad areas of eligible social objectives** as defined by the Technical Group at SEBI.

TARGET BENEFICIARIES/REGION

Target underserved or underprivileged population segments, or regions recording low performance in the development priorities of national and state governments.

ELIGIBLE SOCIAL ACTIVITIES

Organisations must have at least **67% of their eligible activities** towards the target population. This can be determined on the basis of revenue earned, expenses incurred or type of existing customer base.

Organisations and activities which are not eligible to raise funds using SSE mechanisms

- Corporate foundations: Primarily funded by parent corporate entity
- Political or religious organisations or activities
- Professional or trade associations
- Infrastructure and housing companies (except affordable housing)

SSE drew from sectors listed in Schedule VII of the Companies Act 2013, after which refinements were made, based on SDG imperatives and priority areas identified by the NITI Aayog.

SE can deliver products, services, programmes or work on research, policy analysis and development, awareness building, governance or capacity building in the following 17 areas.

- Eradicating hunger, poverty, malnutrition and inequality
- Promoting education, employability and livelihoods
- Promoting gender equality, empowerment of women and LGBTQIA+ communities
- Ensuring environmental sustainability, addressing climate change, forest and wildlife conservation
- Promotion of financial inclusion
- Promoting healthcare (including mental health) and sanitation; safe drinking water
- Supporting incubators of social enterprises
- Training to promote rural, nationally recognised, Paralympic and Olympic sports
- Supporting platforms strengthening the non-profit ecosystem in fundraising and capacity building
- Promoting livelihoods for rural and urban poor, enhancing income of farmers and workers
- Slum development, affordable housing; sustainable and resilient cities
- Protection of national heritage, art and culture
- Disaster management, including relief and rehabilitation
- Facilitating access to land and property assets for disadvantaged communities
- Bridging digital divide in internet and mobile phone access, addressing issues of misinformation and data protection
- Promoting welfare of migrants and displaced persons
- Any other area as identified by the Board or GOI from time to time

SSE also qualifies eligible activities by target population or region and proportion of reach for demonstrating primacy of social impact.

Eligible activities should target the following population segments or regions (not exhaustive)	
Underserved or less privileged population segments	These may include, but are not limited to members belonging to: • Scheduled Castes (SC) and Scheduled Tribes (ST) • Other Backward Classes (OBC) • People with special needs • The elderly • Children • At-risk adolescents • Migrants and displaced persons.
Underserved regions in India	With lower performance in the development priorities of national and state governments.

Further, the listed activities should form a significant portion of an organisation's overall activities – at least 67% of eligible activities towards the target population.	
By revenue	At least 67% of the SE's average revenue from the preceding three years comes from undertaking eligible activities for members of the target population.
By expenditures	At least 67% of the SE's average expenditure from the preceding three years has been incurred for undertaking eligible activities for members of the target population.
By customer/ beneficiary base	Members of the target population for whom the eligible activities have been undertaken, should constitute at least 67% of the immediately preceding three-year average of the SE's customer/beneficiary base.

SEs should make public disclosures and provide documentation for the past three years.

ONBOARDING AND REGISTRATION ON SSE

SSE shall be a separate segment under the existing stock exchanges; registered NPOs will be clearly visible on such segments.

To onboard on SSE, NPOs should...

Establish social intent	• Demonstrate social intent and impact as a primary goal. • Focus on eligible social sectors, activities, target beneficiaries and economic analysis.
Disclose minimum fund flows	• **Annual spending** in the previous financial year **must be at least INR 50 lakhs (USD 5 million).** • **Funding** in the past financial year **must be at least INR 10 lakhs (USD 1 million).** • Receipts or payments from audited accounts or fund flow statement will have to be provided to declare the same.
Registration and listing documents	• Submit the documents mentioned in the checklist. • In addition to other financial documents, a draft fundraising document needs to be put together as per SEBI and Exchange Requirement.
Clear legal requirements	• **Legally registered entity as NPO,** with the registration certificate valid at least for next twelve months • **Disclosure of ownership and control,** with governing document (Memorandum of Association (MoA) and Articles of Association (AoA) /Trust Deed/By-laws/Constitution) • **Registered with the Income Tax department as an NPO,** should possess a valid IT PAN. • **Tax-exempt under the Income Tax Act,** should possess a Registration Certificate under 12A/12AA/12AB under Income Tax • **Tax deduction under Income Tax,** Valid 80G registration under Income-Tax • **Must be at least three years old,** with valid registration certificate • **Eligible to be SE,** as per Requirements with Regulation 292E of ICDR Regulations.

FPEs will list their securities on main board or on Small and Medium Enterprises (SME) Platform (SME) or Innovators Growth Platform (IGP). It is recommended that such FPEs may be identified as For-profit Social Enterprise (FPSE) by traditional Stock Exchange.

To onboard on SSE, FPEs should…

Establish social intent

- Demonstrate social intent and impact as a primary goal
- Focus on Eligible Social sectors, activities, Target beneficiaries and Economic Analysis

FPE requirements

- Be registered under the Companies Act 1956/2013
- Be compliant with the SEBI regulations for issuance and listing of equity or debt securities.
- Meet eligibility criteria as per SEBI regulations

The Technical Group in May 2021, observed that sufficient regulatory guidelines under various SEBI Regulations exist for listing securities such as equity, debt issued by FPEs. These SEBI Regulations also provide an eligibility criteria. In case of FPEs, the differentiators (mentioned on Slide 20) will be in addition to requirements as mandated in the SEBI Regulations in respect of raising funds through equity or debt. FPEs shall list their securities on the appropriate existing boards. For example, debt securities shall be listed on the main boards, while equity securities shall be listed on the main boards, or on the SME or IGP, on what fits best.

PRE-LISTING ON SSE

Fundraising instruments for SEs

SSE aims to effectively deploy fundraising instruments, which depend on the nature of the social enterprise seeking funding.

SSE will have both NPOs and FPEs listed under it, making various fundraising instruments available for these enterprises.

NPOs

ZCZP Bonds	Zero Coupon Zero Principle Bonds (ZCZP) will allow NPOs listed on the SSE to unlock funds from donors, and philanthropic foundations. These bonds will carry a tenure equal to the duration of the project that is being funded, and at tenure, they would be written off the investor's books.
Mutual Funds	An asset management company could offer closed-end mutual fund units to investors. The units could be redeemable in principal terms, but all of the returns could be channelled towards suitably chosen NPOs by the fund which acts as the intermediary.
Pay for Success bonds	These are designed like social impact bonds or Development Impact Bonds (DIBs). Pay-for-success models through lending partners or through grants could be effective mechanisms to ensure a more efficient and accountable deployment of capital.

FPEs

Equity	Issuance of shares on the main board, SME platform, or innovators' growth platform, or issuing equity shares to an Alternative Investment Fund, including a Social Impact Fund.
SVFs	Social Venture Funds (SVFs) are alternative Investment funds that consist of investment funds pooled in together which can then be used in investing private equity, hedge funds and so on. They already exist for FPEs but do not require social impact reporting.

Pre- listing guidelines

The information provided by SEs will be used by potential funders or investors to differentiate between the various similar SEs and securities being listed and to make informed decisions.

As part of the pre-listing process, SEs should provide following details, forming ten 'Differentiators'

Vision	The organisation's activities and programmes are in line with the aims and objects stated in its constitution.
Strategy	Strategy formulation towards accomplishing vision, should take into account capabilities and learning from challenges.
Governance	The organisation has a governing body and details of its highest governing body, composition, dates of board meetings held.
Target Segment	The organisation has defined its target segment and reach to accomplish its planned activities. The SE must disclose how its approach intends to improve Inclusion for its customers/recipients.
Compliance	The organisation makes available, annual accounts duly audited for the latest three financial years and there are no material qualifications or material irregularities reported by its auditor. Compliances with respect to Income Tax, notices received are met.
Operations	The organisation has a physical existence, is operational and shares its address for visits.
Finance	Disclosure of financial statements in accordance with guidelines for NPOs issued by ICAI.
Social Impact	Strategic Intent and planning and Impact Scorecard.
Risks	Disclose (i) risks that the organisation sees to its work, and how it proposes to mitigate these; (ii) unintended consequences and how it proposes to mitigate these
Management	Details of key managerial staff, such as those in charge of Programmes, Fundraising, Marketing and Communications, Finance, and Human Resources. The organisation discloses whether it provides letters to staff and volunteers defining roles and responsibilities, has a periodic performance appraisal process and so on.

POST-LISTING ON SSE AND DISCLOSURES

Disclosures

On listing securities, both the FPE and the NPOs, will have to produce an Annual Impact Report (AIR), within 90 days from end of the financial year.

General	• Vision • Mission • Activities, and • Scale of operations
Governance	• Legal form • Board and management • Org level risks and mitigation • Related party transactions and other ethical concerns • Remuneration policies • Stakeholder redressal • Compliance, and • Certifications

Social Impact	• Direct impact on the target community • Systemic impact or sector-wide impact, and • Impact in terms of reach, depth and inclusion.
Financial	SEs whose face value of post issue paid-up capital is: • More than INR 25 crores: Must comply with Indian Accounting Standards (Ind AS), as notified under Section 133 of the Companies Act 2013. • Less than INR 25 crores (but complying with Ind AS): Must comply with Accounting Standards issued by the ICAI. Further, disclosures include: • Balance sheet • Income statement and cash statement • Programme-wise fund utilisation for the year • Auditor's report and auditor details

Annual reporting format

All SEs in their AIR should include information on strategic intent and planning, their approach/solution to the problem, and impact scorecard.

Annual impact reporting requirements for all SEs

Strategic Intent and Planning

1. Social or environmental challenge the organisation and/or the instrument listed is addressing over this year and last year.
2. Organisation's approach to attend to the challenge or plan to attend to the challenge over this year and last year.
3. Impacted target segments over this year and last year.
4. Outcomes of the solution/programme, including positive and potential unintended negative outcomes.

Approach

5. Baseline status/situation analysis/context description at the start of the project/programme and at the end of the last reporting period
6. Past performance trend (if relevant)
7. Solution implementation plan and the measures taken for sustainability of programme outcomes. Further, if any material change in the implementation model.
8. Brief on alignment of solution to SDGs/national priorities/state priorities/ developmental priorities.
9. Approach to take into consideration stakeholder feedback in the reporting period.
10. Biggest risks to the achievement of the desired impact and mitigation approaches.

Impact Score Card

11. Metrics monitored and trend of metrics.
12. Brief narratives of impact on target segment(s) in the reporting period
13. Beneficiary/Stakeholder Validation through surveys and other feedback mechanisms

BUILDING AN ENABLING ECOSYSTEM FOR SSE

To encourage greater participation, it aims to enable an ecosystem by focusing on maintaining standards for the quality of fund management, capacity building of SEs and social audits.

Primacy of social impact is to be established through the following filters

CAPACITY BUILDING FUND (CBF)

- A fund to be established to **assist NPOs** (ones ready/almost ready for SSE listing) understand stakeholders and the process of the SSE.
- The **information will be available for the public as well as for other interested organisations.**

RECASTING OF SOCIAL VENTURE FUNDS

- A crucial part of ecosystem strengthening shall be the work of **encouraging investors (both retail and institutional) and philanthropists to participate in SVFs.**
- This will be done by setting and maintaining high standards for the quality of fund management.

ROLE OF SOCIAL AUDITORS AND OTHER INTERMEDIARIES

- Social Audits will **mandate independent examination aimed towards improvement of an organisation's social and ethical performance.**
- The social audit consists of two elements (1) Financial Audit (2) Non-financial audit.

CBF aims to empower NPOs and FPEs to understand SSE, its process and stakeholders involved and deploy adequate awareness across the ecosystem.

Key details of the CBF

FUND SIZE	CONCEPTION	CONTRIBUTORS	COMPLIANCE	GOVERNANCE
The fund corpus is envisioned to be **INR 100 crores.**	CBF could be **housed in NABARD,** as an administrative fund under it.	Stock Exchanges, other developmental agencies (SIDBI), and financial institutions	**Registered under Section 80G** to be eligible to donations	Activities of CBF shall be governed through an **Advisory Board**

CBF aims to design a programme which will later be outsourced for hand-holding NPOs and other stakeholders with the following objectives

For NPOs

- **Components,** instruments and the qualifying criteria
- **Strategy planning**
- Effective **use of funds**
- **Membership** development
- **Technology adoption** and improvement
- Improvement of **operations and systems**
- Capacity building for **financial, MIS** and reporting systems
- **Human resource** development

For Funders /Investors

Needs and challenges of the social sector, opportunities to create social impact afforded by the SSE

CBF Programme Fee

- CBF will work with the exchanges and merchant bankers to **determine an affordable fee structure** for registration and for listing on the SSE.
- Smaller and emerging NPOs may require a financial subsidy, **the stock exchanges shall each receive 5% of the fund for spending towards this purpose.**
- This will be in **the form of reimbursement of fees** (up to specified amount) to the exchanges, as determined by the Advisory Board.

SSE aims to recast the SVFs to encourage investors and philanthropists to participate in SVFs; to ensure the maintenance of high standards for the quality of fund management.

SVF recasting recommendations

FOCUS ON IMPACT

Change the name from "Social Venture Funds" to "Social Impact Funds" to make explicit the intent of creating positive social impact.

NEW FORM OF SVF

New form of SVF, exclusive for SSE to be allowed to **set up based on 100% grants-in, grants-out model, or** a 25% grant-in/grant-out model

MINIMUM SUBSCRIPTION AMOUNTS

Set **minimum subscription amounts of INR 1 crore for institutions and INR 2 lacs for individuals.**

REDUCE MINIMUM CORPUS

Reduce **minimum corpus from INR 20 crores to INR 5 crores** (similar to angel funds under AIF).

NO REFERENCE TO MUTED RETURNS

Remove the reference to "muted" returns in the definition of SVFs, since the SE has to establish primacy of the social impact goal to be eligible.

UPDATES TO I-T REGULATIONS

Changes in Income Tax regulations and seeking clarifications on FCRA, as suggested by the WG in its report, for consideration by the relevant authorities.

An independent social audit/examination is aimed towards the **improvement of an organisation's social and ethical performance.**

WHO are the Social Auditors	• **Experts or consultants consisting of accredited persons or agencies** meeting the eligibility criteria as specified by the social stock exchange to conduct Social Audits for SEs. • Initially, **only reputed firms or institutions having expertise in the area of social audit will be allowed** to carry out social audits. • Such **institutions will employ social auditors** who have completed the **certification course** conducted by National Institute of Securities Markets (NISM).
WHAT are the components of Social Audit	• The Social Audits will have two components: 1. **Financial Audit** (to be undertaken by financial auditors) 2. **Non-financial Audit** (includes Social Impact Audit, may be conducted by financial as well as non-financial auditors)
HOW will Social Auditors function	• **Conduct independent verification** of the pre- and post-listing reporting and disclosures made by SEs. • **Provide assurance** of impact reporting done by SEs. • **Conduct Financial Audits:** SAs will apply Engagement and Quality Control Standards issued by ICAI - Performance benchmarks for CAs while performing auditing, review, assurance and related service engagements • **Conduct Impact Reporting Audits (Non-Financial Audit):** Standard will be issued by Sustainability Reporting Standards Board of ICAI. Proposed standard to cover all aspects of assurance of impact reporting like scope, engagement acceptance, basic principles, audit procedures, assurance report, and documentation.

Financial Audit can only be undertaken by financial auditors; non-financial audit can be conducted by financial as well as non-financial auditors.

Financial Audit

- **Should be Chartered Accountants (CAs)** holding a certificate of practice from ICAI
- Can undertake to perform social audits (i.e., both financial and non-financial parts)
- **Mandatory to attend a course at NISM** and receive certificate of completion after passing the course examination.

Non-financial Audit

Financial auditors to conduct social audits:

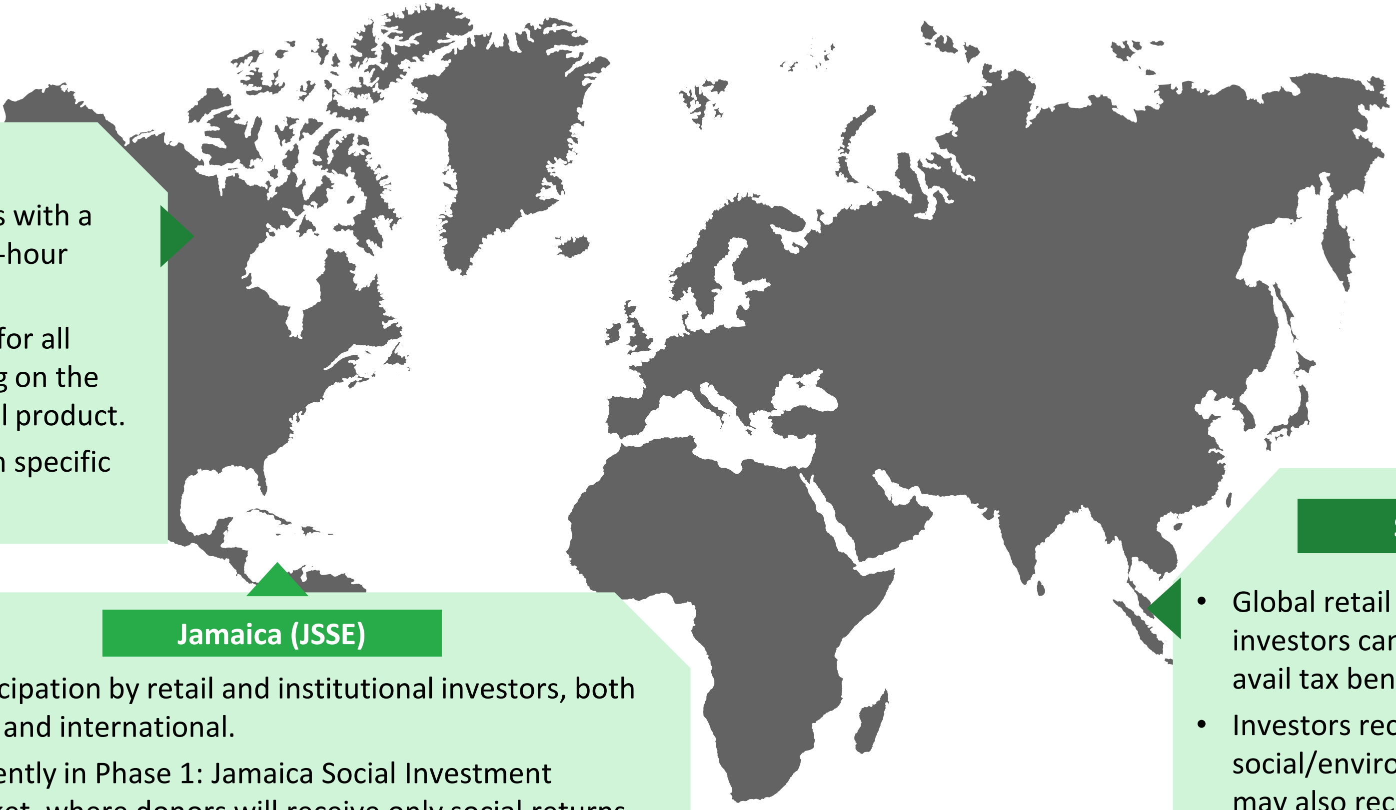
- Must have attended a course at the NISM and received a certificate of completion

Non-financial Auditors to conduct social audits

- Individuals, firms or institutions that have attended a course at NISM and received certificate of completion.
- Postgraduates from universities recognised by the University Grants Commission and three years of experience in the development sector, or
- Graduates from universities recognised by the UGC with a minimum of six years of experience in the development sector, or
- Cost and management accountants, or any other persons with suitable accreditations with a minimum of six years of experience in the development sector.

LEARNINGS FROM SSEs ACROSS THE GLOBE

Of the seven SSEs in Brazil, Portugal, South Africa, Jamaica, the UK, Singapore and Canada, only three SSEs are currently active.



Canada (SVX)

- Independent non-profit organisations with a wide range of securities providing 24-hour access to stakeholders.
- Social and/or environmental returns for all investors; financial returns depending on the type and performance of the financial product.
- Retail and institutional investors from specific Canadian provinces participate.

Jamaica (JSSE)

- Participation by retail and institutional investors, both local and international.
- Currently in Phase 1: Jamaica Social Investment Market, where donors will receive only social returns on investment. Phase 2: Jamaica Impact Investment Market (JIIM), which currently awaits legal approval, where investors will receive financial returns too.
- Only locally registered organisations with a social and/or environmental mission allowed to apply.

Singapore (IX)

- Global retail and institutional investors can trade securities and avail tax benefits.
- Investors receive social/environmental benefits and may also receive financial returns depending on the financial performance of the enterprise.
- Rigid screening criteria in place to ensure the primacy of social intent.

Developed countries with mature impact investing ecosystem tend to favor FPEs, while developing countries encourage more NPOs.

High focus on FPEs and revenue-earning NPOs

- While most SSEs feature/featured both NPOs and FPEs, developed countries such as the UK, Canada and Singapore **favored FPEs to build a mature impact investing ecosystem,** while developing countries such as Jamaica, South Africa, and Brazil, **encouraged NPOs to attempt an inclusive platform to bridge the funding gap.**
- While countries focusing on FPEs allowed non-profits to list, they were in a minority and the **focus remained on revenue-earning NPOs.**

Lack of standardised impact metrics

- While most countries had indicators to measure financial returns, **there is a lack of common taxonomy or metrics to measure social impact.**
- **This combined with self-assessed and self-reporting** by listed organisations led to capturing only outputs, not outcomes or impact.

Balancing the investment risks in early-stage organisations and safeguarding funders and investors' interests is a challenge

- **Findings revealed that organisations listed on SSEs tend to be large.** With FPEs, countries with a certain minimum level of market capitalisation and/or revenue stream in their eligibility criteria, shrunk the bracket of organisations that could be eligible to apply.
- **Some countries leaned towards listed or pre-IPO stage enterprises with established revenue models** that were considered less risky.

Project and sector biases among investors continued to fail in addressing funding challenges in underfunded areas

- There is a **heavy focus on project-based financing** across SSEs, with very few opportunities to raise organisational funding.
- NPOs working on education and healthcare received a large share of capital, while **gender, disability and mental health were underfunded.**
- In case of FPEs, causes supported through project listings tend to be those that **lend themselves to a business model (such as clean energy) and those that were easily measurable.**

Developed countries with mature impact investing ecosystem tend to favor FPEs, while developing countries encourage more NPOs.

Role of regulations and taxation laws

- While most countries have laws in place to make it easier for social enterprises to list and be financially successful while also promoting social and environmental goals, others also **allow nonprofits to earn revenue in addition to donations,** and some have **special stock exchange mechanisms for unlisted securities or exemptions from certain regulations.**

Institutional investors are more common than retail investors

- All of the SSEs allow both retail and institutional investors, but **opportunities for retail investors are limited due to regulations, lack of suitable investment options, and high cost.**
- Most of the SSEs also **prioritise educating investors/donors to create demand for their services** and increase understanding of funding social organisations.

Challenges of sustainability and scale

- SSEs sustainability was majorly determined by its **ability to cover costs as well as the experimental nature and success of the early SSEs.**
- Out of 7 SSEs examined, 3 are active (Canada, Jamaica, Singapore) and 4 (Brazil, Portugal, South Africa, UK) are no longer operational. All of these SSEs were **initially funded by philanthropy, but it was not enough to cover costs** as they did not generate enough revenue through fees, due to lack of demand and scale.

Strong potential for SSEs to build the social sector

- Most of the SSEs have helped **improve the social sector** in their countries by **introducing impact reporting and benchmarks, prompting policy changes, promoting transparency, and building trust** among stakeholders like the government, social enterprises, corporates and the public.
- However, their **impact has been limited by their low reach and short duration.**

WAY FORWARD FOR SSE IN INDIA

Three critical gaps emerge from global learnings, which will require attention going forward for SSE implementation in India.

Three critical gaps emerge from global learnings

1. No mention of revenue models for SSE

- A detailed revenue model is crucial to ensure sustainability of the SSE. The lack of a robust model was an important factor for failure of most of the global SSEs.

2. Challenges in critical transaction mass and engagement

- A lot of global SSEs failed because of a weakened level of investor and donor engagement.
- Creating a wider acceptance of the concept of SSE and awareness would be essential to catalyse a vibrant and diverse philanthropic ecosystem.

3. Lack of a culture of transparency

- Encouraging social giving by improving transparency of funds utilisation, including retail funders has been a challenge due to lack of common social impact reporting metrics.
- Measuring impact reporting, progress and challenges at regular intervals can lend transparency and accountability to the operations of the SSE.
- Strong, fair and impartial corporate governance practices for the listed social enterprises would prevent undue influence and misappropriation of funds.

There are six key steps that can shape the Indian SSE.

1 A blended revenue structure

Involving ideation and identification of various revenue structures (a mixture of philanthropic, government funding, and listing/service charges) that can help support its functioning.

2 Standardised metrics to measure 'net' economic, social and environmental impact

Standardised data collection, measurement and reporting frameworks would help organisations assess the short-term and long-term efficacy of their programmes, including any negative implications to mitigate the same iteratively.

3 Build awareness among the NPO community

Building awareness among the NPO community about the advantages of listing on the SSE would be crucial, including the scope of investment transactions, through which these enterprises can tap into several funding sources.

4 Encourage funding to Aspirational Districts (ADs)

The qualifying criteria for underserved regions in India are broad in its current form. Encouraging NPOs and FPEs working in the ADs to list on SSE and featuring them could attract more investments to ADs. A similar approach can be taken for historically underfunded sectors in India.

5 Incentivise Donors/ Investors

While most economies offer tax deduction rates of 100% or above for individual and corporate donors, India only offers a rate of 50%. Further, deductions can only be claimed for up to 10% of income, which adds another disincentive. Easing these restrictions could significantly encourage donations and investments.

6 Continuous refinement by the Technical Committee

Innovation, learning and iterative changes have been key drivers so far for SSE's development in India. Going forward, the ecosystem should avoid an "all at once" approach and continue to refine the working of the SSE, as it grows.

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