Social Stock Exchange

Why in news?

Social Stock Exchange (SSE) would be established by the SEBI as a structure within the existing stock market ecosystem.

What would be the purpose?

- SSE would enable the social enterprises and voluntary organisations to raise funds.
- India's rank is 129 among the 189 countries on the Human Development Index (HDI).
- [HDI tracks the progress made in education, health and income]
- So, there is indeed a pressing need to do more for the social sector.

What is the problem?

- Successive governments are under-investing in the social sectors.
- So, the onus has mostly fallen on private entities, that are constantly starved for funds.

How would SSE help to overcome this problem?

- Funds from individual philanthropists have been quite strong in India, amounting to ₹70,000 crore in 2018.
- There is an opportunity to help these entities tap other sources of funding such as international philanthropy, domestic CSR, and so on.
- The SSE can play a role here as a platform that brings these funds and causes together.

How do global social exchanges operate?

- The SEBI is complicating matters by allowing both the non-profit organisations and for-profit entities on the SSE.
- Many of the global social exchanges cater only to NPOs.
- They act as an intermediary that screens and certifies them and helps them find eligible donors.
- SEBI can follow this model for SSE, in order to keep things simple.
- According to government estimates, there were 31 lakh NPOs in India and

these entities are in more urgent need for funds.

What is a provision that would be misused?

- A self-declaration by FPEs is needed about being a social enterprise.
- This is likely to be misused, in the absence of agencies that can do independent verification of the declarations made by these FPEs.
- The regulator should first establish the mechanism for verifying these claims.

What are the other provisions?

- **Eco-system** - A welcomed suggestion is to build an eco-system, which includes,
    1. Establishing a self-regulatory organisation,
    2. Bringing together the information repositories on NPOs,
    3. Standardising the reporting standards for social impact, governance, etc.,
- With regard to fund-raising, the SEBI recommends that NPOs can raise zero coupon zero capital bonds on the SSE that will be akin to donation.
- **Instruments** - The SEBI suggests listing of equity and debt of NPOs.
- It suggests raising social and development impact bonds.
- It also suggests using social venture funds and mutual funds to channel money into charitable causes.
- These instruments can help worthy causes.
- But liquidity in these instruments is likely to be scant, even if market makers are established in every counter.
- The investors participating on this platform have to be mature enough to understand that they are not playing for returns.

What could be done?

- It would be best to allow foreign philanthropic funds to put money in this platform.
- Indian companies should be allowed to invest their CSR money in entities listed on a social stock exchange.

Source: Business Line

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