Social Stock Exchanges in India

Social Stock Exchange (SSE) is a separate segment of the existing Stock Exchange that can help Social Enterprise(s) to raise funds from the public through the stock exchange mechanism. SSE will act as a medium between Social Enterprises and fund providers and that can help them to select those entities that are creating measurable social impact and reporting such impact. Certain type of Social Enterprises i.e. Not-for-profit organizations (NPOs) that meet the registration criteria can register on SSE and undertake to make continuous disclosures on their social impact. Such NPOs may or may not choose to raise funds through SSE, however, would continue to make disclosures including on social impact to stock exchanges.

Indian securities markets, over the years, have been characterised by momentous strides in expanding the retail footprint in finance, innovative fund-raising, and regulatory solid scrutiny of stock exchange platforms. To leverage this transparency and rigour of equity markets for social good, in the Union Budget of FY20, the Government proposed to initiate steps towards creating a SSE under the regulatory ambit of SEBI for listing social enterprises and voluntary organisations working for the realisation of a social welfare objective so that they can raise capital as equity as well as, debt in the country.

The SSE aims to bridge the financing gap by providing alternative fund-raising instruments for achieving socio-development goals. SSE is a separate segment of the existing stock exchange, which can help social enterprises like non- profit organisations (NPOs) and non-government organisations (NGOs) raise funds from the public through the stock exchange mechanism. In this way, SSE is expected to stimulate the ecosystem of outcome-driven philanthropy in India in a transparent and regulated environment. SSE also offers a platform for constructive engagement of NGOs and other enterprises working in the area of social projects related to health, education, livelihood generation, etc., to directly raise funds from the private sector, corporate entities and individuals (including High Net Worth Individuals (HNIs)) and contribute to development goals. With the increasing global appetite for socially responsible investments, SSE bridges this gap and brings the capital markets closer to the masses for meeting various social welfare objectives.

The contributions towards the social sector projects listed on SSE are made through a unique security, known as Zero Coupon, Zero Principal (ZCZP) instrument as the nature of funding is akin to a donation and, as such, does not promise any payment of coupon or return of the principal amount. To scale up this ecosystem, the Government has recently extended tax exemption under section 80G of the Income Tax Act, 1961, to the contributions made through ZCZPs on SSE. Another noteworthy feature of SSE is that fund-raising on this platform is tied to specific projects undertaken by eligible NPOs. These NPOs are mandated to declare their year-wise milestones that are targeted to be achieved with funds raised from the public. In this regard, the SEBI (Issue of Capital and Disclosure Requirements (ICDR)) Regulations, 2018 identifies broad activities for which these potential projects can be undertaken, in areas such as eradication of hunger, poverty, malnutrition, and inequality; promotion of healthcare, education, livelihood for rural and urban poor; disaster management; and environmental sustainability, among others.

To be listed on SSE, NGOs/NPOs must disclose their past social audit reports, verifying proven expertise and commitment to executing social sector projects. As eligibility criteria, the regulatory framework requires that the NGOs/NPOs have at least 3 years of field experience in executing social sector projects. Further, to ensure accountability of fund-raisers to fund-providers, entities raising funds on SEE must disclose detailed information about their social and environmental performance in an Annual Impact Report within 90 days from the end of the financial year, duly audited by a social auditor. Thus, through its rigour, transparency, and scrutiny, the SSE platform ensures that donations reach credible entities, inspiring confidence in the ecosystem and paving the way for its scalability as we advance.

After the rollout of the regulatory framework for SSE by SEBI, National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) obtained SEBI's in-principle approval to set up a separate segment of SSE. As of April 2024, 51 NPOs are registered on the BSE, and 50 (11 undergoing renewal) are registered on the NSE. Nine NPOs have raised funds on SSE, amounting to a total of ₹ 12.4 crore. These projects span social projects in education, livelihood generation, skill development, etc.

Primary source (GOI: Economic Survey 2024 & NSE)