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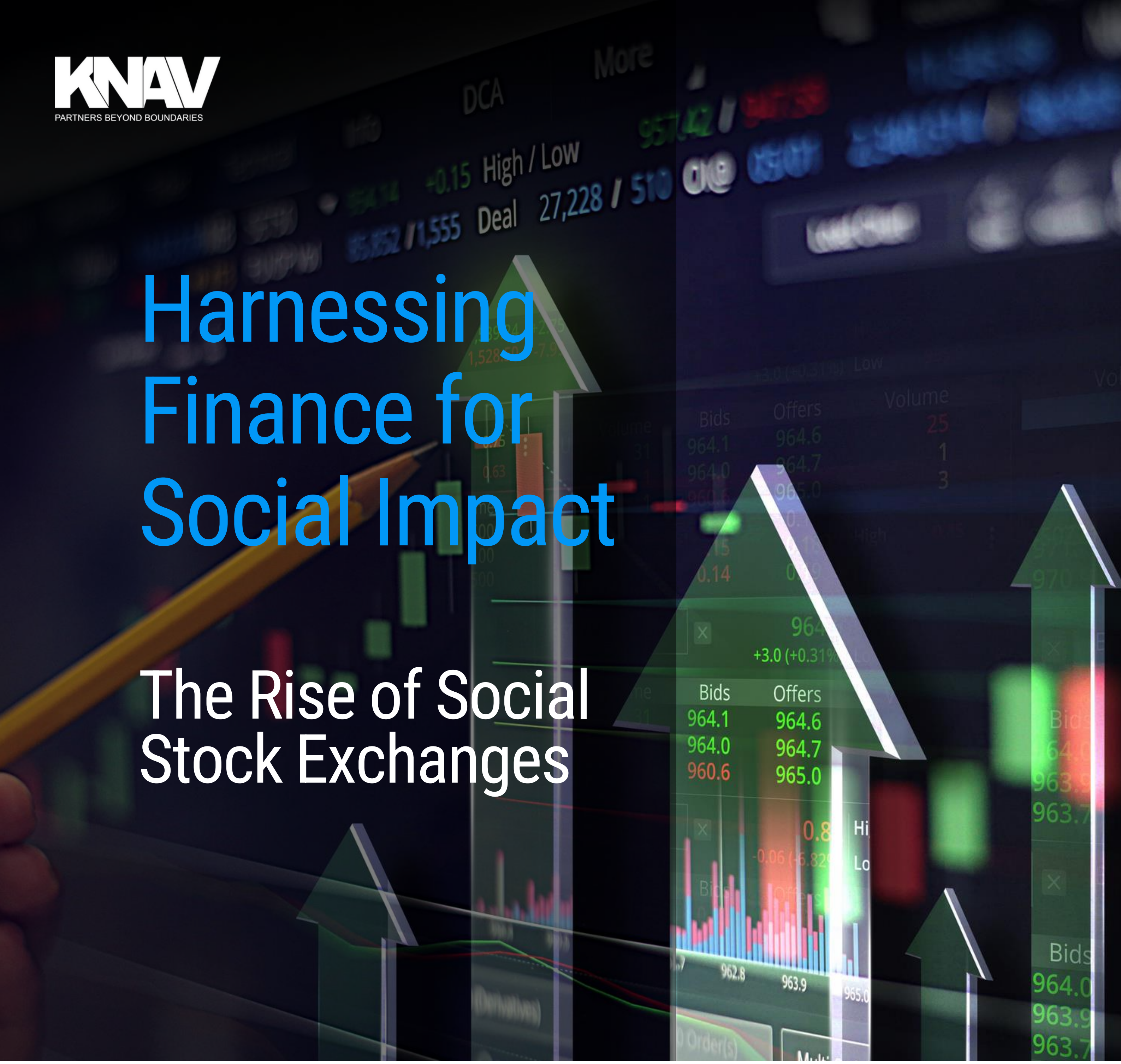
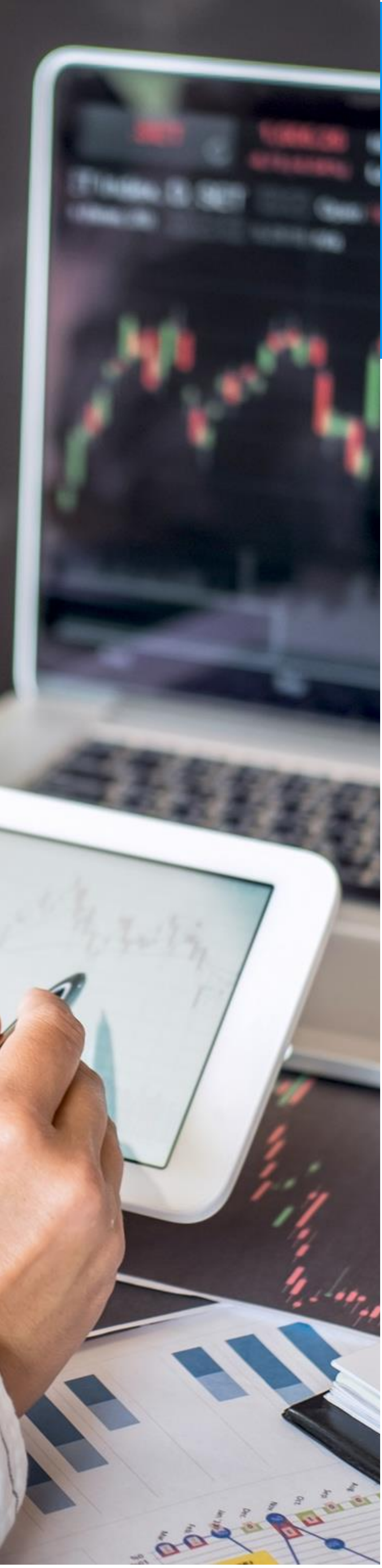


Harnessing Finance for Social Impact

The Rise of Social Stock Exchanges

A key notable historical development in the capital markets is the growth of impact and socially responsible investment over the past few decades. The idea of aligning investments with social and environmental values gained momentum in the 1970s with the rise of Socially Responsible Investment (SRI) funds. These funds aimed to avoid investments in companies engaged in controversial activities while focusing on those promoting positive social and environmental practices.

Over the time, the concept of impact investing expanded, with an increasing number of investors seeking not only to avoid harm but also to actively contribute to positive social and environmental outcomes. This shift in investor preferences led to the consideration of environmental, social, and governance (ESG) factors, such as impact investing, social sector spending and sustainable investment options in investment decisions.



Philanthropy in India

Though there is some truth to the belief that capital tends to perpetuate itself, it is not the whole truth. When a certain threshold is reached, corporates feel compelled to contribute to society, leaving a legacy through establishing public or social welfare institutions.

In line with India's economic growth, corporates and HNIs are also making larger contributions to philanthropy and charitable causes. There are many corporate and individual partners who are interested in funding institutions that will be able to sustain themselves as 'social enterprises', which are revenue-generating businesses from a social perspective.

Such organizations are primarily concerned with achieving social objectives. They differ from other organizations in that the profits they generate are not necessarily used to pay out dividends to stakeholders, but rather to invest in their social programs.

Acquisition method of accounting

It is here that the Social Stock Exchange (SSE) plays a pivotal role. A vision of the SSE, outlined by Finance Minister Nirmala Sitharaman in the Union Budget speech for FY 2019-2020, is to achieve various social welfare objectives related to inclusion. For that, an action plan is to be implemented by SEBI.

At the heart of SSE lies a diverse community of social enterprises, non-profits, and impact-driven businesses. These purpose-driven entities are pioneers in tackling pressing issues such as poverty, healthcare, education, and climate change. Yet, many of them face challenges accessing the funding necessary to scale their efforts.

SSE bridges this funding gap by providing these ventures with visibility and access to impact investors who share their passion for creating a better world. Primarily, the SSE will provide capital to social enterprises that are often unable to access traditional sources of funding. It will also enhance transparency by requiring regular audits of social activities. Moreover, the SSE will raise awareness of social enterprises and attract both retail and institutional investors. Through this symbiotic relationship, the exchange empowers purpose-driven enterprises to amplify their impact, creating a ripple effect that extends far beyond financial gains.

A Social Sector Trading Platform

As a trading platform, SSE will offer equity, debt, and units like mutual funds to eligible social enterprises including non-profit organizations. Social enterprises - whether non-profits or for-profits (For Profit Enterprise (FPE)) - that establish their primacy of social intent are eligible for listing on the SSE. Following that, NPOs can issue instruments such as Zero Coupon Zero Principal (ZCZP) to raise funds through a public issue or private placement. ZCZP issuance regulations stipulate a minimum issue size of Rs 1 crore and a minimum application size of Rs 2 lakh for subscriptions. Zero coupon bonds do not pay interest; after maturity, they are redeemed at full face value. FPE will continue to issue and list securities in accordance with the existing exchange procedures. Their sole caveat is that they will also list the 'social impact score' - a score or rating that measures the environmental and social impacts of their past activities.

As a result, SSEs will be able to access additional capital at lower costs as a result of standardizing processes and eliminating individual negotiations. A large number of social enterprises report that access to capital would allow them to expand their operations. As impact investment scores become public, more funds will flow into sustainable development, reducing government burdens on social programs. With detailed insights and information on the available investment opportunities, SSE will facilitate the decision-making process for investors. The SSE will also provide investors with an exit option. In contrast to donations that cannot be retrieved after they are given, investments on the SSE can be traded, increasing liquidity for investors during difficult times. The time is right for SSE, thus.

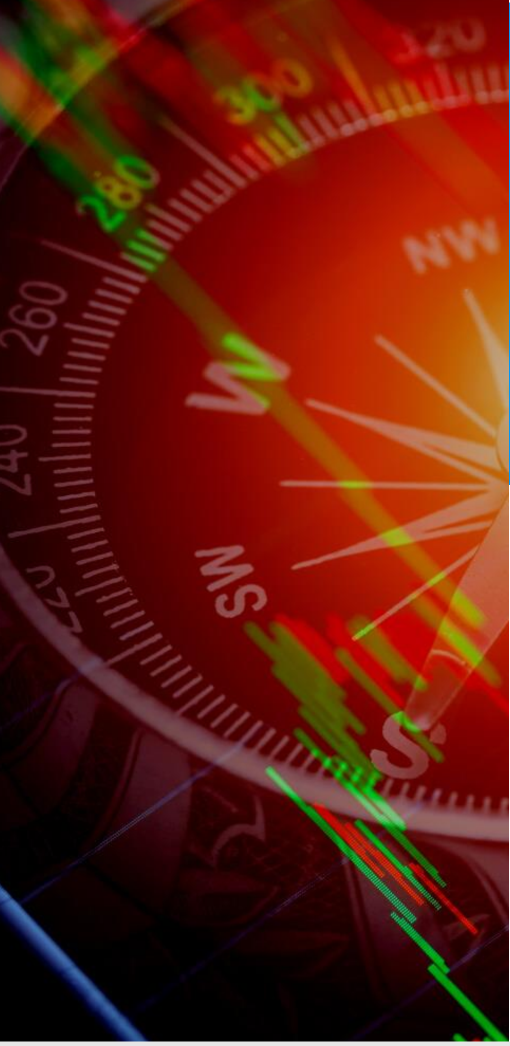
Lessons from the Global Stage

Countries worldwide have taken the initiative in this respect. In 2018, the Toronto Stock Exchange (TSX) in Canada launched the TSX Venture 50 Impact Awards, recognizing top-performing companies that contribute to positive social and environmental impact. While not a dedicated social stock exchange, this initiative demonstrated a growing interest in impact-driven investments.

Bursa Malaysia, the country's stock exchange, has also explored the possibility of establishing a social stock exchange to support impact investing and attract capital toward socially responsible projects.

In the US, instead of a dedicated social stock exchange, impact-driven companies have been accessing capital through various channels, including traditional stock exchanges, private placements, venture capital firms, and impact investing funds. Many impact-driven companies choose to list on existing stock exchanges like the New York Stock Exchange (NYSE) or the Nasdaq while voluntarily disclosing their ESG performance and sustainability initiatives to attract socially responsible investors.

The rise of impact investing and the demand for more socially responsible investment options could potentially lead to the establishment of dedicated social stock exchanges or specialized segments within existing exchanges in the future.



Supporting Global Sustainability Goals

A social stock exchange is not just an economic tool; it is an embodiment of a nation's commitment to global sustainability goals. As countries around the world strive to achieve the United Nations Sustainable Development Goals (SDGs), SSEs become instrumental in directing capital towards projects aligned with these objectives.

From affordable healthcare to clean energy solutions, the exchange becomes a catalyst for positive change, creating a collaborative ecosystem where investors, businesses, and communities work together toward shared prosperity.

A recent Standard Chartered report titled Opportunity 2030 (Sustainable Development Goals) SDG investment map states that to achieve the SDG goals, $2.64 trillion in investment is needed. By 2030, the scenario creates $1.12 trillion in investment opportunities for the private sector, building the pathway toward achieving three of the 17 Sustainable Development Goals. In India, corporate philanthropy has emerged as a key enabler of achieving the UN SDGs by 2030.

Conclusion

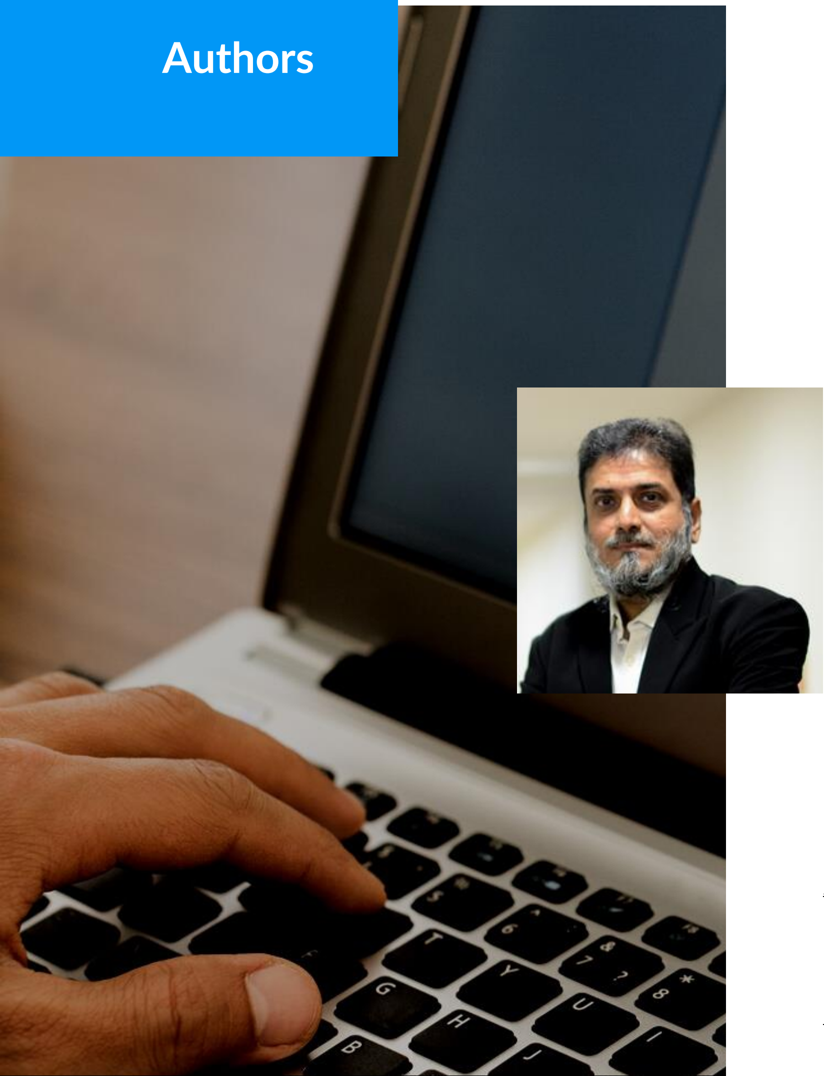
In conclusion, the concept of a Social Stock Exchange holds significant promise for India's financial landscape and its social development endeavors. The SSE offers a unique platform that bridges the gap between financial markets and social impact, allowing organizations to raise capital for their social initiatives while offering investors an avenue to align their investments with their values.

By enabling social enterprises and nonprofits to access capital more efficiently, the SSE can amplify their positive contributions to society, fostering innovation and growth in critical sectors such as education, healthcare, environment, and poverty alleviation. This can lead to enhanced social welfare and sustainable development, addressing pressing challenges and driving positive change nationwide.

However, the successful implementation of a Social Stock Exchange requires careful consideration of various factors, including regulatory frameworks, reporting standards, investor education, and monitoring mechanisms to ensure transparency and accountability. Collaboration between government bodies, financial regulators, philanthropic organizations, and market participants is essential to creating an ecosystem that nurtures the SSE's growth and impact.

As the SSE concept evolves in India, it has the potential to reshape the dynamics of capital markets, encouraging a shift towards responsible and impact-driven investing. This, in turn, can contribute to a more inclusive and equitable society while fostering economic growth. While challenges may arise during its implementation, the SSE represents a progressive step towards aligning financial markets with social aspirations, embodying the idea that investments can serve as catalysts for positive societal transformation.

Authors



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