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Social Stock Exchange in India: Bridging the Gap Between Profit and Purpose in Fund Management

Abstract

This article discusses the moment of breakthrough when Unnati NGO appeared on the social stock exchange (SSE) in India in December 2023, merging the two different worlds of stock markets and social impact. The importance of this listing by Unnati is a testament to the transformatory potential of SSEs as a means for addressing the financial concerns faced by social enterprises and achieving United Nations Sustainable Development Goals (SDGs). Nevertheless, it remains challenging to navigate the tough SSE terrains which therefore calls for a co-operative approach and novel recommendations. Taking insights from various global experiences, this article elaborates the need for accepting and revolutionizing SSE to lead a sustainable and inclusive future in India.

Unveiling the Social Stock Exchange with India’s First Listing

Imagine how exciting it feels to be part of a historical milestone where social impact intersects with the securities market. That is precisely what happened when Unnati NGO first entered India's Social Stock Exchange (SSE) in December 2023 by raising ₹1.8 crore on Indian Social Stock Exchange (SSE) from Zerodha among others. Zero Coupon Zero Principal (ZCZP) instruments at face value of ₹1 were issued to donors during listing signifying their support to the company's efforts in uplifting and upskilling the youth. The first-ever SSE listing in India, achieved by Unnati, demonstrates the capacity of SSEs to drive positive change. But what is a Social Stock Exchange and how does it relate with sustainable development?

Imagine all social enterprises can meet all impact investors on one platform for the purpose of making a difference rather than just making money. This is exactly what SSEs are about. These platforms enable the creation of bridges between profit and purpose as they provide an alternative means of raising capital for social causes.

Addressing the Funding Issues Faced by Social Enterprises

To address the funding challenges for social enterprises in line with UN SDGs on poverty, inequality and environmental degradation, these SSEs utilize capital markets. SSEs represent an opportunity to make progress in India with its varied state-specific challenges. While there has been some sectoral progress, funding still remains a huge constraint for most Indian Social Enterprises due to:

- **Limited access to traditional financing:** Traditional sources of finance for both social and environmental projects often don't suffice thus impeding their scaling up as well as effectiveness. Skepticism among investors regarding the profit potential of social enterprises has discouraged investments.

- **Lack of knowledge:** According to a survey carried out by CII (Confederation of Indian Industry), it was astonishing that over 66.67% of banking and financing firms were unaware of social enterprises or the social entrepreneurship ecosystem entirely, thus making it difficult for them to connect with potential lenders.

- **Scant Philanthropy:** India lags behind developed countries in terms of individual giving. As per Sattva Consulting's report; 6% is the proportion that has been given by individuals towards social sector funding in India compared to 61% in America.

This is where SSEs step in, offering social enterprises a structured platform for raising capital within a regulatory framework. SSEs are attractive because they have the capacity to attract investors ranging from philanthropists to corporates. Companies listing on SSEs gain access to a broader investor base as well as benefiting from increased transparency and accountability.

Furthermore, it is advantageous for investors since their contribution does not only lead to societal improvement but also helps them route their surplus funds to make a difference.

Challenges and Collaborative Solutions

Despite all these advantages, there are some obstacles which exist here and there when bringing these enterprises onto SSE platforms. On the demand side of this funding platform, lies the social enterprises that face some major hurdles with respect to getting listed on the SSE which include:

- **Stringent Legal and Regulatory Compliances:** Meeting the intricate legal and regulatory requirements proves challenging for many organizations, particularly when coupled with limited resources and expertise.

- **Limited Fundraising Options:** Social enterprises face a scarcity of diverse fundraising avenues, exacerbated by the limited availability of instruments like Zero Coupon Zero Principal (ZCP) for raising funds on SSEs.

- **Skilled Manpower and Resource Constraints:** The scarcity of skilled manpower and limited resources further impedes organizations' ability to navigate SSE-related tasks and compliance obligations effectively.

Unlocking the full potential of SSEs requires collaboration amongst key actors, such as social enterprises, investors and intermediaries like Financial Brokers, Non-Banking Financial Companies (NBFCs), Co-operative Banks, Sustainable Development Goals (SDGs) Coordination Centres established by international bodies including UN. They can facilitate capacity building by serving as a link between enterprises and investors and provide support during pre and post-listing stage as well as advocate for the continuous improvement of the platform taking into consideration the ever evolving and dynamic landscape of India.

It is vital to note that these challenges go beyond the mere demand side and include supply side concerns also, where bringing the investors to the platform is a challenge in itself. Some of the notable issues on the supply side include:

- **Focus on Social Welfare over Impact Investing:** The existing model of SSE in India emphasizes on social welfare more than impact investing thereby creating little incentives for fund suppliers to invest without monetary incentives.

- **Past Over-Reliance on Informal Channels:** For a long time now, social initiative funds in India have gone through informal channels including black money due to tax considerations and regulatory issues.

These worries should be resolved by instilling a sense of confidence in the investor community in order to create a successful transition from informal to formalized channels. A gradual shift towards an impact investing model should take place which helps investors to simultaneously achieve the dual objectives of social impact and financial profitability.

Conclusion: Paving the Way for a Brighter Tomorrow through SSEs

In India, the first five listings have been celebrated recently at the NSE-Social Stock Exchange (SSE) Platform, which together raised about INR 8 crore for developmental projects, thereby emphasizing the growing influence of SSEs on India's financial landscape. India can emulate successful SSE models globally to accelerate sustainable development through blending economic returns with social impact. For this reason, regulatory authorities should come together with intermediaries as well as stakeholders to promote responsible investment behavior within the SSE environment. The adoption of innovative ideas and collaboration towards a brighter future is possible when people embrace the revolution called 'Social Stock Exchange'.

Citations

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