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Social Stock Exchange

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Why is in news? Valuing non-profits and making social stock exchange work

There is a perception that non-profits do good at a small scale so everyone involved can feel good.

But the notion of non-profits as charities is misguided, even though the **Public Charitable Trust or u/s 25 of the Companies Act, 1956** requires NGOs who have a tax exemption to work only for public welfare, owning assets strictly used for “charitable purposes”.

This has created a sector that, on one hand, is underpaid and under-capacitated; on the other hand, lacks accountability. If the funds given to non-profits are seen as handouts, then very little is expected in return.

The role of non-profits is evolving and the funding models must change too.

SSE:

SSEs are a **unique mechanism for non-profits to access funds** in a way that is reliable and subject to public scrutiny.

The aim is to improve market access for social organisations and investors, while providing investors with confidence around proper due diligence procedures.

It functions as a **separate segment within the existing stock exchange** and help social enterprises raise funds from the public through its mechanism.

It would serve as a **medium for enterprises to seek finance for their social initiatives**, acquire visibility and provide increased transparency about fund mobilisation and utilisation.

Retail investors can **only invest** in securities offered by **for-profit social enterprises** (SEs) under the main Board.

In all other cases, **only institutional investors and non-institutional investors** can invest in securities issued by SEs.

The proposal for the creation of a Social Stock Exchange was put forth by Finance Minister Nirmala Sitharaman in her **Budget speech in July 2019**.

It works **under the capital market regulator SEBI**.

Eligibility:

Any social enterprise, **Non-Profit Organisation (NPOs) or For-Profit Social Enterprises (FPEs)**, that establishes its primacy of social intent can get registered or listed on the Social Stock Exchange segment.

India has **over 31 lakh NPOs** – more than double the number of schools and 250 times the number of government hospitals, which amount to one NPO for 400 Indians.

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As per the SEBI's regulation, the enterprises must be serving to:

eradicate either hunger, poverty, malnutrition and inequality;

promoting education, employability, equality, empowerment of women and LGBTQIA+ communities; working towards environmental sustainability;

protection of national heritage and art or bridging the digital divide, among other things.

Different mechanism available for fundraising:

For Non-Profit Organisation:

It can raise money **either through issuance of Zero Coupon Zero Principal (ZCZP) Instruments** from private placement **or public issue, or donations** from mutual funds.

The SEBI board recently approved **halving the minimum issue size** of ZCZPs by NPOs on SSEs to Rs 50 lakh from Rs 1 crore.

The minimum application size will be reduced to 10,000 from 2 lakh rupees to enable wider participation.

For-Profit Social Enterprises (FPEs):

It can raise money through **issue of equity shares** (on main board, SME platform or innovators growth platform of the stock exchange).

Issuing equity shares to an Alternative Investment Fund including Social Impact Fund or issue of debt instruments.

For-Profit Enterprises (FPEs) **need not register with social stock exchanges** before it raises funds through SSE.

Zero Coupon Zero Principal (ZCZP) Instruments:

These are financial instruments that **do not pay periodic interest**, but are **issued at a discount to their face value** and mature at par.

With its zero-coupon, zero-principal structure, it **resembles a debt security** like a bond.

With ZCZP instrument, when an entity issues these securities and raises money, **it is not a loan but a donation**.

Significance of SSEs:

SSE is a novel concept in India and it is meant to serve the private and non-profit sectors by channelling greater capital to them. It will also **make investing in social ventures easier** for morally conscious investors.

This would be set up “under the regulatory ambit of SEBI for listing **social enterprises and voluntary organisations** working for the realisation of a social welfare”.

The establishment of the Social Stock Exchange is expected to **create more opportunities for Social Auditors** since the regulation **makes it mandatory for social enterprises** which are keen to list on the platform and raise money to undergo social audit.

Tax benefits: To increase the reception of these funding models amongst various classes of investors, the committee has also recommended several tax exemptions, benefits and other supportive regulatory clarifications.