



# IAS PARLIAMENT

*Information is Empowering*

A Shankar IAS Academy Initiative

## Social Stock Exchange (SSE)

### What is the issue?

- Finance Minister in the Budget speech 2019 made announcement of a Social Stock Exchange (SSE).
- SSE, will list social enterprises and voluntary organisations, has gathered much attention among social impact enthusiasts across the globe.

### How should India design its SSE?

- Social enterprise can be defined as a non-loss; non-dividend paying company created and designed to address a social problem.
- **McKinsey's study** - 'Impact investors' in India poured about \$5.2 billion between 2010 and 2016, most of which was concentrated in sectors like financial inclusion and clean energy.
- **Brookings India's survey** - 57% of the social enterprises identify access to debt and equity as a barrier to growth and sustainability.
- India is a home to more than two million social enterprises (non-profits, for-profits and hybrid models).
- So, it needs a careful planning while designing its social stock exchange.
- SEBI is yet to set up its working committee on SSEs, but many experts have proposed distilling learnings from those of other countries.
- While formulating such a product for India, we need to have an **extensive and cautious approach** in terms of its accreditation, valuation and monitoring.

### What are the benefits of listing in SSE?

- Listing of social enterprises on an SSE would **improve visibility of social enterprises** to large investors and philanthropic organisations.
- Apart from equity capital, social enterprises need debt, particularly to meet working capital requirements.
- Listing of debt products on the SSE would encourage banks, NBFCs and other **investors to participate in the growth journey** of these social

enterprises and thereby deepen their impact.

- SSE impact valuation would also help in supporting an ecosystem of innovative financial products (like results based financing) which is a next big leap for the impact investing community in India.

### **What are the valuation metrics?**

- The impact valuation metrics for social enterprises could be designed based on social and environmental mission; target beneficiaries; service delivery; stakeholder involvement; and impact measurement.
- **Continuous monitoring of these metrics** is crucial to the success of such a platform.
- Impact evaluators and impact rating agencies may also partner with SEBI on this task and provide a reliable source of impact evaluation for the investors.
- We also have a lot to learn from our experience with SME exchanges operated by both BSE and NSE.
- Most of the early-stage social enterprises also fall under the SME category, but these require more careful support than others.

### **What measures are to be taken for a SSE to meet its intended objectives?**

- Educating market participants about the valuation metrics weighing both on social and financial returns;
- Amplifying the efforts of creating and supporting social businesses;
- Bringing policy and regulatory reforms to support investors, and facilitating research and development for small social enterprises.
- SSE should encourage participation of socially inclined investors to avoid mission drift of its listed enterprises.
- Rewarding investors by issuing certificates for supporting social missions of listed enterprises can add more value to their financial returns.
- India has one of the most developed social impact ecosystems amongst emerging economies.
- With India spearheading the modern technological movement, social enterprises here have enormous growth potential.
- In such a scenario, it is important to support these enterprises with the 'right' capital.
- A social stock exchange may prove to be path-breaking here.

**Source: Business Line**



# IAS PARLIAMENT

*Information is Empowering*

A Shankar IAS Academy Initiative