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# Introduction of Social Stock Exchange in India



# Thought Behind Social Stock Exchange in India



Increase in philanthropic funding

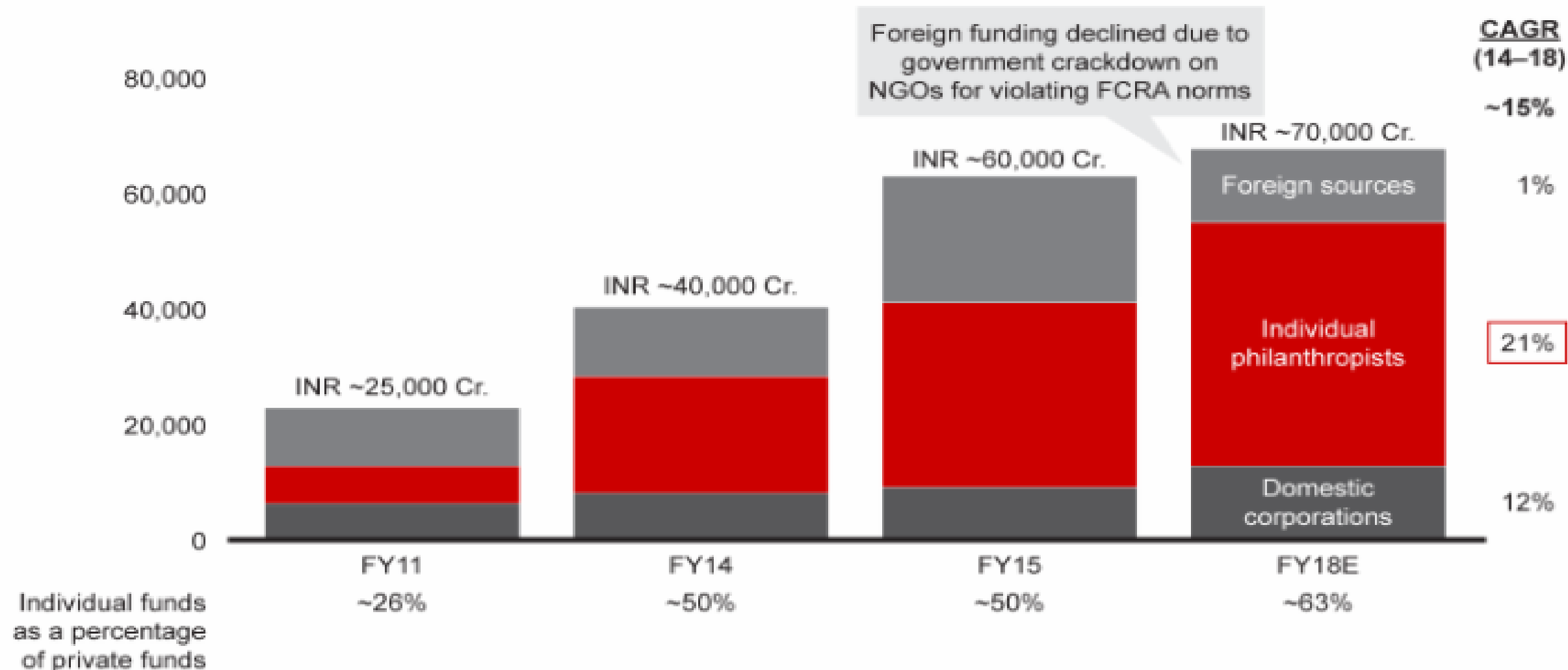
Vast numbers of NPOs

Various of conduits of investments

No common structure for assessing impact of investment

# Private Funds raised for Social Sector in India

Private funds raised for the social sector in India (INR '000 crore)

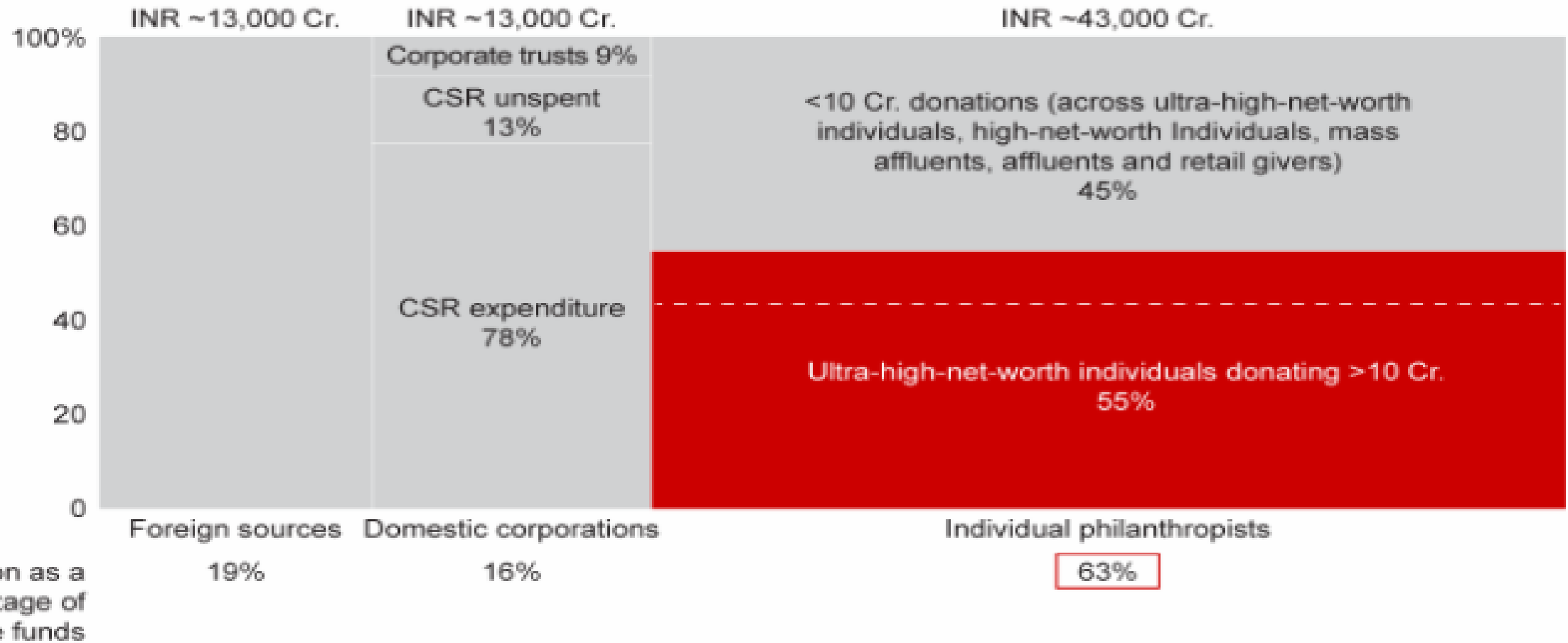


Sources: FCRA filings; HURUN donor databases; PRIME Database; proceedings of the Parliament of India; Charities Aid Foundation report; TATA Trusts annual reports; Bain analysis

# Contribution as a Percentage of total private funds

Private funding breakdown by segment in FY18E (INR crore)

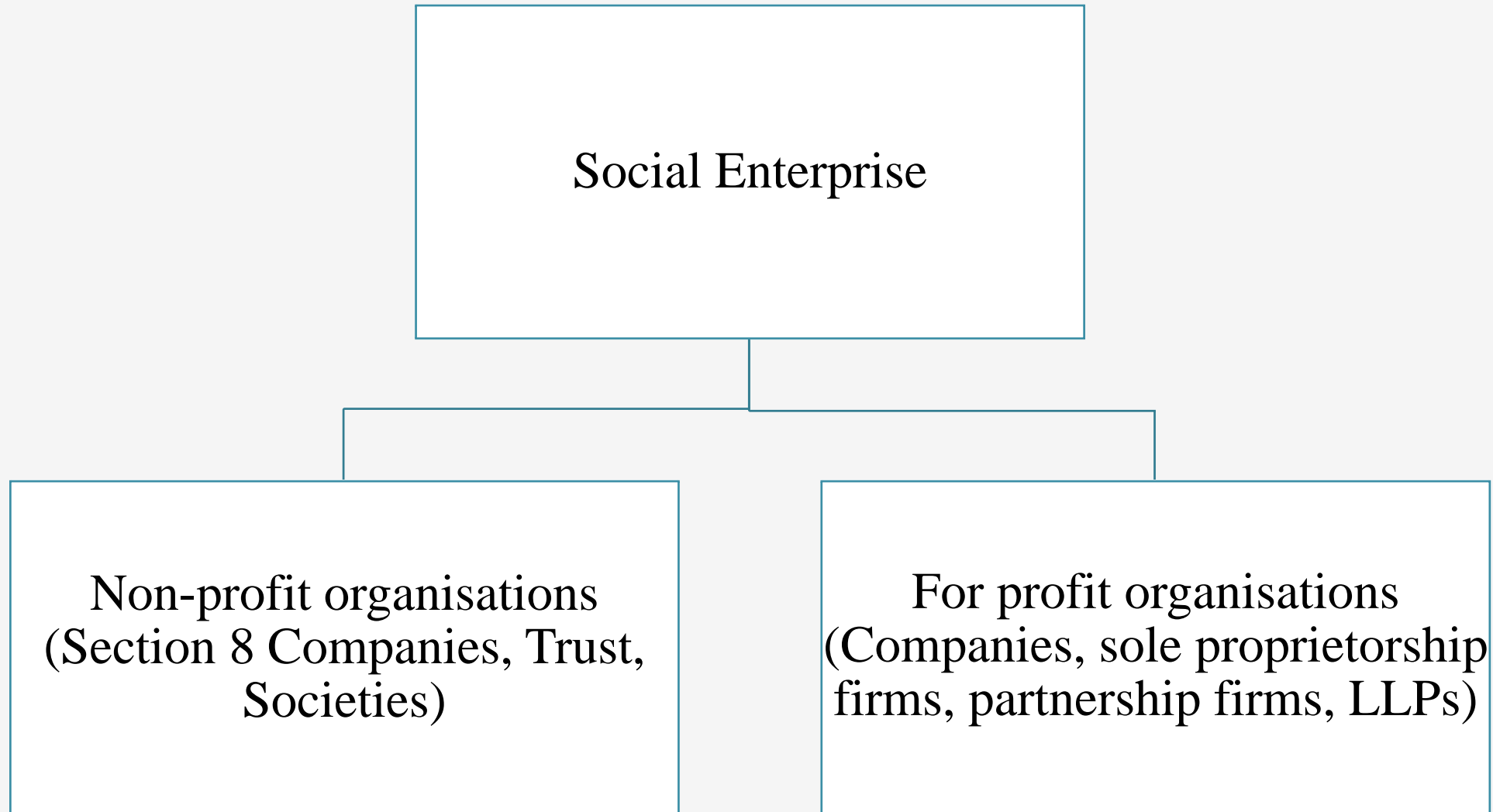
Total=INR ~70,000 Cr.



Note: More than 80% of the funding from the UHNIs' 55% red segment is from Azim Premji

Sources: FCRA filings; HURUN donor databases; PRIME Database; proceedings of the Parliament of India; Charities Aid Foundation report; TATA Trusts annual reports; Bain analysis

# What is a Social Enterprise ?



# Eligibility Criteria

## **Filters to establish primacy of social stock exchange:**

- Engaged in eligible social objectives:
  - Based on items of schedule VII of Companies Act, 2013 and Sustainable Goals
- The eligible activities of SE target underserved or less privileged population segments or regions
- Predominance of the eligible activity in overall work of the SE i.e. SE shall have at least 67% of its activities qualifying as eligible activities to the target population:
  - Revenue – 67% of 3 years average revenues
  - Expenditure - 67% of 3 years average expenditure
  - Customer base/ beneficiaries – 3 years average customer base

## **Entities ineligible for using SSE mechanisms:**

- Corporate foundations, that are primarily funded by a parent corporate entity or a group of corporate entities
  - Political or religious organisations or activities
  - Professional or trade associations
  - Infrastructure companies and housing companies (other than affordable housing companies).
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## Mandatory Qualification Criteria for NPO Registration

- **Legal Requirements:**

- Registered as an NPO (registration valid for at least 12 months)
- Have governing document (MoA & AoA/Trust Deed/Bye laws/Constitution)
- Registration certificate under 12A/12AA/12AB
- IT PAN
- Minimum 3 years of existence
- Valid 80G registration under Income –tax

- **Minimum Fund Flows:**

- Receipts or payments from Audited accounts/ Fund Flow Statement in the last financial year must be at least Rs. 50 lakhs.
- Receipts from Audited accounts/ Fund Flow Statement in the last financial year must be at least Rs. 10 lakhs.

FPEs not required to register.

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# Framework for Listing (1/2)

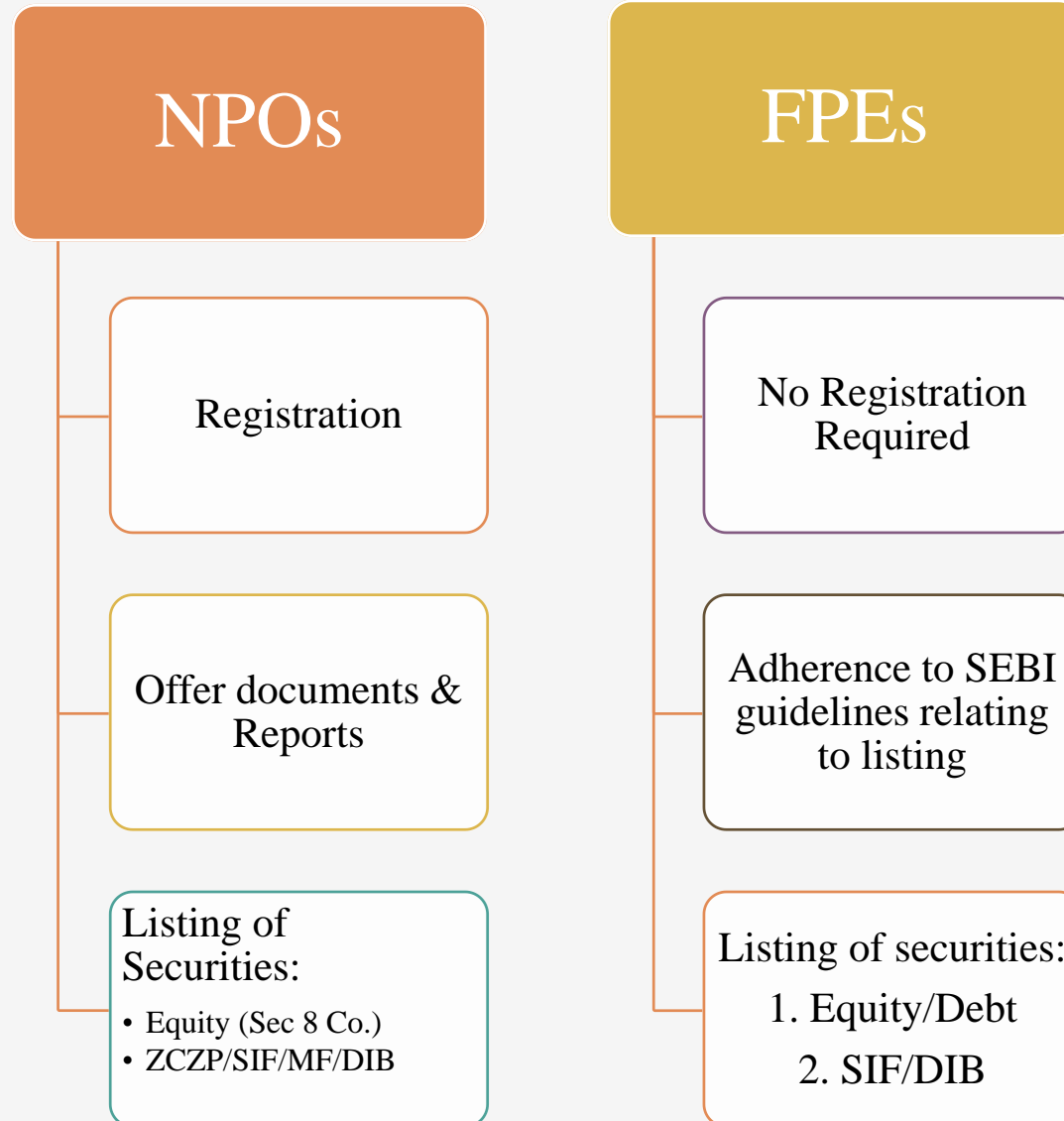
## **NPOs:**

- Audited financials for previous 3 years and social impact statements;
- Differentiators;
- Project/Program specific listings – NPO shall provide a greater level of detail in the listing document about its track record;
- Additional Disclosures for listing on SSE.
- Information submitted as part pre-listing and post listing, shall be displayed on the website of the NPOs.

## **FPEs:**

- Existing regulatory guidelines for equity, debt shall be applicable.
- Differentiators shall be in addition to existing requirement.
- Additional disclosure for listing on SSE.
- FPEs shall be granted an option to list their securities on appropriate existing boards

# Framework for Listing (2/2)



# Enabling Eco-systems

## Capital Building Funds:

- Housed by NABARD
- Founded by SEs, other developmental agencies such as SIDBI, other financial institutions, and donors (CSRs).
- Corpus of Rs. 100 Crores and shall be an entity registered under 80G
- Facilitate NPOs for registration and listing procedures as well as proper reporting framework

## Social Auditors:

Social audit to comprise of two components: Financial Audit and Non-financial audit

**Financial Audit :** CA + NISM certification

**Non-financial audit:** Following qualification with NISM certification

Post Graduate (3 years experience in development sector) or

Graduate (6 years experience in development sector) or

Cost and management accountants or such suitable accreditations with 6 years experience in development sector.

## Information Repositories:

Act as information aggregators on NPOs, providing searchable and comparable database.

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# Disclosure and Reporting Norms

## **NPOs:**

### **Annual Requirement:**

NPO's either registered or listed:

- General, governance and financial aspects i.e vision, mission, activities, scale of operations, board and management, related party transactions, remuneration policies, stakeholder redressal, balance sheet, income statement, program-wise fund utilization for the year, auditors report etc.
- NPO's with listed securities:
  - Social Impact report

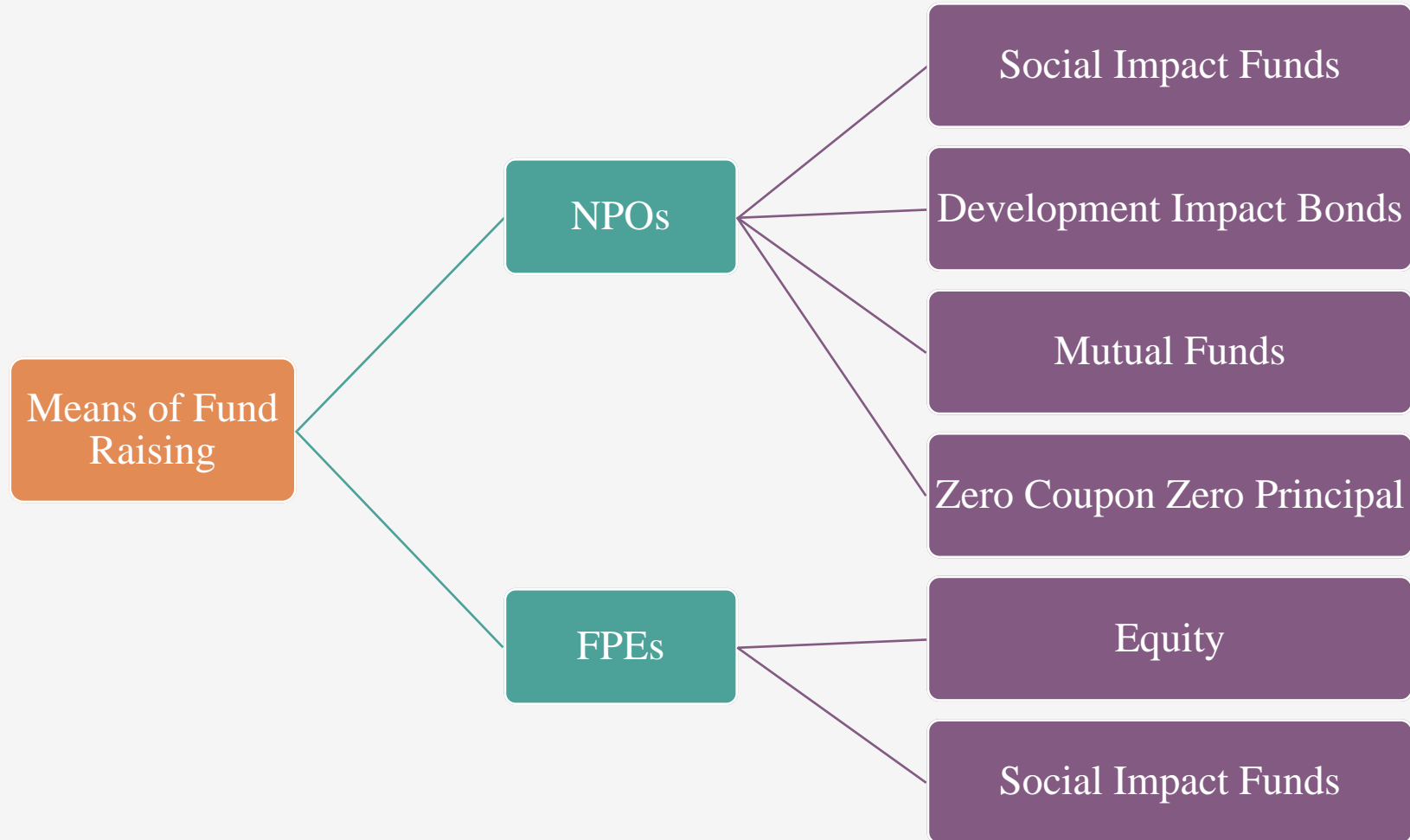
### **Event Based:**

- Within 7 days – Event that might have a material impact on the planned achievements or outcomes.

## **FPEs:**

- Social Impact Report
- Disclosure shall be in addition to disclosure/reporting requirement as per applicable SBEI regulations.

# Means for Funds Raising



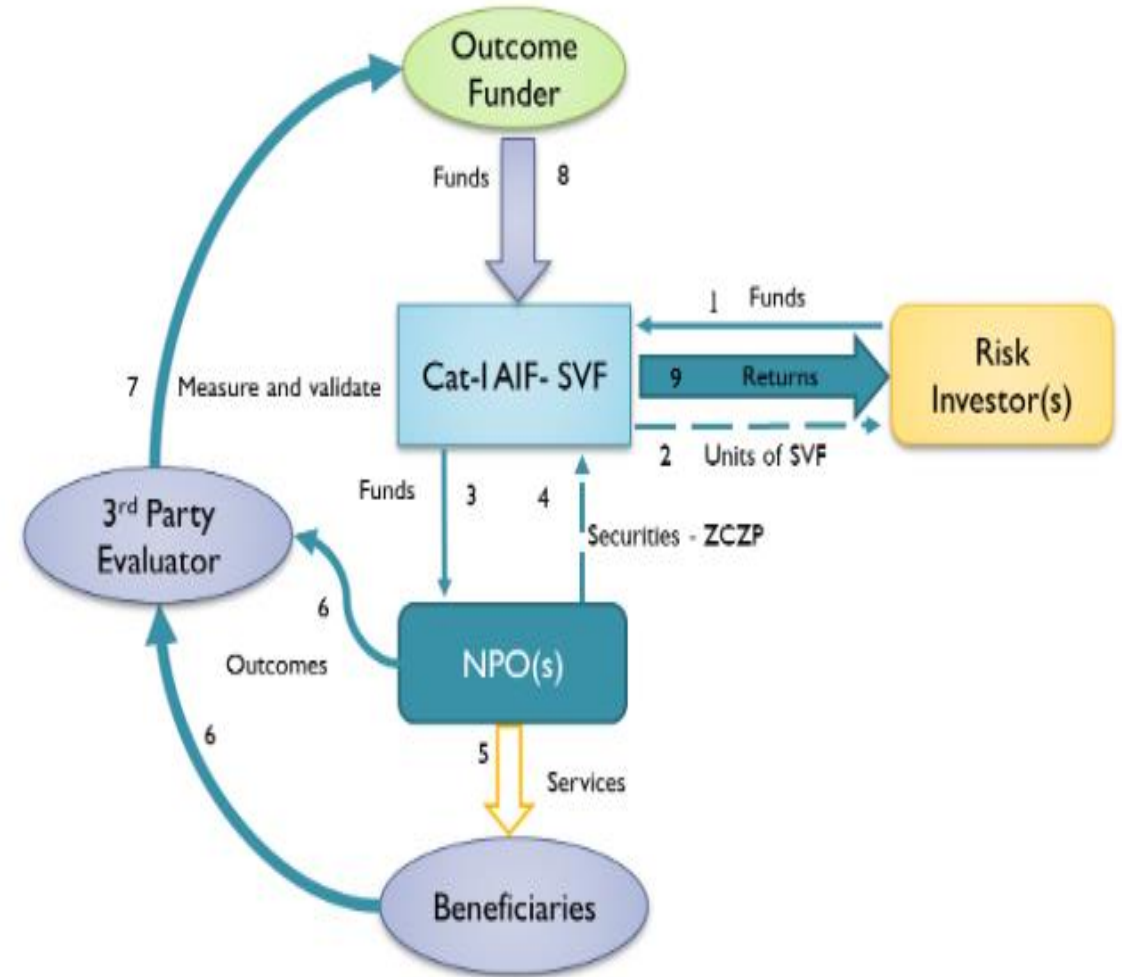
# Development Impact Bonds/ Social Venture Funds (SVFs)

Parties Involved in case of development impact bonds:

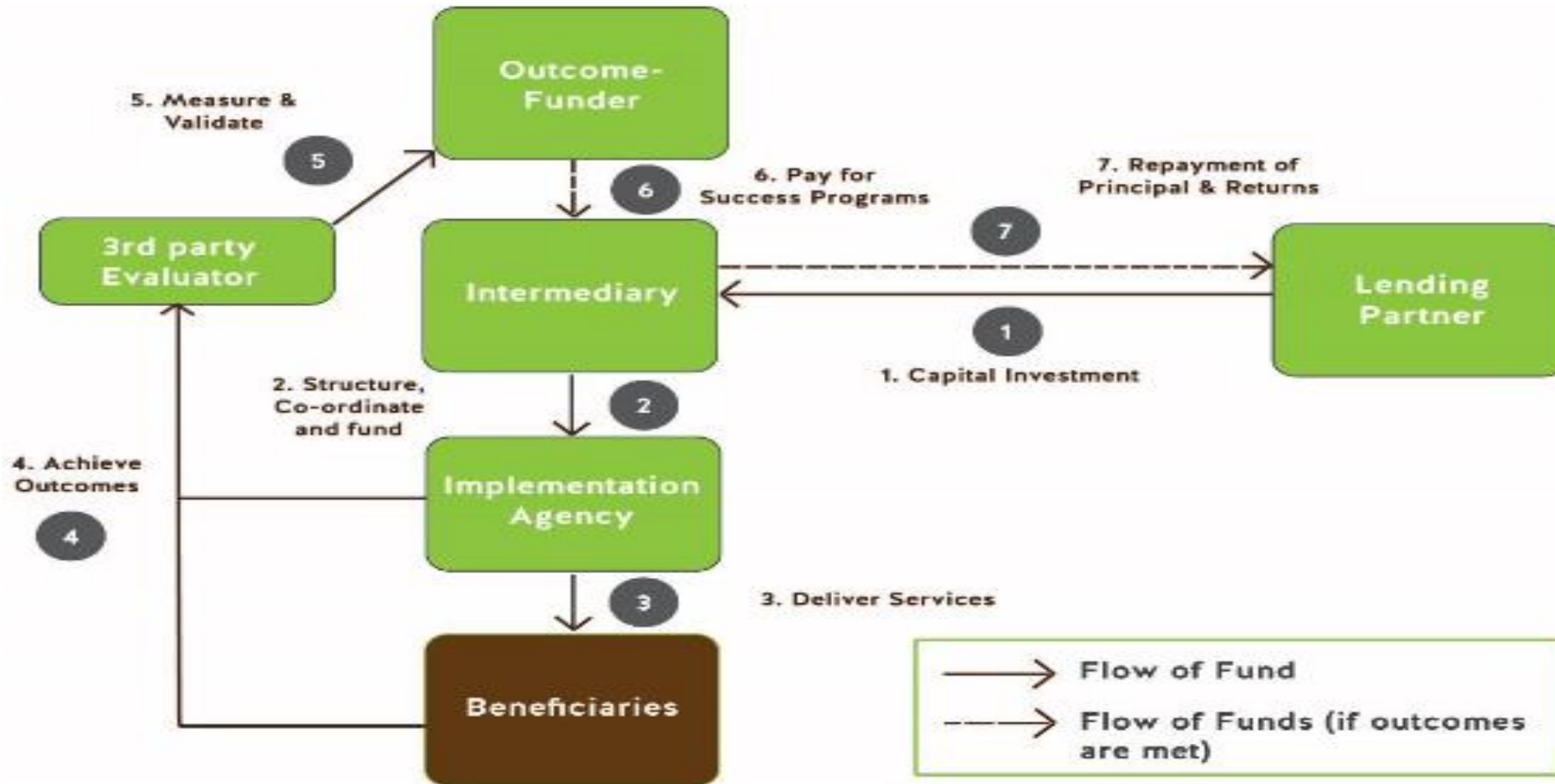
- Outcome funder
- Risk Investor
- 3<sup>rd</sup> Party evaluator
- NPOs

Example of DIBs in India:

Educate Girls by UBS Optimus Foundation

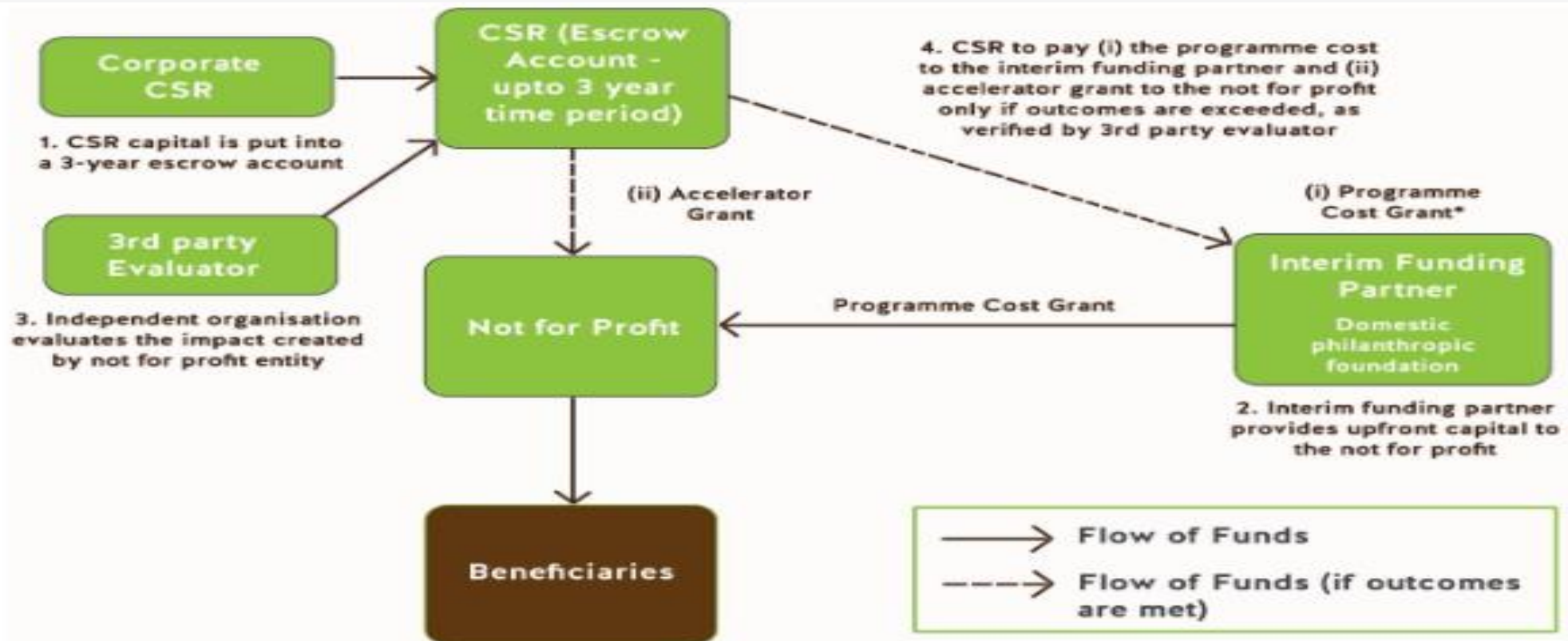


# Pay-for-success through lending partners





# Pay-for-success through grants



Note: We propose accelerator grant upto 10% of programme costs

The Programme Cost Grant\* given by the CSR funder is adjusted for inflation

# Mutual Funds

- Two means through which NPO can receive grants through mutual funds
  - Returns of the scheme get directly donated to NPO chosen by AMC.  
Example: HDFC Cancer Fund
  - Contribute a % of his/her investment to any NGOs  
Example: Quantum Mutual Fund's SMILE facility
- HDFC Charity Fund for Cancer Cure:

Particulars	Contribution to Indian Cancer Society
Donation of dividends to ICS (till September 2019)	INR 75.39
HDFC AM C Direct Contribution Committed	INR 62.02
Total Donations	INR 137.41

# Global framework

## **Brazil's Socio – Environment Impact Exchange**

- First social stock exchange
- Acts as an information exchange to evaluate NPOs and identify projects which are in need of funding from private investors.
- Funders receive no financial returns but receive social returns.

## **Canada Social Venture Connexion:**

- Platform links investors with business in need of equity, it also acts as information exchange

## **UK Social Stock Exchange**

- Acts as an information platform, further only FPEs can be listed.

## **Singapore's Impact Investment Exchange:**

- Operated jointly with Stock exchange of Maturities
  - Allows trading in impact-related securities. Alternative, investors may use IIX Growth Fund to make equity investments;
  - Its restricted FPEs only.
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Thank You

