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Social Stock Exchange and Indian Civil Society Sector

A Study Report



INDIVIDUALL MÄNNISKOHJÄLP
SWEDISH DEVELOPMENT PARTNER

Social Stock Exchange and Indian Civil Society Sector - A Study Report

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Preface

3.2 million Non-Governmental Organisations (NGOs) in the country have traversed different journeys through different phases through different areas and thematic concerns. Now is the time for them to enter the futuristic idea of working with the ethos of a for profit organisation sans profit. Like any other innovation, this idea of Social Stock Exchange is also received with mixed feelings by one and all. There are concerns around domination of social good by profit motive; undue premium on efficiency rather than human concern, exaggerated importance to compliances. It can also be argued that this change in work ethos can open a box of gold for the resource starved social sector to address the issues that have challenged human race since time immemorial i.e. health and education for all, environmental sustainability and the like.

The success of the innovation is likely to be dependent on how sincerely the system deals with each collaborating partner including the least represented smallest NGO working in a tribal village in India.

We look with hope towards the expert groups set up by Securities Exchange Board of India to find the right mix and flexibility to deal with situation in a country as diverse as India.

This study is a first step towards informing our members and Civil Society Organisations (CSOs) in general about the new experiment and its usefulness for them. We will continue to keep our members updated on the developments as and when.

I extend my heart-felt thanks to IM Swedish Development Partner for supporting this initiative.

Harsh Jaitli

Chief Executive Officer

Context

The Social Sector is an umbrella term consisting of different entities that work alongside the government towards socio-economic development of the society. These include NGOs and CSOs that do not work with profit earning motive and there are the Social Enterprises that are revenue-generating business with the primary objective of achieving social good. The profit generated is usually not used as a payout to investors but reinvested into the social programmes.

In India there are an estimated 3.2 million NGOs. These work across different social development areas including poverty alleviation, healthcare, education, sanitation, gender equality, livelihood, disaster preparedness and mitigation and so on. They are committed towards solving issues faced by the most underprivileged sections of society. However, the organisations working in the civil society sector fall short on realising their real impact that they can potentially serve due to acute financial and organisational resource gaps.

The major funding sources to the NGO sector include government, foreign funding sources, corporate, philanthropic institutions and individuals. Government allocates a substantial percentage of the annual national budget for the social sector and development initiatives. There has been an increase in government grants to NGOs over the years from INR 3402 Crore in year 2014-15 to INR 3561 Crore in 2016-17 to INR 5367 Crore in 2016-17¹. However, these grants are disbursed to organisations registered under the Darpan portal. There are currently only about 94,000 (2.9 percent of the estimated universe) registered on the portal implying over 97 percent of NGOs do not receive grants from government.

International/Foreign aid has also been an important source of funding. However, over the last couple of years, funding from international agencies has declined (from INR 17,798.79 Crore in 2015-16 to INR 15,329.16 Crore in 2016-17), following the enactment and further tightening of the Foreign Contribution (Regulation) Act, 2010 and its subsequent amendments. According to media reports in November 2019, as per the home ministry, “over 40,000 NGOs were registered under FCRA till 2011 but

the numbers have approximately halved after government tightened norms in 2014”. As per Government of India's FCRA portal dashboard there are currently 22,427 FCRA registered organisations² (0.7 percent of the estimated universe).

Another strong emerging source of funds to NGOs are individuals and high net-worth individuals (HNIs). There has been a persistent increase in number of individual supporters from INR 369 crore in 2013-14 to INR 461 crore in 2016-17. However, it is a known fact that raising funds from individuals is a labour-intensive task and may involve high administrative costs, hence they are not very suitable option for many small and grass-root level organisations. According to India Philanthropy Report 2019, “Embracing the field approach to achieve India's Sustainable Development Goals”, published by Bain & Company and Dasra, Philanthropic funding from individuals (especially few popular figures) is being seen as a bright spot with contribution amounting to about 60% of the total private funding. However, these too are largely theme, geography and/or impact focussed, and thereby deprive an opportunity to many small and grass-root level organisations working in some of the most remote and under-served areas.

The CSR mandate was envisioned to offset the declining international aid was seen as a critical source of funding for NGOs. However, it has been over six years since the enactment of CSR Act, 2013, and it is still far from bridging the massive funding gap for the social sector. According to Ministry of Corporate Affairs website www.csr.gov.in, a total of INR 71,278.42 crore has been spent (between FY 2014-15 and FY 2018-19) on CSR³. However, an indicative study conducted by VANI on Status of CSR from CSOs lens in the latter half of 2019 suggests only 18% of the small and grass-root level organisations that apply for CSR funds stand a chance to receive them, the remaining 82% lose out on the opportunity due to one reason or the other. Some of the quoted barriers by corporate to funding include lack in information availability about credible NGOs, gaps in managerial and organisational capabilities of the social sector, constraints in 'new skills to perform certain tasks and fulfil specific requirements' laid down by CSR partners for both the pre and post funding stages of projects, strong “business case” in an appropriately formatted proposal a-miss.

The inference drawn from above indicates that funding opportunities for the sector in general, and small and grass-root level organisation, from traditional sources has been dwindling by the day. Thus, there is an urgent need for the sector to explore innovative alternate ways to raise funds.

Over the last ten years, India has also been exploring a growth in possible avenue for fundraising for social development projects through social finance targeted at the Social Enterprises engaged in Social Development Projects. According to KPMG Report⁴ impact investing has recorded growth in the last decade and over USD five billion have been invested in such ventures between 2010-2016. Investment is through Mezzanine debt, grants equity, guarantee modes. Some investment has also been made in the form of impact bonds. The market until recently has been a niche, however, there have been initiatives both from the government as well as the private sector side to expand its scope and bring in the not for profit entities under its ambit. The primary aim of the model is to identify opportunities through a Social Stock Exchange and connect both for profit and not for profit entities with investor to provide support on specific objective-driven projects. Such ventures are envisioned to assist the social sector in achieving both long and short term development aims, such as the United Nation's Sustainable Development Goals (SDGs). At the same time, it can enable sponsors and CSR partners to access new opportunities to create a significant impact on the society and reap social dividends.

The current document is an attempt to take information about Impact Investments and Social Stock Exchange to the grass-root level Civil Society Organisations in India, with the view to introduce them to the concept, recent developments and familiarise them with the operational granularity in India.

Social Finance : An Emerging Resource Pool

The Global Impact Investing Network (GIIN), an organisation dedicated to increasing the scale and effectiveness of impact investing defines, Social Finance as, “investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.” Also addressed as Impact investments or shared capital, these investments aim to provide capital, in the under-served areas, to meet the world's most unrelenting social and environmental challenges. Social Finance is a way to create a market for social good as a product. In order to fulfil the above agenda, an engagement platform i.e. Social Stock Exchange, for different players, is required.

Social Stock Exchange

Social Stock Exchange (SSEs) is a trading platform that enlists social businesses, enterprises and NGOs to raise capital by facilitating socially inclined investors to invest in niche markets. As the purpose of SSE is different from a commercial stock exchanges, its governing principles are also different. For example, in commercial stock exchange financial integrity through disclosures and compliance with corporate governance norms are important while in SSEs social integrity is important.

Actors in SSE Model

Social Finance model has the following actors namely:

- a) Impact Investors
- b) Bond Designers and Project Implementers
- c) Service Providers
- d) Beneficiaries.
- e) Evaluator
- f) Outcome Payers

Impact Investors

Impact Investor or socially motivated investors are individuals who put in capital in shares, funds, equity or loan in social businesses, enterprises or not for profit organisations. The motivations and expectations of the investors range from those prioritizing social impact over financial gains and vice versa, depending on their values and convictions. The other factors affecting investments include risk factor, expected returns, sync with the mission of the organisation, rules and so on.

Bond Designers and Project Implementers

These are programme manager and/or intermediary groups that coordinate the stakeholders and design, structure and implement the project. They provide range of services starting with advising investors about the best suited finance tools, to creating partnerships and implementing blended finance mechanisms on field. They also support in fund management, wherein they may co-create, co-manage funds in impact investing. At times, they directly invest in companies providing social and environmental impact along with attractive financial return.

Service Providers

A service provider, or a group of service providers, works to deliver these social outputs and outcomes in a flexible manner that is not defined by the outcome payer. Social Businesses or Social Enterprises or Not for profit organisations that receive impact investments for on-ground implementation are referred to as service providers. Creating a positive social impact or social transformation is the main component of the business model.

The Beneficiaries

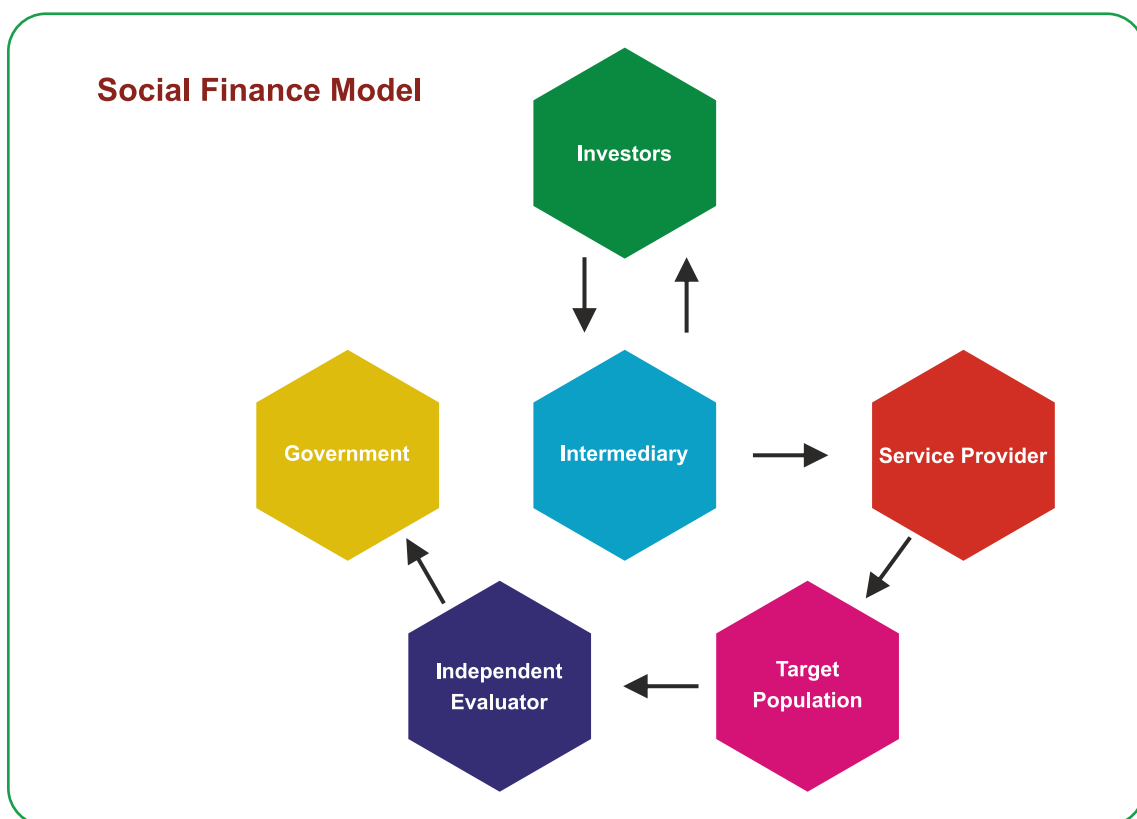
Social Finance beneficiaries are those whose lives should be improved by impact investments. They belong to the vulnerable segments of society. Thus, measures must be taken by SSEs to ensure that beneficiaries are not rendered more vulnerable or exploited through transactions.

Evaluator

An independent evaluator assesses the outcomes of the programme. The evaluator conducts a review of the intended and unintended social consequences of the planned interventions. These consequences, which may be both beneficial and/or adverse in nature, illustrate the impact the programme has made on the communities served.

Outcome Payers

An outcome payer, which can be a foundation or a government agency, enters into a contract to pay for specific, measurable social outputs and outcomes.



Benefits of Social Stock Exchange

SSE is a model that combines the benefits of commercial and social enterprises by maintaining a fine balance between purely 'for profit' and that for 'social development'. Some of the deemed benefits are:

- An open marketplace free of charge for both social entrepreneurs/NPOs to

showcase their sustainable projects and interested impact investors to present their investment interests.

- Information on impact investment opportunities including their correlation to the SDGs.
- Accumulation of voluntary organizations that helps in attracting social investors to participate in financing of social enterprises- informing the public on issues of social entrepreneurship- mobilizing of various organizations at one platform which expresses the attention and interest attraction of the investors to SSEs.
- Possible repository for information sharing on Industry, Know How on the sector of impact investing (study, articles, glossary, conferences, events, etc.)
- Searching options by matching criteria for social entrepreneurs and investors adding transparency to the process.
- SSEs increases the social value of investments and assist in obtaining not only the financial but also the social impact of investment.
- For investors, SSEs make the procedure of social enterprise investment simpler by increasing the transparency of social projects. It also helps in saving time and cost of project searching and reduce the financial and administrative costs.
- Capacity Building through audio videos aids to guide entrepreneurs and investors through the various parts of the enrolment into the platform to be filled with information, online opportunities for exchange between peer groups.
- Innovative and lean impact measurement tools aid to facilitate mutual credibility and cohesiveness.
- For social entrepreneurs, SSEs create the opportunity to get investment and ensure stable functioning of the organizations. It helps in raising the value of their social activities and company's value, which in turn helps in increasing company's recognizability and rating.
- SSEs also stimulate organizations to permanent improvement because of need of

social and increase trust to social enterprises.

- SSEs help social businesses commercialize their financing so that they can scale up operations and break their dependency on grant funding.
- As regulators SSEs are well positioned to play a significant role in this norm-setting process. They set important lines for accountability while performing different functions.

Challenges Faced by SSEs

The model has internal challenges of maintaining the balance between profits and social good, compliance to processes and social good and encouraging the socially inclined investors to consider this as a viable option.

- Mission Drift due to tilt towards of commercialization: Since SSE is an off-shoot from the traditional stock exchange based on social-financial hybridity. There are chances of a mission drift when profit seeking becomes a priority with investors over social mission. This may prove detrimental to the beneficiaries.
- There are chances of a programmatic shift of the implementer or service provider on activities generating greater financial revenue.
- Moving away from the core mission could also lead to attention drift from the expansion of goods or service delivery from under-served population to increase in compensation to employees or dividends to investors.
- When a new model is created on the basis of an existing model, the systems are duplicated so that they seem familiar to the investor. But, most of measurement tools focus on output (quantity) rather than outcome (quality) and thus fall short on measuring impact. It also becomes difficult to relate a positive or negative social outcome with a particular social investment.
- Also, matrix based quantitative tools have limited capacity to measure and capture the exact experience of beneficiaries (example the feeling of empowerment) as social impact. This may lead to erroneous selection of projects that may have high

score on the quantitative matrix, but low social impact on beneficiaries in reality, and that may defeat the whole purpose of Social Financing.

- Since the SSE model is based on the commercial stock exchange model, the chances of neglect in measuring or focusing on beneficiary feedback is likely to take precedence over the focus on investor and issuer.
- When SSEs do not specify a particular set of reporting standards, there is a risk that issuers may conveniently, in order to look attractive to investors, may select parameters that are easiest to achieve. These may lead to an increase in transaction costs for investors, who may have to use additional resources for customised information generation for final decision making.

Key Features of An Ideal SSE

- The following core values should be included in every SSE mission statement:
 - ★ Commitment to achieving social (and environmental) gains;
 - ★ Protection of investment-affected beneficiaries or target population
 - ★ Creation of a safe and well-regulated market for social impact
- SSEs must differentiate social from conventional finance by creating a separate marketplace for impact investments. Specific criteria for listing of entities and other aspects for those wishing to transact on the platform may be specified including the following:
 - a) production of financial and social reports;
 - b) formulation and implementation of rules and standards to govern social finance transactions;
 - c) setting up of mechanisms for enforcement of all rules with clear de-listing conditions and accessible grievance redressal mechanisms;
- Systems must be put in place to prevent instances of mission drift and/or dilution; of regulating hybridity and commercializing of social solutions in a way that is safe

and sustainable.

- SSEs must design and operationalise investor selection mechanism very carefully since the less investors care about their investments achieving a positive social impact, the less likely they are to offer meaningful support to their investees in fulfilling their social mission. Furthermore, the less investors care about positive social outcomes, the more likely they are to pressure investees to prioritize profitability over impact. Both of these situations are problematic because they can harm beneficiaries.
- SSEs may be self-regulated to the extent that the rules they so create for the listed businesses and investors should be based on the opportunities and limitations of self-regulation.
- SSEs must develop listing requirements, governance and disclosure requirements and enforcement or de-listing mechanisms in a way that they also focus on regulating against mission drift and ensuring protection of interest of both the issuers as well as the beneficiary.
- SSEs must provide information about implementing standards, rules, or measures on social and conventional space in a manner that is easily comparable. A descriptive reporting mechanism along with matrix based quantitative measure on commitments and indicators may prove effective in reflecting beneficiary interests.
- SSEs also would need to develop a framework for clearly specifying a conduct that construes to a social breach by listed entities and design enforcement devices accordingly. It must define the social commitments expected of the service providers and identify gaps achievement of those commitments through a systematised approach.
- The SSE framework should provide clear justification for termination of access to the platform by entities and also put in a mechanism in place for the stakeholders for receipt of grievance and/or complement and its redressal/acknowledgement respectively.

- SSEs must collect and monitor information pertaining to issuers' social integrity which includes inclusive governance. Issuers must have a system for collecting feedback from beneficiaries and they should bolster the listing and governance requirements that serve to limit the mission-diluting effects of commercialization.
- SSEs should encourage inclusive governance by assessing leaderships' beneficiary-oriented skills and credentials. Having beneficiary/ies as a shareholder/s or having a specific person at Senior Management position (with decision making authority) to ensure organisations' responsiveness to social transformation of vulnerable population, are some of the ways to show beneficiary-oriented approach of the organisation. SSEs can offer guidance to help issuers operationalize mission-protecting obligations on issuers, and give them guidance and support in complying with those requirements.
- SSEs should require issuers to have a defined system to solicit feedback from beneficiaries regularly.
- SSE may constrain commercialisation by putting deal cap to prioritize growth over impact and consider instituting patient investor incentives to amplify funding.
- SSEs should upgrade available blueprint of enforcement mechanisms of existing commercial stock exchanges to regulate both issuer and investor conduct. Contractual agreement between issuers and investors detailing available sanctions including examples of mis-conduct, reasons for de-listing and revoking of platform access, and monetary damages. Unless social obligations are clearly spelled out, it will be hard to know when they have been breached.
- SSE may create a three-way accountability mechanism. Investors, issuers and beneficiaries should be able to register complaints, through a robust grievance mechanism, on matters concerning inappropriate conduct.
- True success of SSE must be assessed against the goal of improving social welfare.

Social Stock Exchange: Global Models

The first experiment on Social Stock Exchange was conducted in Brazil where BOVESPA was grappling with the issues of efficient use of money given to NGOs as grant for various social purposes and the inadequacy of that approach to deal with the problem. The other experiments in South Africa, Austria, Canada, United Kingdom, Singapore and United States of America, were mainly on the lines of creating a platform which combined efficiency, transparency, ethics, viability of any business venture in social enterprises to attract socially inclined capital, whose main focus was not profit in monetary terms. There were variations in the basic models based on the needs of the specific country.

Brazil's Bolsa de Valores Sociais (BVSA) is the world's first Social Stock Exchange set up in Brazil in 2003, with the aim to solve social problems of Brazil, including poverty eradication. The model became a case study at United Nations and was recommended to all stock exchanges by Kofi Annan, former UN Secretary-General. It uses expertise, rules and tools of Brazilian Stock Exchange in its trading platform, and functions like a match-making and crowd-funding platform for investment. Business-model of the social enterprises is evaluated by conducting an on-site inspection. In this model, investors buy “social equity units” in social enterprises and NGOs and also carry out their own evaluation of social enterprises and NGOs on the basis of their social returns. Financial profit is not the main motive. The SSE favours projects developed and supported by local communities. They are aimed towards strengthening of social enterprises in the field of education, health, and environment. The SSE offers investors a credible and certified portfolio of social enterprises and NGOs.

The **South African Social Investment Exchange (SASIX)** came up in June 2006 and was the second SSE after Brazil. It functions as a platform for research evaluation and match-making to facilitate investments into social development projects. Investments are based on result-oriented approach, sustainability and defined strategy towards ways of addressing a social issue. In order to get listed, entities are required to comply

with SASIXs good practice norms and achieve a measurable social impact. Accountability and transparency are important. NGOs can list their social projects on the exchange. Value of the projects is assessed and then divided into shares. Ethical investors can purchase shares of social enterprises listed on the basis of region/province or sector. Following project implementation, investors are given access to financial and social reports. The sectors include food security and agriculture, small business development, animal protection, vulnerable people, environment conservation, health and education. It has not flourished despite the government support. The success of the SASIX platform led to the development of federation of country exchanges GSIX – the Global Social Investment Exchange in 2008.

The **Austrian Social Stock Exchange-IMFINO** is an online platform with an objective to link impact investors with impact investment opportunities including their co-relation to Sustainable Development Goals (SDGs). It is also called the Global Impact Investing Vienna Exchange. It provides information on impact investing through studies, articles, glossary, conference and events. It also provides a match-making platform for entrepreneurs and impact investors. Currently, the platform uses self -assessment tool developed by GIIN to measure impact. However, IMFINO, along with an international organisation, is working on a new assessment standard based on SDGs.

The **Canadian Social Stock Exchange** came up in 2013 as Social Venture Connexion. It was supported by The Government of Ontario and functions almost like a stock exchange. SVX uses crowdfunding and direct placement to support capital raising by impact ventures and funds. Previously, only "accredited investors" could invest direct. However, Canadian regulations changed in 2016 to allow anyone to take part. So, SSE has a platform that connects social enterprises, investors and service providers. Registration for social enterprises on the platform is easy and uses the standards used by B-corporations to assess social and environmental impact.

The **UK Social Stock Exchange** was established in 2013. The highlight of this model is striking a balance between commercial and social orientation. It has a strong

research base that provides easily accessible and authentic information on social enterprises to the prospective investors. This platform provides opportunities for social enterprises to raise resources through capital allocation or capital raising. It also carries out research for prospective investors. The approach is inclusive and flexible as social purpose of social enterprises has to be the core objective and not its primary aim.

The **Singapore Social Stock Exchange** came up in 2012-13 as Impact Exchange (IX) with the backing of Rockefeller Fund and the stock exchange of Mauritius. It is the only public SSE and is an independent Impact Exchange platform. Both for-profit organizations and not-for-profit organizations are allowed to use this platform. NGOs are allowed to issue debt securities such as bonds to raise money. However, the model is closer to commercial stock exchange in so far as rating is concerned, as it is requiring both investors and social enterprises to get independent rating.

The **USA does not have a full-fledged Social Stock Exchange**. However, business companies that provide information portal to help develop and finalise inter-linkages and due diligence. In addition, various states are thinking about setting up of 'social good impact' stock exchange in the U.S.

The Social Stock Exchange may not be a spectacular success but has been able to provide services to the vulnerable population in sectors ranging from youth welfare, education, environment, agriculture and health.

Social Stock Exchange in India

The idea of Social Stock Exchange has generated debate and interest in India after the announcement by the Union Minister of Finance, in 2019 and subsequent constitution of a working group by Securities Exchange Board of India (SEBI) in September of 2019. However, few experiments were conducted in India before this. In 2015 it started with a project in Rajasthan to educate girls. This project provided boost to education to 18,000 children and the socially motivated investor received its invested capital plus fifteen percent return. The second experiment was conducted in 2017 in maternal health sector in Rajasthan. Another experiment was conducted in the field of education in 2018 in Delhi, Gujarat and Rajasthan with the objective to improve education of over two lakh children.

Recent Developments

Ms. Nirmala Sitharaman, Union Minister of Finance, Government of India in her Budget Speech on 5th July, 2019 said, “It is time to take our **capital markets closer to the masses and meet social welfare objectives to inclusive growth and financial inclusion**. I propose to initiate steps towards **creating an electronic fundraising platform** – a social stock exchange **under the regulatory ambit of Securities and Exchange Board of India (SEBI)** for listing social enterprise and voluntary organisations working for realization of a social welfare objective so that they can raise capital as equity, debt or as units like a mutual fund.”

A 14 membered Working Group was constituted by Securities Exchange Board of India in September to review and recommend the following:

- Possible structures and mechanisms within the securities market domain, to facilitate raising of funds by Social Enterprises and Voluntary Organisations.
- Associated regulatory framework inter-alia covering the issues relating to eligibility norms for participation, disclosures, listing, trading, oversight and so on

The Working Group submitted its report to SEBI in early June, 2020. The report, at the

first glance, appears to be unique from its counter-parts being operational in other parts of the world, as it offers a unified eco-system through a unified approach for both the 'for-profit' and 'not for profit (NPO)' organisations. In his opening note of the report, the Chairperson of the Working Group, Shri Ishaat Hussain states, **“India's economic imperative is to feed, clothe, educate and empower more than a billion people, in ways that conserve and grow its natural, cultural and social heritages. It cannot expect to accomplish this lofty objective on the strength of conventional commercial capital alone.** If that were possible, India would not be home to over 3 million **non-profit organizations who are working tirelessly to close the capabilities gap for hundreds of millions of Indians.** These NPOs must receive **adequate financial assistance to continue and multiply their stalwart efforts.**

The report broadly suggests a) Creation of new and expansion of existing instruments for fundraising for NPOs [which include Zero Coupon Zero Principal Bonds (Donation Certificates), Social Venture Funds (blended finance – pool of grants from several donors) and Mutual Funds (donation of interest or returns to a social cause)]; b) Setting up of facilitating structures like Self-Regulatory Organisations (SROs), Information Repositories (IRs) and Capacity Building Units; c) Tax Benefits d) Supportive Regulatory Clarifications for NPOs.

Some of the key recommendations of the Working Group are enlisted below:

- Introducing Zero Coupon Zero Principal bonds
- Activate (mainstream) available funding structures (Social Venture Funds and Mutual Funds) for Not for Profit Organisations
- Develop a new Eco System [Self Regulatory Organisation (SRO) to bring together Information Repositories (IRs) to serve as databank; Social Auditors for impact reporting verification]
- Implement common minimum reporting standards on Social Impact, Governance and Financials (latter two to be developed by IR + Institute of Chartered Accountants of India (ICAI))

- Provide Capacity Building support for reporting requirements to NPOs [Contribution through CSR]

Fiscal Benefits

For donors

- Retention of 80G in new tax structure
- 100% tax exemption to Philanthropic donors
- All investments in securities/ instruments of listed NPOs to be tax deductible
- Corporate to deduct CSR expenditure from their taxable income. (Currently only available to companies spending on rural development, skill development, agricultural extension projects)
- Removal of 10% cap (significant barrier to philanthropic giving) on income eligible for deduction under 80G for donations to NPOs
- First time retail investors to avail 100% tax exemption on their investments (subject to limit of INR 1 Lakh)

For NPOs

- Fast-tracking of 12A, 12AA and 80G certifications for NPOs doing social and financial reporting [over time replace these with minimum reporting standard]
- Re-evaluate the budget proposal of periodic renewal of 80G registration. [Eligibility assessment to be held at time of registration. The loss of revenue due to fake donations lesser than administrative cost incurred due to periodic review]
- Raising limits from 20% to 50% on raising funds from commercial or semi-commercial activities
- Fine tuning of CSR and FCRA Regulations

Funding to count towards CSR Commitments

- Inter Company trading of CSR spends

- Changes in section 135 [parking monies in escrow account for three years, liquidating it and spending it on schedule VII activities]
- Accelerator grant up to 10% of programme cost (over achieved outcomes) to be counted as CSR expenditure to be used for research, cap bldg. etc.
- Clarify rule 4 of the FCR Rules, 2011, to enable foreign entities to invest in SVFs listed on the SSE

Given the challenges that India faces in the social sector and the population that is under-serviced there is immense scope for this model to yield positive results. However, there is need to examine the ground realities and ensure that the interest of the vulnerable population and that of the smaller organisations working at the last mile are addressed in a positive manner.

Recommendations on the Working Committee Report

VANI organised a e-meet entitled, “Bringing Soul to the Stock” of CSOs on 6th July as a follow-up to its preliminary meeting it had organised earlier this year in February, 2020, to draw civil society sector's attention on the subject. Thereafter, a meeting was organised by Omidyar Group in collaboration with Centre for Social Impact and Philanthropy on 9th July/ the following inputs have been drawn from the opinions shared by the participants in the two meetings:

Positives from the Working Group Recommendations:

- Creation of an ecosystem for CSOs to raise some non-conventional funds is appreciated by sector.
- The sector feels that since the working group has official endorsement, the initiative will get government interest in making it successful.
- The idea of housing the SSE from the already operational NSE and/or BSE models will provide it the needed credibility and support
- The mention that the recommendations do not intend to dilute the existing mechanisms is being seen positively by the sector.
- The sector welcomes creation of some innovative opportunities of funding – like Social Impact Bonds which have been tried and tested a little bit (though more anecdotally rather than statistically in the past) and Social Venture Fund (where even foreign entities can invest providing a chance to call for FCRA tweak to allow the non-FCRA registered organisations to receive funds) within the SSE.
- Provide chance to CSOs to strengthen their reporting standards and focus on impact, accountability and transparency.
- Fiscal benefits recommended by the working group have been acknowledged by the civil society sector

- The recommendations to set up a Capacity Building Unit with a budget of INR 100 Crore, with funds from CSR, which will be considered as CSR spend was also welcomed by CSOs.
- Sector feels that the initiative will bring in aggregators who may cater to a larger number of smaller similar organisations with similar work areas.

List of Recommendations to SEBI from the Sector

Despite the above-mentioned positives, the following concerns were raised by CSO Heads and representatives, with the current offerings in working group report:

- The sector feels that the current format of the recommendations are likely to focus on Section 8 Companies and may exclude entities registered under the Societies and Trusts Act. It may be noted that majority of CSOs in India are registered as Trusts and Societies. Thus, there is a need for inclusion of all CSOs, irrespective of their registration.
- The sector is also apprehensive about SSE being biased towards large organisations and may not be accessible for small or medium sized organisations, due to the enormous costs of engaging with SEBI or of navigating regulatory environment or even raise money. Facilitating mechanisms for enabling the micro, small and medium level CSOs into the foray are required to take advantage of this initiative.
- Clarity is required on engagement architecture for SEBI-CSO and CSO-Stock Exchange engagement platform.
- The CSOs are apprehensive that the proposed mechanism might lead to 'Corporatization' of the social sector. There is no mention of how the SSE may prevent mission drift (taking focus away from social good towards investor return). Attention should be paid to deal with this anxiety.
- CSOs apprehend that the SSE may be biased towards organisations that work on areas and impacts that can be measured. However, this might not be a favorable option for the organisations that are working on themes such as advocacy, fighting

for the rights of the people, where the output cannot be measured as in case of service delivery activities. SSE must factor in the contribution of such organisations and may formulate assessment indicators for the above interventions.

- There is absence of a mechanism within the SSE to enable the CSOs to get access to unrestricted funding that goes beyond just specific projects. This may also be factored while developing operational framework.
- The fiscal benefits suggested by working group should go beyond the organisations listed on SSE and be applicable to all CSOs.
- The sector feels that in the current framework the risk appetite may go down for want of enhanced impact, thereby affecting scope for innovation and experimentation. The operational framework should address this concern.
- In the current proposed scheme of things, voluntary organisations may appear to be sub-contractors rather than agents of social change. So, the model should showcase CSOs as partners rather than service providers.

Work in Progress

In September 2020, SEBI set up a technical group on Social Stock Exchange to develop a framework for onboarding NGOs and Social Enterprises as well as to prescribe disclosure requirements on financials and governance. The Group has representation from Bombay Stock Exchange, National Stock Exchange, National Bank for Agriculture and Rural Development, Social Impact Investor and other concerned bodies.

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VANI is a national network of Indian Voluntary Development Organizations (VDOs). Currently VANI has 540 members with an outreach to around 10,000 VDOs across India. The membership of VANI ranges from grass roots to the national organizations. The members work on a range of priority development issues of the government including education, health, nutrition, integrated child development, livelihood, skill development, environment, natural resource management, climate change, water and sanitation, emergency response and preparedness, agriculture, poverty and so on, in some of the most remote areas of the country. In the year 2017-18, our network collectively reached out to over 32 million people belonging to vulnerable and marginalized groups including children, disabled people, women, elderly, farmers, dalit, tribals, disaster survivors, unemployed, youth, LGBT, sex workers etc. VANI through its efforts and strategies aims to build a strong civil society sector not only at national but regional and local level as well.

VANI was set up with the mission to promote voluntarism, create space for the sector by fostering value based voluntary action. VANI's interventions are focused to strengthen the external and internal enabling environment. To ensure the external enabling environment, VANI conducts evidence-based advocacy which includes regulatory frameworks and resource generation. In order to achieve this VANI works with the government, private sector, bilateral, multilaterals and other stakeholders. For strengthening the internal enabling environment, VANI works towards building resilience and promoting accountability, transparency and compliance through the interactive educational events and information dissemination. VANI strives to become a resource centre by conducting evidence-based research; publishing studies, articles and reports not only at state level but national and global level as well.



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