

Roadmap of Social Enterprise Ecosystem as a Precursor for a Viable Social Stock Exchange in India

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Roadmap of Social Enterprise Ecosystem as a Precursor for a Viable Social Stock Exchange in India

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LIST OF ABBREVIATIONS

AIR	Authorized Impact Representative	LGX	Luxembourg Green Exchange
B3	Brasil Bolsa Balcão	LLP	Limited Liability Partnership
BC	British Columbia	MCA	Ministry of Corporate Affairs
B-Corp	Benefit Corporation	MD	Managing Director
BLLC	Benefit Limited Liability Company	MFI	Microfinance Institutions
BSE	Bombay Stock Exchange	MM	Mission Markets
BVSA	Bolsa de Valorosos Socioambientais	MSME	Medium, Small and Micro Enterprises
C3	Community Contribution Company	NABARD	National Bank for Agriculture and Rural Development
CDFI	Community Development Finance Institution	NGO	Non Governmental Organization
CIC	Community Interest Company	NZX	New Zealand Stock Exchange
CII	Confederation of Indian Industries	OSC	Ontario Securities Commission
CITR	Community Investment Tax Relief	PAN	Permanent Account Number
CRISIL	Credit Rating Information Services of India Ltd	PLC	Private Limited Company
CSE	Commercial Stock Exchange	PRI	Program Related Investment
DFID	Department for International Development	PWC	Price Waterhouse Cooper
ESG	Environmental, Social and Governance	ROC	Registrar of Companies
FCRA	Foreign Currency Regulation Act	SASB	Sustainable Accounting Standards Board
GIIN	Global Impact Investing Network	SASIX	South Africa Social Investment Exchange
GIIRS	Global Impact Investing Rating System	SDG	Sustainable Development Goal
GIZ	Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)	SE	Social Enterprise
CSR	Corporate Social Responsibility	SEBI	Securities and Exchange Board of India
GRAAM	Grassroots Research And Advocacy Movement	SEM	Stock Exchange of Mauritius
GRI	Global Reporting Initiative	SOL	Securities Official List
HNIs/HNWIs	High Net Worth Individuals	IMFINO	Impact Finance Organization
IE	Impact Enterprise	GIIVX	Global Impact Investing Vienna Exchange
IIIF	Indian Inclusive Innovation Fund	SPC	Social Purpose Corporation
IIM	Indian Institute of Management	SPE	Social Purpose Enterprise
IIX	Impact Investment Exchange	SROI	Social Return On Investment
IRIS	Impact Reporting and Investment Standards	SSE	Social Stock Exchange
iRR®	Impact Rate of Return	SSX	Social Stock Exchange (UK)
ISB	IIX Sustainability Bond	SVX	Social Venture Connexion
ISE	Indian Social Enterprise	TEEC	Transition Energetique et Ecologique pour le climat
IX	Impact Exchange	TSEO	Thai Social Enterprise Office
JIIX	Jamaica Impact Investment Exchange	TSX	Toronto Stock Exchange
JMD	Jamaican Dollars	UK	United Kingdom
JSIX	Jamaica Social Investment Exchange	UNDP	United Nations Development Programme
JSSE	Jamaica Social Stock Exchange	UNESCO	United Nations Economic, Social and Cultural Organization
KSIX	Kenya Social Investment Exchange	US	United States
L3C	Low-Profit Limited Liability Company	USA	United States of America
		CEO	Chief Executive Officer
		USD	United States Dollar
		VO	Voluntary Organization
		WLB	Women's Livelihood Bond

PREFACE

The massive development challenges that our world faces today can no longer be addressed only by the three traditional sectors, viz. the Government, the for-profit sector and the non-profit sector. While non-profits are guided by the social purpose, they are often constrained in accessing sufficient financial resources to fulfil their missions.

We are also living in a world where the traditional boundaries between the three sectors are no longer distinct. A 'for-benefit economy' or 'fourth sector' is emerging at the intersection of the non-profit and for-profit sectors. While the purpose of the 'for benefit' or 'fourth sector' organizations is to advance the social good, they no longer depend only on philanthropy, and generate a substantial proportion of their resources from commercial activities.

The strengths of the 'Social Enterprise' or 'fourth sector organization' model are obvious. However, these organizations need appropriate legal forms to be freed from constraints in generating revenue on a sustainable basis (while still being able to pursue their social missions) and also strong policy and regulatory support.

Social Enterprises also need access to a special kind of financial markets driven not only by financial returns but also by social returns. A Social Stock Exchange can indeed be such a market to cater to the needs of innovative Social Enterprises that are working to address our most pressing development issues in a range of sectors such as health, education, energy and livelihood.

The Hon. Finance Minister of India in her Budget Speech of July 2019 had proposed a Social Stock Exchange that would allow Social Enterprises in India to raise capital in the form of equity and debt. In pursuance of this vision of the Hon. Finance Minister, and as commissioned by NABARD, GRAAM has undertaken this study to analyze India's Social Enterprise ecosystem, which would be the demand-side foundation of the proposed Social Stock Exchange.

This study also examines a number of models of Social Enterprises and Social Stock Exchanges (and their equivalents) from around the world to glean best practices which can inform the roadmaps for strengthening India's Social Enterprise ecosystem and the Social Stock Exchange as an avenue of sustainable, ethical and transparent finance for India's Social Enterprises.

This study has been made possible with the generous support of NABARD. It is the sincere hope of GRAAM that it will provide useful inputs to NABARD and the Government of India for the future development of the Social Enterprise ecosystem and the development of a Social Stock Exchange that can emerge as a gamechanger in the financing of India's development sector.

Dr R Balasubramaniam
Principal Investigator
Founder and Chairman, GRAAM

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Firstly, I would like to thank NABARD for providing GRAAM the opportunity and support for carrying out this important study. The study team sincerely hopes that this report will provide useful policy inputs to NABARD and the Government of India with respect to the future development of the Social Enterprise ecosystem and the establishment of the Social Stock Exchange.

In developing and crafting my ideas on the proposed direction for Social Enterprises and the Social Stock Exchange, I have benefitted from interactions with a number of experts, whom I would like to thank wholeheartedly for sharing their precious time and insights.

Prof Marya Besharov of Oxford University, UK provided substantial inputs during our discussions. Mr G.R. Srinivas and his wife Ms Deepa Srinivas of Mysuru, Karnataka also provide insights that contributed significantly towards shaping my thoughts on the topic.

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Principal Investigator
Founder and Chairman, GRAAM

EXECUTIVE SUMMARY

UNDP Estimates shows that India needs USD one trillion to achieve the Sustainable Development Goals by 2020. With an increasing demand for capital by social entrepreneurs in India, setting up a Social Stock Exchange (SSE) can help create an ethical and transparent investment environment in India and boost the availability of funding to them. Compared to traditional stock exchanges, SSEs give social enterprises much greater control over social and environmental missions.

A basic prerequisite for a Social Stock Exchange is a Social Enterprise ecosystem that is ready to participate in SSEs. Social enterprises have to be oriented towards revenue generation and financial sustainability (while ensuring that social purpose is primary), robust governance and measurable social impact in their functioning.

GRAAM has thus taken up a secondary data based study to extensively analyse the Social Enterprise system in India, identify its gaps and challenges and suggest the appropriate legal form for Social Enterprises. The major study objectives are as follows:

1. To define Social Enterprise in the Indian context
2. To map the existing status of the Social Enterprise system in India
3. To define the role of the Government and enabling regulatory support needed to promote social enterprise
4. To provide a detailed roadmap for the development of a Social Stock Exchange in India and highlight the role of NABARD in the same

On the basis of analysis of a number of definitions, this study develops the following definition of Social Enterprises applicable to the Indian context. It defines Social Enterprises as entities that:

- Strike a balance between social logic and profit logic and aspire to achieve this balance through the appropriate organizational structure.
- Aspire to cater to the social mission through commercial activities, and whose profits are primarily reinvested for the social cause undertaken.
- Are legally registered for-profit or non-profit organizations undertaking activities to generate significant social value or solve pressing social issues through innovative and sustainable business models, which generate social and financial returns.
- Include start-ups, technological ventures or traditional businesses, which strive to attain double or triple multiple bottom lines through a professional, innovative and sustainable approach.

Social Enterprises in India face a number of challenges such as undefined legal status, constrained access to finance especially forms of capital appropriate to the stage of growth, limited knowledge and awareness about Social Enterprises, lack of customized policy support (though there are several policy initiatives for MSMEs) and need for tax incentives/tax concessions.

Government can play important roles to support Social Enterprises such as providing subsidies, outsourcing service delivery to Social Enterprises or procuring from them, incentivizing investors and creating 'Challenge funds' or 'Social Incubator Funds', and providing tax incentives to Social Enterprises between 5-10 years from the date of starting up.

Since existing laws in India do not explicitly permit enterprises to be set up for social purposes and provide returns for investors, a separate hybridized legal entity should be conceived and set up. One such model that India can learn from is the CIC (Community Interest Company) variant in UK. The adoption of the hybrid form of Social Enterprises in India should be done after due reflection and through the three steps of Investigation, Prototyping and Implementation.

The Social Stock Exchange experiment would need development of the demand side ecosystem of investees, supply side ecosystem of investors and the requisite intermediaries and infrastructure. On the demand side, apart from the adoption of the required legal form of Social Enterprises, an important priority is to have strong systems of measuring social impact. Also, social enterprises should be accountable for disclosing social impact in its various dimensions. There are a number of social impact measurement indicator frameworks and rating systems available such as IRIS, GIIRS, Social Return on Investment and Buffet's Impact Rate of Return (IRR®) that can be adopted or customized for the Indian context.

On the supply side, there is a need for a critical mass of social investors who are willing to consider social impact and not just financial returns in their investment decisions. The participants may include corporates, High Net Worth Individuals (HNWIs), Philanthropic Trusts, Venture Capitalists and the Government. There is also a need to create fiscal incentives to incentivise these investors in terms of tax breaks apart from other non-monetary incentives.

Partnership with a traditional/commercial stock exchange would make for greater efficiency in the setting up of the infrastructure of SSEs including technological systems and framework of trading rules and listing rules, though care must be taken to preserve the autonomy of SSEs.

Countries such as UK, Singapore, Canada, Brazil and Mauritius have endeavoured to develop SSEs. Most SSEs currently in existence in different countries are still transitioning from private placement or crowdsourcing platforms to fully fledged public SSEs, and there are a number of lessons to be learnt from their form and functioning. While some are targeted at big ticket investors, others accommodate smaller investors including retail investors. Also, some of them exclude non-profits while others allow non-profits' participation. Financial instruments such as crowdsourcing, equities and bonds are traded in these different SSE experiments.

Given its extensive linkages with actors on the demand and supply side ecosystems, NABARD can play pivotal roles in constituting and running the SSE such as mobilizing Social Enterprises and investors, providing regulatory input, participation as Venture Capitalist and Equity Partner and carrying out social impact assessment.

CHAPTER 1

Introduction

Context and rationale of the study

A number of massive challenges are affecting today's world, most prominent among which are the climate crisis, global poverty and inequalities of income and wealth, and pandemics such as Covid-19. The business sector is not sufficiently equipped to address these challenges because businesses are constrained by the market to behave in a way that maximizes profit, often at the expense of society and the environment. Non-profits, which are driven by the social good, lack sufficient resources to address these gargantuan challenges, which are further aggravated by the reduction of social safety nets provided by Governments and the social and environmental externalities of businesses.¹

Furthermore, the landscape of the traditional sectors is changing in a number of countries around the world, and the boundaries between the sectors is being blurred. Many for-profit businesses are widening their mission to pursue social and environmental objectives. Also, many non-profits are using commercial mechanisms to fulfil their social or environmental aims. Therefore, a fourth sector of "For benefit" organizations has emerged at the intersection of the non-profit and for-profit sectors. Like non-profits, their primary purpose is to advance the social good. Like for-profits, they generate a substantial proportion of their resources from business activities.²

The fourth sector is essential for tackling global challenges such as climate change and poverty and for building more inclusive and sustainable economies. However, the fourth sector experiment is still facing teething problems. The fourth sector or for-benefit organizations need not only appropriate legal forms, but also strong support systems customized to their unique needs and enabling policy and regulatory environments.

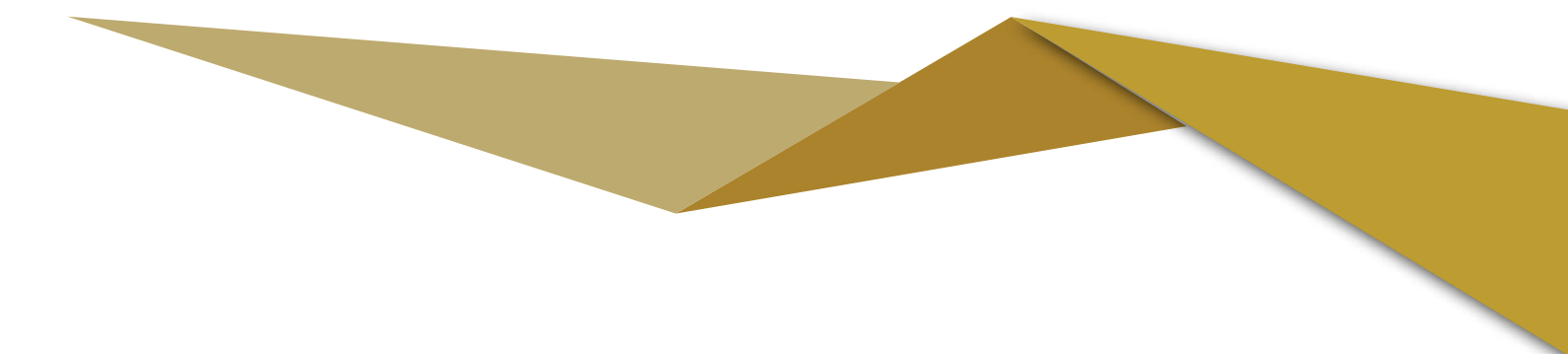
Fourth sector organizations are often labelled as "Social Enterprises" (SEs). The term "Social Enterprise" is said to be pioneered and popularized by Ashoka, a non-profit institution founded in 1981 that identifies and supports innovators and entrepreneurs around the world for social change.^{3,4}

¹Heerad Sabeti The fourth sector is a chance to build a new economic model for the benefit of all. World Economic Forum(2017). <https://www.weforum.org/agenda/2017/09/fourth-sector-chance-to-build-new-economic-model/>

²Ibid

³Darryl Poon. The emergence and development of Social Enterprise sectors, Social Impact Research Experience (SIRE), 8(2011). <https://repository.upenn.edu/cgi/viewcontent.cgi?article=1010&context=sire>

⁴Sarah Stankorb. Where did Social Enterprise come from, anyway? (2012) <https://www.good.is/articles/where-did-social-enterprise-come-from-anyway>



Fourth Sector organizations or Social Enterprises also need access to a special kind of financial markets driven not only by financial returns but also social and environmental returns.⁵ With an increasing demand for capital by social entrepreneurs in India, setting up a Social Stock Exchange (SSE) can help create an ethical and transparent investment environment in India and boost the availability of funding to them. Compared to traditional stock exchanges, SSEs give social enterprises much greater control over social or environmental missions.

In her maiden budget speech (July 05, 2019) the Hon. Finance Minister of India, had stated that India intends to open a social stock exchange of its own. Subsequently a high-level panel was setup by SEBI to formulate draft norms for setting up such a stock exchange. A basic prerequisite for a Social Stock Exchange is a Social Enterprise ecosystem that is ready to participate in SSEs. Social enterprises have to be oriented towards revenue generation and financial sustainability (while ensuring that the social purpose is primary), robust governance and measurable social impact in their functioning.

An operational SSE would need to have the following foundations in place: demand (Social Enterprises needing capital infusion), supply (investors having the capital) and the enabling environment (policy environment and regulations).

As commissioned by NABARD, GRAAM has taken up a secondary data based study to extensively analyze the social enterprise system in India, identify its gaps and challenges and suggest the appropriate legal form for Social Enterprises. The study also aims to suggest a roadmap for setting up a Social Stock Exchange in India.

⁵Ibid

Objectives of the Study

The objectives of the study are as follows:

- To define Social Enterprises in Indian context.
- To map existing status of the Social Enterprise system in India
 - a. who all qualify- as an investor, as an investee, as regulators/referees?
 - b. What kind of investment models exist?
- To come out with valuation parameters/ risk assessment/rating systems/disclosure norms that can be employed for all the actors and are implementable in the Indian context.
- To define role of Government and enabling regulatory support needed to promote social enterprise.
- To provide a detailed roadmap for the creation of a National level Social Stock Exchange.
- To highlight the role of NABARD in development of Social Stock Exchange.

Deliverables of the Study

- A comprehensive report on the Social Enterprise System tracing its origins, best practices from different countries, identifying the social enterprise gap in India and challenges faced therein.
- A detailed roadmap for the creation of a National Level Social Stock Exchange.
- The role of NABARD in the development of a Social Stock Exchange.

Methodology

This is a desk-research based study, based on the analysis of available literature on the topics of Social Enterprises and Social Stock Exchanges. The study involved collection of data from diverse and authentic sources such as academic papers, study reports of reputed organizations, annual reports of concerned organizations/regulators, websites of organizations and government sources. The collected data has been analyzed and organized thematically and presented in a concise form in this report.

REPORT STRUCTURE

Chapter 1

Introduction

Chapter 2

Social Enterprise System in India

- Definition
- Brief history of SE system in India
- Existing status of SE system in India
- Challenges faced by SEs in India
- Role of Government in supporting SEs in India
- Best practices from other countries
- Need for new legal forms of SEs in India
- Roadmap for establishment of new legal forms of SEs in India
- Valuation parameters for SEs

Chapter 3

Detailed Roadmap for Creation of a National Level Social Stock Exchange

- Rationale and Opportunity for Social Stock Exchanges
- Building blocks and requirements for Social Stock Exchanges
- Roadmap for creating Social Stock Exchanges
- Lessons from other Social Stock Exchange experiments

Chapter 4

Suggested Role of NABARD in Developing Social Stock Exchange

- Mobilizer of Social Enterprises
- Mobilizer of Investors
- Providing inputs for regulations
- Participation as investor
- Monitoring function
- Expertise in assessment of credit potential
- Impact Assessment

Annexures

Annexure I:

Social Stock Exchanges/equivalent experiments around the world

Annexure II:

Definitions of Social Enterprises

Annexure III:

Examples of Social Enterprises in India

Annexure IV:

Comparison of different varieties of for-profits and non-profits (Company and NGO types)

CHAPTER 2

Social Enterprise System in India

Definition of Social Enterprise

The term Social Enterprise (SE) can be defined in a number of ways. One of the most widely used definitions is provided by the Government of UK, which is as follows:

The term "Social Enterprise" describes the purpose of a business, not its legal form. It is defined (by Government) as *"a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners"*.⁶

Another important definition has been given by BC Center for Social Enterprise *"Social enterprises are revenue-generating businesses with a twist. Whether operated by a non-profit organization or by a for-profit company, a social enterprise has two goals: to achieve social, cultural, community, economic and/or environmental outcomes; and, to earn revenue"*.⁷

A British Council study report on the Social Enterprise Landscape in India provides the following definition: *"Social Enterprises address social and environmental problems through innovative business solutions that improve the lives of underserved communities. They are businesses which trade for a social purpose, reinvest surpluses into their social objective, and make themselves accountable for their actions, rather than simply maximizing profits for owners and shareholders."*⁸

This study has collected and analyzed 62 such definitions (Please refer Annexure II for a compilation of all the definitions). Based on the analysis of the existing definitions, certain common and recurring elements have been identified. There are also some specific elements which could be applicable to India such as inclusion of non-profit/NGO sector:

Double or Triple Bottom line

Social Enterprise strive to achieve double bottom line or triple bottom line. Double bottom line means pursuing financial as well as social returns at the same time. Triple bottom line means pursuing social, financial and environmental return. Having at least a double bottom line is a basic criterion for being qualified as a Social Enterprise. Considering the climate change scenario and worsening pollution in Indian cities, environment related bottom line can be made binding up to a certain extent.

Profit motive and non-profit motive

SEs aim to earn not only social returns but also financial returns (generate financial returns and be financially sustainable). Most SEs developed around the world are working like traditional businesses but also have a social motive. It is understood that social mission and business motive can coexist in the SE model. However, importantly, profit can't be the only or primary motive.

The non-profit sector can be included in the definition of SEs. But there could be practical difficulties in doing so because of the current Indian legal system. As per the law, nonprofits can't have self-generated incomes exceeding 25% of their total revenues and cannot give dividends to investors/grant makers⁹.

⁶Department of Business Innovations and Skills.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/31677/11-1400-guide-legal-forms-for-social-enterprise.pdf

⁷BC Center for social enterprises. <https://www.centreforsocialenterprise.com/what-is-social-enterprise/>

⁸British Council, "Social Value Economy: A Survey of the Social Enterprise Landscape in India" (2016)

⁹Companies Act 2013. Retrieved From: <https://www.mca.gov.in/Ministry/pdf/CompaniesAct2013.pdf>

Inclusion of Social business

Social Business is a concept popularized and implemented by Bangladeshi economist Muhammad Yunus, who defines the concept as follows - "A social business is one whose purpose is to address and solve social problems, not to make money for its investors. It is a non-loss, non-dividend-paying company... These profits remain with the company and are used to expand its outreach, to improve the quality of the product or service it provides, and to design methods to bring down the cost of the product or service¹⁰." The Social Business model is the 'Asian Version' of Social Enterprises. However, to adopt this model, a few changes might have to be made such as allowing profit generation with certain limits (like the C3 in British Columbia province of Canada).

Returning of dividend to society

There are different models of returning dividends to society. Some prescribe return in the form of social and environmental impact, whereas in some countries there is legally binding distribution of dividends.

Core definitional elements for the Indian context

Based on this review of definitions, we suggest the following composite definition for the Indian context, which aggregates the various elements of SEs:

SEs are entities which:

- *Strike a balance between social logic and profit logic and aspire to achieve this balance through the appropriate organizational structure.*
- *Aspire to cater to the social mission through commercial activities, and whose profits are primarily reinvested for the social cause undertaken.*
- *Are legally registered for-profit or non-profit organizations undertaking activities to generate significant social value or solve pressing social issues through innovative and sustainable business models, which generate social and financial returns.*
- *Include start-ups, technological ventures or traditional businesses, which strive to attain double or triple multiple bottom lines through a professional, innovative and sustainable approach.*

¹⁰M. Yunus. Building Social Business. Retrieved From:
<https://sun-connectnews.org/fileadmin/DATEIEN/Dateien/New/BUILDING-SOCIAL-BUSINESS-MUHAMMAD-YUNUS.pdf>

Brief History of Social Enterprises in India

In India, a strong cooperative movement has existed since the beginning of the 20th century. The cooperative movement got impetus after independence. Cooperative societies were early models of social enterprises in India.

The Amul dairy model started in 1946 as a protest towards exploitative trade practices in the villages. Amul was a pioneering business model in which low income dairy farmers came together to form a professionally managed supply chain. The farmers took charge of the distribution, eliminated exploitative middlemen from the supply chain and came out of poverty through their efforts and agency. Under the able administration of Dr Verghese Kurien, Amul laid the foundation for spurring India's White Revolution¹¹. A number of successive developments have shaped India's SE system. Figure 1 encapsulates the historical evolution of the Social Enterprise sector in India

Figure 1: Evolution of Social Enterprise

Amul Dairy Cooperative (est. 1946): dairy farmers cooperative took charge of distribution and benefited from profits to come out of poverty

Fabindia Community Owned Business Model (est. 1960)- artisans made shareholders and linked to urban market

Ashoka (est 1981)-Origin of term "social entrepreneurship" - community of change makers to design, implement and scale up high impact ideas in low income markets

SELCO Solar (est 1995) and Basix (launched 1996) - sustainable business models to provide services to poor households in rural areas.

Grassroots Innovation Augmentation Network (launched 1997): India's First Social Venture Capital firm

Acumen Fund invested in Aravind Eye Hospital (2001) - India's First Impact Investment in the Social arena

Aavishkar (est 2001): India's first for-profit Impact Investment firm

Tata Institute of Social Sciences launched Masters in Social Entrepreneurship, India's first academic course with a Social Business focus (2007)

Sankalp Summit (2009) - First Summit focused on Social Entrepreneurship (entrepreneurs, investors, funders), which has now grown into a community of stakeholders

National Association of Social Enterprises (NASE) set up as India's first industry association of SEs (2012)

Companies Act (2013): Boost for funding prospects of SEs because of CSR spending provision, though funding of 'social business' was removed from the list of permitted CSR activities

Source: Based on insights from the British Council Reports on Social Enterprise landscape and policy framework in India¹²

¹¹Amul Dairy History. Retrieved From: <http://www.amuldairy.com/index.php/about-us/history>

¹²British Council, "Social Value Economy: A Survey of the Social Enterprise Landscape in India" (2016), British Council, "Social Enterprise: An overview of the policy framework in India" (2015)

Existing Status of Social Enterprise System in India

This section maps the existing status of the social enterprise system in India, through a description of the three major types of actors – investees, investors and regulators.

Investees in Social Enterprise System

Social Enterprises as investees can take any of the following legal forms detailed in the table below. This shows that being a Social Enterprise is more a matter of purpose than legal form. SEs include both non-profit and for-profit legal forms, as can be seen from the table below:

Table 1: Different legal forms of SEs in India

Legal Status	Description
NON-PROFIT FORMS	
Trust	Charitable trusts can be formed under the Public Trust Act applicable in the concerned state, if any, or under Bombay Trust Act, 1950 ¹³ . Trusts need to be registered under the Deputy Registrar or Charity Commissioner, as the case may be, with the State in which it belongs, for eligibility of tax exemption. A Trust can be differentiated into Public or Private Trust. If it is for the benefit of a substantial section of people, it can be called a Public Trust, whereas a Private Trust could be for the benefit of a limited number of people having a specific objective. A Trust could be formed with a minimum member of at least two members with no limit to a maximum number of members.
Society	Societies in India are governed by the Societies Registration Act 1860 ¹⁴ as well as the state acts notified for different states. A Society can be formed by at least seven individuals or Institutions with a common object - 'any literary, scientific, or charitable purpose' - as per the Societies Registration Act 1860. A Memorandum of Association is required to be submitted to the Registrar of Societies by the members, willing to form a Society. Registration is required to legalize the Society and to obtain income tax exemption and FCRA registration.
Section 8 Company (known formerly as Section 25 Company under the Companies Act 1956)	This is a form of non-profit company, established under the Companies Act. A Section 8 company should possess the following features: (a) its objects includes promotion of commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object; (b) the company after incorporation intends to apply its profits, if any, or other income in promoting such objects only; and (c) the company intends to prohibit the payment of any dividend to its members.

¹³Bombay Trust Act 1950. Retrieved From: <https://charity.maharashtra.gov.in/Portals/0/Files/B.P.T.Act.1950.pdf>

¹⁴Societies Registration Act 1860. Retrieved From: https://www.mca.gov.in/Ministry/actsbills/pdf/Societies_Registration_Act_1860.pdf

Legal Status	Description
FOR-PROFIT FORMS	
Private Ltd Company	A private limited company allows owners to subscribe to its share by paying share capital fees; such owners/members become shareholders of the company. A private limited company is a separate legal entity in terms of liability and taxation. The personal liability of shareholders is limited to share capital.
Sole Proprietorship	The simplest form of business in India. It doesn't need its own Permanent Account Number (PAN); the PAN of the owner (Proprietor) acts as the PAN for the Sole Proprietorship firm.
Partnership	Partnerships are governed by the Partnership Act of 1932 ¹⁵ . Two or more (upto 20 people) can form a partnership. The partnership deed lays down the amount of capital that each partner will contribute and how much of the profit/loss each partner will share. Working partners of the partnership are also allowed to draw a salary.
Limited Liability Partnership (LLP)	This is a new form of business entity established by an Act of Parliament. It allows members to retain the flexibility of ownership but provides liability protection. The maximum liability of each partner in an LLP is limited to the extent of his/her investment in the firm.
Public Limited Company	It is similar to a private limited company, but the difference is that the number of shareholders can be unlimited (minimum of seven). A Public limited company may or may not be listed on the Stock Exchange.
BLEND OF FOR-PROFIT AND NON-PROFIT (Hybrid)	
Producer Company	This is a recently created legal form for cooperatives and agricultural companies

Source: British Council report on Policy Framework of Social Enterprise in India¹⁶ and other sources

Apart from cooperatives / producer companies, all the above legal forms operate either as forprofits or non-profits. A 2016 survey of Social Enterprises in India¹⁷ found that 80% of surveyed SEs earned more than half their income from trading and 45% SEs earned their entire income from trading. 43% SEs stated that they had generated profits/surplus, and 22% stated that they broke even. Close to 80% SEs claimed that they were reinvesting their surplus in furthering social and environmental goals.

The private limited company structure is most popular among Indian SEs. 80% Indian Social Enterprises opt for the Private Limited Company Structure.¹⁸

¹⁵Partnership Act 1932. Retrieved from: https://www.mca.gov.in/Ministry/actsbills/pdf/Partnership_Act_1932.pdf

¹⁶British Council, "Social Enterprise: An overview of the policy framework in India" (2015)

¹⁷British Council, "Social Value Economy: A Survey of the Social Enterprise Landscape in India" (2016) SEs in this study are organizations with a revenue model, which are supposed to generate at least 25% of income from the revenue model, place social purpose alongside or above profit, and not share profits/dividends with owners/shareholders.

¹⁸R Balasubramaniam, Filling the Social Enterprise Gap in India

There are three ways to register a non-profit organisation in India: one is the Societies Registration Act 1860 (Section 20), Trusts Act 1882 and Companies Act 2013 (Section 8). The Section 8 Company form has been perceived by the British Council study of 2016 as one that mirrors the Social Enterprise form.¹⁹ There are specific provisions in the Companies Act 2013 for the registration of Section 8 companies. Table 1 specifies the legal features of Section 8 Companies. Registered Section 8 companies have tax benefits such as exemption from Income Tax under section 80-G of the Income Tax Act. Along with it, there are some non-tax benefits such exemption from paying stamp duty and ease in transferring ownership/title.

To analyse Section 8 company from the perspective of Social Enterprise let us take the definition given by the United Kingdom “a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.” Section 8 companies satisfy the profit-related criterion in this definition. In Section 8 companies, shareholders cannot get dividends, and profit is used for the objective of the company.

Section 8 Companies are registered under the Ministry of Corporate Affairs and subject to the compliances laid down by the Ministry, whereas trusts and societies are registered under the concerned state government. Due to such reason, Section 8 Companies may have better legal standing, credibility and recognition compared to trusts and societies.

Investors in Social Enterprise System

The investors in SEs include incubators, accelerators, impact investors, corporations²⁰ and crowdfunders.

Incubators and Accelerators

Social Enterprise incubators like Unltd India²¹ and Villgro²² provide financial support and advice to early stage and seed stage entrepreneurs who want to develop and pilot their social impact ideas. There are also a few accelerators such as Impact Investment Holding²³, Centre for Innovation Incubation and Entrepreneurship at IIM Ahmedabad²⁴ and the Social Impact Accelerator Programme of Dasra²⁵. These accelerators facilitate access to funding for SEs, provide mentoring and training to them, help refine business models and providing support for measurement of social impact.

Impact Investors

There are over 20 impact funds and investors in India, largely operating in the major cities.²⁶ USD one billion was invested in 220 SEs between 2001 and 2014.²⁷ 70% of the impact investment is concentrated in the micro finance and financial inclusion sectors. Impact investors provide the following types of funding to cater to different stages of SE's life cycle:

¹⁹British Council, “Social Value Economy: A Survey of the Social Enterprise Landscape in India” (2016) Retrieved From: https://www.britishcouncil.in/sites/default/files/british_council_se_landscape_in_india_report.pdf

²⁰Ibid

²¹Unltdindia.org. Retrieved From: <https://unltdindia.org/>

²²Villgro. Retrieved from: <https://www.villgro.org/>

²³Impact Investment Holding. Retrieved from: <https://www.ennovent.com/project/impact-investment-holding/>

²⁴CIIE. Retrieved from: <https://www.iima.ac.in/web/areas-and-centres/research-centres/ciie>

²⁵Dasara Social Impact Accelerator Program. Retrieved from: <https://www.dasrasocialimpact.org/acceleratorprogram.html>

²⁶British Council, “Social Value Economy: A Survey of the Social Enterprise Landscape in India” (2016)

²⁷Intellectap, “Invest. Catalyse. Mainstream. The Indian Impact Investing Story”(2014)

(www.giz.de/de/downloads/giz2015-en-invest-catalyze-mainstream-india.pdf).

- Seed Funders (e.g. Impact Investment Holding),
- Early Stage Funder (e.g. Aavishkar Fund),
- Growth Stage Funding: There is a lack of Impact Investors having an exclusive growth stage focus. Investors such as Lok Capital, Grassroots Business Fund, Bamboo Finance, Acumen Fund, and Aavishkar Fund also provide Growth Stage funding.

Foreign Donor agencies

Foreign donor agencies such as DFID and GIZ indirectly support SEs by collaborating with impact investors, incubators, and accelerators on immersion and incubation programmes, capacity-building workshops and research studies.²⁸ Direct support in the form of grant equity and debt to SEs is also on the rise.

Corporations

The most significant development in involving businesses in supporting the social sector is the passage of the Companies Act 2013 and the incorporation of the CSR clause (section 135) therein. Under this provision, any business which has an annual net profit of Rs. 5 crore or more, or net worth of 500 crore or more, or turnover of Rs. one thousand crore or more has to spend at least 2 per cent of its average net profit of the last three years for social causes listed in Schedule VII of the Act.

While the CSR law has unleashed a huge amount of development funding for the social sector,²⁹ two important caveats are worth noting in this regard:

- An interpretation of the CSR law shows that only non-profit entities are eligible for support. For-profit SEs are not eligible to receive CSR support under the Companies Act.
- Social business was originally mentioned in the list of permissible CSR activities but was later removed.

Crowdfunding

Crowdfunding is the mobilization of small amounts of capital from a large number of individuals to finance a business venture. Crowdfunding makes use of social media and websites to bring investors and entrepreneurs (social or otherwise) together.³⁰ In India, popular crowdfunding platforms are Milaap.org (only for personal and social causes), Wishberry, Kickstarter, Indiegogo and Ketto.³¹

²⁸Why and how are donors supporting social enterprises? Retrieved from: <http://www.enterprisefordevelopment.org/wp-content/uploads/2014/11/ODI-Why-and-how-are-donorssupporting-social-enterprises.pdf>

²⁹Companies spent Rs 11867 crores in the FY 2018-19.

³⁰ Investopedia. Crowdfunding. Retrieved from: <https://www.investopedia.com/terms/c/crowdfunding.asp>

³¹Top 9 Crowdfunding Sites in India for Startups to Raise Funds. <https://digest.myhq.in/top-crowdfunding-sitesin-india/>



Regulators/Referees in Social Enterprise System

The regulators for the various forms of SEs in India are specified in the table below:

Table 2: Regulators for Social Enterprises

Legal Form	Regulator
NON-PROFIT FORMS	
Trust	Charity Commissioner, if registered under the Bombay Trust Act Income Tax Department if registered u/s 12 A & 80G FCRA Division of Ministry of Home Affairs, if also registered under the FCRA Act
Society	Registrar of Societies FCRA Division of Ministry of Home Affairs, if also registered under the FCRA Act Income Tax Department if registered u/s 12 A & 80G
Section 8 Company (known formerly as Section 25 Company under the Companies Act 1956)	Registrar of Companies
FOR-PROFIT FORMS	
Private Ltd	Registrar of Companies
Company	Registrar of Companies
Sole Proprietorship	Registrar of Companies
Partnership	Registrar of Companies
Limited Liability Partnership	Registrar of Companies
Public Limited Company	Registrar of Companies

Challenges faced by Social Enterprises in India

1. Undefined legal status of SEs: The lack of available legal definition of SEs acts as a barrier to enhancing Government or other funding support. It also limits the ability of the state to regulate and oversee the functions of the SEs.
2. Constrained access to finance, and need for access to appropriate forms of capital, especially for early stages of growth: 57% SEs identify access to capital (equity/debt) as a challenge, 50% identify access to grants as a problem and 33% identify cash flows as a challenge.³² SEs lack access to investors due to limited networks,³³ which creates the need for forums such as Social Stock Exchanges.
3. Indian SEs are very capital hungry with 93% reporting demand for equity/grant and/or debt capital. Indian SEs suffer from limited access to exiting capital because their business models are not what investors prefer.³⁴
4. Limited knowledge and awareness about SEs: In the British Council survey of Indian SEs in 2016, 32% of SEs felt that banks and support organizations lack awareness about SEs while 20% felt that consumers and the general public lack such awareness. It is difficult for SEs to secure loans at low interest rates and capital with lower return expectations. Given the special need for seed and early stage funding, banks and other financiers/investors need to be aware of the difference between social and commercial start-ups.³⁵
5. There is support for MSMEs but not separately for SEs through different policy initiatives (see Table 3).³⁶
6. Need for tax incentives/tax concessions: SEs may be slower to grow than normal businesses (because of double or triple bottom line) and may need tax holidays for a certain number of years or till they have attained a certain level of turnover or profit.
7. SEs are sceptical of engagement with state, and are concerned about red tape and corruption.³⁷
8. There is a lack of social impact measurement because of which 'finance first' lending dominates. Also, the government would better recognize SE potential to solve problems if they are able to quantify their social impact.³⁸
9. There is limited uptake of new legal forms such as the 'Producer Company'. The producer company is a new legal alternative to the cooperative that still gives producers ownership of the company. However, even this form has seen limited uptake among SEs since they cannot acquire external equity, which limits their growth.³⁹

³²British Council, "Social Value Economy: A Survey of the Social Enterprise Landscape in India" (2016)

³³Ibid

³⁴On the Path to Sustainability and Scale: A Study of India's Social Enterprise Landscape

³⁵Ibid

³⁶British Council, "Social Enterprise: An overview of the policy framework in India" (2015)

³⁷Ibid

³⁸Ibid

³⁹Ibid

The role of the Government in supporting SEs

Social Enterprises are not commonly reliant on Government for direct funding. However, the government can play important roles such as an enabler and a regulator, in some of the following possible ways:

- a) Provide subsidies (for example subsidize products of SEs dealing with renewable energy).
- b) Outsource service delivery to SEs/enter into service delivery contracts with SEs, especially in areas like education and health care
- c) Procure from SEs and/or create demand for SE products and services in certain domains (e.g. mid-day meals, nutritional supplements, medical supplies etc) creating captive markets for the SEs.
- d) Incentivizing investors: Government should facilitate financing to SEs that is suited for their stage of development. Also, The Start-Up India campaign needs to earmark separate support for Social Start-ups; through this the Government can send a signal to banks and other financial institutions about the value of investing in such entities.
- e) Create 'Challenge funds' or 'Social Incubator Funds' for SEs, similar to the Atal Tinkering Labs of the Niti Aayog, wherein the Government can act as an Angel Investor/Venture Capitalist. Government can also encourage the Banking sector to provide soft loans with lower than market rates of interest to SEs.
- f) Provide tax incentives to Social Enterprises between 5-10 years from the date of starting up.



The table below summarizes the forms of government support needed by SEs in India, and the actual/potential available support under each area:

Table 3: Forms of Government Support needed for Social Enterprises in India

ACTIVITY/REGULATION AREA	EXISTING PROVISIONS/ALTERNATIVES
A specific legal status for social enterprise	None
Social enterprise privilege in goods and services procurement by Government	Privilege for MSMEs and MSMEs owned by persons from Scheduled Castes and Tribes
Financial support – direct financing or support for accessing investment	Considerable support to MSMEs and disadvantaged groups through livelihoods programmes and investment support
Education support – curriculum requirements at secondary and tertiary level, starting of courses related to SEs	Institution-led increase in social enterprise education, no inclusion in national or state curriculum
Awareness raising and promotion	Plans to include reference to social enterprise in legislation/strategy documents
Tax concessions including tax holidays and subsidies	None specific to SEs
SE specific business development skills and technical skills support	MSME provisions, none specific to social enterprise

Source: British Council Study on SE policy landscape in India⁴⁰

There is no formal reference to SEs in Government policy and programmes, apart from the National Skill and Entrepreneurship Policy (2015) of Ministry of Skill Development and Entrepreneurship.⁴¹

However, there are existing initiatives, especially those relevant to MSMEs, that SEs can potentially also benefit from. Also, future iterations of the MSME related laws and policies should include special and customized programmes for Social Enterprises.⁴² Major relevant initiatives are presented in the table below:

⁴⁰British Council, "Social Enterprise: An overview of the policy framework in India" (2015)

⁴¹Policy Booklet. Retrieved from: <https://www.msde.gov.in/assets/images/Skill%20India/policy%20booklet-%20Final.pdf>

⁴²British Council, "Social Enterprise: An overview of the policy framework in India" (2015)

Table 4: Existing policies and laws potentially relevant to SEs

POLICY/LAW	CONTENT
MSME Development Act, 2016	Provides/mandates a range of support programmes for MSMEs
National Manufacturing Competitiveness Programme, 2008, Ministry of MSME	Building the capacity of MSMEs through support and tax preferences. This programme also includes an incubation programme for SME entrepreneurs
Public Procurement Bill 2012	20% national procurement should be from MSMEs
Venture Capital Fund for Scheduled Castes 2015, Ministry of Social Justice and Empowerment	Concessional finance scheme to provide financial support to entrepreneurs from scheduled castes
National Skill and Entrepreneurship Policy (2015) of Ministry of Skill Development and Entrepreneurship	Foster a social capital market place by offering fiscal incentives to attract investors,
	Make provision for funding support under separate schemes like Social Venture fund, to facilitate SE's access to credit
	Facilitate creation of SEs (including those with modest capital base) through Social Incubates across the country
	Using national network of e-Hubs and other platforms to assist entrepreneurs in commercializing and scaling up their products and services
Alternate Investment Funds Regulation 2012, SEBI	Definition of social venture, for the purpose of social impact investment
Samriddhi Fund of SIDBI and DFID	A social venture capital fund providing to SEs in India's eight poorest states in specific target sectors to scale up SEs that provide benefits to the poor.

POLICY/LAW	CONTENT
Nabventures, a Venture Growth Equity Fund	<p>Nabventures is a subsidiary of NABARD. It is a Venture Growth Equity Fund that supports startups in rural business, agriculture, food and rural/agricultural financial services. It provides these startups patient capital and strategic and operational support.⁴³ Nabventures is concerned with the direct management of alternative investment funds. It looks to support equity investments in asset-light, innovative and technology-led start-ups in its focus areas.⁴⁴</p>
India Inclusive Innovation Fund	<p>In January 2014, the launch of the Indian Inclusive Innovation Fund (IIIF) was announced by the National Innovation Council and the Ministry of MSMEs. The IIIF is a for-profit entity with a social investment focus and was intended to invest and provide funding to SEs with the aim of maximising social impact with modest financial returns. The total fund in IIIF was supposed to initially be Rs 500 crore and a maximum limit of Rs 5,000 crore. The IIIF is anticipated to source 20% of its capital from government and the remaining 80% from private investors, philanthropists, bilateral and multilateral organizations, and to invest in funds as well as directly in innovative enterprises, who may receive an investment of between Rs. 20 lakh and Rs 5 crore each.</p>

Source: British Council Study on SE policy landscape in India⁴⁵

⁴³<https://www.nabventures.in/index.php#about>

⁴⁴<https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/nabventures-launches-maiden-fund-to-back-agri-food-and-rural-start-ups/articleshow/69309022.cms>

⁴⁵British Council, "Social Enterprise: An overview of the policy framework in India" (2015)

Best Practices from International Context

SEs have been present in some or the other form for some time now. The 2008 subprime crisis and the slowdown in the world economy showed that unbridled profit motivation harms business as well as society. The crises lent an impetus to the growth of SEs, and it led to many countries adopting the model of SEs which strike a balance between the profit motive and social causes.

Countries like the UK, the USA had started thinking about SEs and the necessary systems around them in the early and mid-2000s. These countries have robust SE systems. In other countries, such as Singapore and India, there is relatively more incipient thought about building the SE systems. This chapter deals with examples of existing systems and emerging systems around the world.

Developing robust policy ecosystems is necessary for the success of any idea. In India, where the political and legal system is complex due to its unitary as well as federal nature of polity, systems and policies need to be well-thought out and robust. To develop such robust ecosystems for SE, India can learn a lot from countries which already have such ecosystems.

In this section, we have looked at the policy/legal ecosystems created for SEs in four countries. In two of the countries, the USA and the UK, legal ecosystems are well-established. In the USA and the UK, the discussion is about creating tax ecosystems for social enterprises. Canada is in the early phase of creating policy ecosystems for SEs and aspiring efforts are being put forward. In Singapore, with the help of the existing legal structure, the SEs are flourishing. India can take insights from these countries while developing its own relevant legal structures and support systems.

Best Practices from United States of America

The United States has very well laid out legal and policy ecosystems for the registration of Social Enterprises. Since 2008, state legislatures in the US started registering SEs by four different mechanisms. These four mechanisms are:

1. Benefit-Corporation (B-Corp)
2. Low-Profit Limited Liability Company (L3C)
3. The Social Purpose Corporation (SPC)
4. Benefit Limited Liability Company (BLLC)

The most well-established and prevalent among these are the B-Corp and L3C. The other two are still in the beginning stages. SPC and BLLC have been adopted in just four or five US states.

B-Corp

The B-Corp movement is comprised of 'for-profit' companies committed to sustainability-related initiatives that lie at the centre of their business model.⁴⁶ The B-Corp movement started in North America and has now spread to other continents like Europe, South America and Australia. B-Corp tries to bridge the gap between business and social good and strike a balance between purpose and profit. As of 2020, 3200 entities are B-Corp certified, spread across 150 types of industries and across 71 countries.⁴⁷ More than 30 US states have legally recognized B-Corporations.⁴⁸ B-Corp certified companies consider the impact of their decisions on stakeholders such as workers, customers, suppliers, community and the environment.

Certification of B-Corps is done by the B-Corporation Lab based on robust assessment criteria. These assessment criteria are developed considering the type of entities such as startups, large companies, large multinational & parent companies and related entities. As per BCorp, companies register as B-Corps mainly for six reasons, viz. to attract talent, to lead a movement,

build a partnership, to improve impact, to amplify voice and to protect the (social or environmental) mission. Even Indian companies can get a B-Corp certificate without changing the constitution of the company. As per the B-Corp website, Indian companies will get registration subject to following conditions:

1. to the extent permissible under Indian law, to consider the impact of its decisions not only on shareholders, but also on its employees, customers, suppliers, the community, and the environment;
2. to use reasonable endeavours to support B-Corp's efforts to determine an effective legal mechanism to promote directors' consideration of the matters in item 1;
3. in the event that such a legal mechanism is established in India, take such steps as are necessary to avail itself of such mechanism; and
4. in the event of a change of control of it, including a public offering, it will recertify within 90 days of the effective date of the change of control.

For Indian registration, B-Corp further suggests that a wider legislative amendment would be required to clarify the duties of, and provide greater comfort to, directors of Indian B-Corps. As of now only five Indian companies have been B-Corp certified (VayaFinserv, IndiVillage Tech Solutions, SAGE Sustainability, Caspian Impact Investment Adviser and eKutir) (see Annexure III for details).

⁴⁶Copenhagen Business School. Rise of B-Corp on Global Stage. <http://academiab.org/wpcontent/uploads/2015/10/Thesis-FINAL.pdf>

⁴⁷B-Corp website <https://bcorporation.net/>

⁴⁸Social Enterprise Law Tracker. <https://socentlawtracker.org/#/bcorps>

Low Profit Limited Liability Company (L3C)

L3C is a middle point or hybrid model between profit-oriented companies and non-profit oriented organization. It is essentially a type of Profit-making companies which also has a social benefit mission.⁴⁹ As of now, a total of nine states in the US legally recognize L3C. These states are Illinois, Louisiana, Michigan, North Carolina, Rhode Island, Utah, Wyoming and Vermont.⁵⁰ As per Treasury Regulation, in all these states, L3Cs need to follow the following norms⁵¹:

1. Significantly further the accomplishment of one or more charitable or educational purposes;
2. Have been formed for the purpose of furthering said charitable or educational purposes;
3. Not strive for the attainment of revenues or property as their primary purpose;
4. not be organized to further any legislative or political purposes.

Program Related Investment (PRI) is a feature of the legal system in the US by which tax exempt Foundations are mandated to direct 5% of their assets to charitable causes. Foundations usually do this through grant, but they can also do investment in L3Cs.⁵² Serving social causes helps L3C to receive such funding.

Arguments about tax laws for Profit making Social Enterprises in the US⁵³

Social Enterprise as a concept is settling down in various US states. The next level of policy question regarding them is how to treat them with respect to tax laws. It is important to understand two tax related theories first. One is 'subsidy theory of tax' which states that "tax exemption" for non-profits functions as a government subsidy to encourage the provision of services that are beneficial to society (such as poverty relief, health care, education). The second theory is known as 'the tax base theory' which states that "non-profit companies are not organized for private profit and thus their income should not come into the tax base at all, because the purpose of the income tax is to reduce private consumption and accumulation in order to free resources to service".

Currently B-Corp, L3C, SPC and BLLC are not treated as different forms of entities for tax purposes. Proponents of SEs argue that though the profit motive is there, these companies strive to achieve social good. Hence, it is ethical to give them benefits. However, some researchers argue that it will be difficult to calculate objectively the social good created by these enterprises. As of now there are no major tax breaks, although some states/cities like Philadelphia and Utah tried to bring in some tax reforms.

⁴⁹L3C: A more flexible corporate model for social change <https://greenblue.org/l3c-a-more-flexible-corporate-model-for-social-change/>

⁵⁰L3CsOLR Research Report. <https://www.cga.ct.gov/2011/rpt/2011-R-0344.htm>

⁵¹L3C vs B Corp: What is best for your social venture <http://maineinnovationchallenge.org/wpa/wpcontent/uploads/2015/09/L3C-vs-Benefit.pdf>

⁵²Another Reason to become an L3C <https://www.forbes.com/sites/annefield/2014/08/22/anotherreason-to-become-an-l3c/#398364e0785a>

⁵³Mapping the state of Social Enterprise and law https://socentlawtracker.org/wpcontent/uploads/2019/05/Grunin-Tepper-Report_5_30_B.pdf

Best Practices from United Kingdom

Due to government initiatives in policy formulation, SEs got a boost since the 1990s in UK.⁵⁴ There are various legal architectures available for SEs to register. The most common and famous among these is the Community Interest Company. CICs undertake common economic activities but also receive grants.

Community Interest Company (CIC)

This structure was formed in the year 2005. SEs registered as CICs are subject to regulation by the Companies House as well as the CIC regulator.⁵⁵ The primary purpose of CICs is to create social benefit though they can generate profit upto a certain limit. The basic legal framework of CIC is that of a Company Limited by Guarantee⁵⁶. New Companies can be registered, or existing companies can be converted into CICs. One of the three legal forms which can be taken up by CICs are:

1. Company Limited by Guarantee without a share capital
2. Private Company limited by shares
3. Public Company limited by shares. CIC registered companies' names end with 'CIC' and not just 'public limited' or 'private limited'.

According to the law, since CICs are intended to use their assets, income and profits for the benefit of the community they are formed to serve, they must embrace some special additional features. They are subject to an 'asset lock' which ensures that assets are retained within the company to support its activities or otherwise used to benefit the community. The main elements of the 'asset lock' are as follows:

- CICs may not transfer assets at less than full market value unless the transfer falls within a narrow range of permitted transfers such as to another asset-locked body or for the benefit of the community.
- If its constitution allows a CIC to pay dividends (other than to another asset locked body – essentially another CIC or a charity) these will be subject to a cap that limits the amount of dividend payable. A similar cap applies to interest payments on loans where the rate of interest is linked to the CIC's performance.
- On dissolution of a CIC, any surplus assets must be transferred to another asset locked body once all liabilities have been met.

Every year registered CICs have to submit a report on its activities and how these activities positively benefited the society. This provision helps stakeholders to review the claims of the CIC.

⁵⁴Social Enterprise and their Ecosystems in Europe <https://www.gmcvo.org.uk/system/files/publications/Social%20enterprises%20and%20their%20ecosystems%20in%20Europe.pdf>

⁵⁵British Council. Social Enterprise in the UK. https://www.britishcouncil.org/sites/default/files/social_enterprise_in_the_uk_final_web_spreads.pdf

⁵⁶Department of Business Energy and Industrial Strategy. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/626088/cic-12-1333-community-interest-companies-guidance-chapter-1-introduction.pdf

The government of UK gives tax exemption/benefit under "Community Investment Tax Relief Scheme (CITR)."⁵⁷ By this mechanism, a nudge is created for the funding of the underserved section of society. A company or individual has to invest in the accredited Community Development Finance Institution (CDFI). Under this, the individual or company can get tax exemption up to 25% of the amount invested.

Kinds of policy support provided by Govt of UK to Social Enterprises

The lessons from the UK context extend not only to the unique features of the CIC model, but also the support systems created by Government to bolster SEs. UK serves as a model for Government vision, direction and support with respect to the SE sector and its flourishing SE sector has reaped the benefits of Government facilitation.⁵⁸ The relevant lessons are highlighted below:

a) The Government of UK had sensed the need for the fostering of SEs, and in 2001 had set up the Social Enterprise Unit to study the needs and challenges of SEs. The research carried out under the unit led to the CIC legislation in 2005 and also the other dedicated support structures established for SEs. One such support structure is the Office of the Regulator of CICs which reviews and approves/rejects applications to form CICs, reviews the annual progress reports submitted by all CICs, investigates complaints and supports the formation of CICs.

- b) Since 2006, Govt of UK has set up a number of dedicated funds to help Social Enterprises. In 2012, it set up the 'Big Society Capital', an institution to support social investment, whose initiatives include the Social Incubator Fund and Investment and Contract Readiness Fund.⁵⁹
- c) Social Investment Tax Relief is a 30% tax relief for social investors. Also, there is a capital gains tax relief to encourage investors to support SEs through debt-based investments.⁶⁰
- d) There are a wide variety of mechanisms that can be used to support SEs financially, ranging from tax considerations and loans at below-market rates of interest to public-private partnerships and pay-for-performance contracts. UK's CICs enjoy a cap on the rate of interest that can be charged on debt.

⁵⁷Government of UK. CITR.

<https://www.gov.uk/government/publications/community-investment-tax-relief-citr/community-investment-tax-relief-citr>

⁵⁸R Balasubramaniam, Filling the Social Enterprise Gap in India

⁵⁹British Council, "Social Enterprise: An overview of the policy framework in India" (2015)

⁶⁰Ibid

Best Practices from Canada

Social Enterprises are emerging well in Canada. Canada doesn't have as developed a legal/policy ecosystem for SEs as the US or the UK. The political system of Canada is diverse and complex. Legal requirements and legislation change from province to province. This complexity has effects on the emergence of SEs in Canada. There are broadly five models of registration of Social Enterprises in Canada:

- i) Co-operatives,
- ii) Non-profit organizations,
- iii) Community development/interest organizations,
- iv) First Nations businesses, and
- v) Business with a social mission.⁶¹

In addition to these forms, the provinces of British Columbia and Nova Scotia have adopted company laws to cater to SEs. These laws have been made by taking inspiration from the CIC of the UK

Community Contribution Company (C3) in British Columbia

C3 was introduced in 2012 (came into effect in 2013) in the province of British Columbia to provide a legal ecosystem for SEs. C3 is described as "a hybrid corporate model for social enterprise that bridges the gap between a for-profit business and not-for-profit enterprise."⁶² The province of British Columbia has issued detailed guidelines for incorporation as a C3.⁶³ This regulation has enabled SEs to get 'socially focused investments'.

Following terms and conditions have been laid down for C3s⁶⁴:

1. In order to ensure that assets are not sold at below fair market value, an asset lock feature exists to place a limit on the assets that a shareholder can receive when a C3 is dissolved. A minimum of 60% of the assets must be transferred to another C3, not-for-profit organization, or qualified entity to further the community purposes.
2. To provide assurance that the C3 is committed to its community purpose, there is a cap on the amount of dividend that can be paid to shareholders. The dividend cap is set to 40% of the C3's annual profit (leaving 60% to go toward the community purpose).
3. Qualified entities can include community service corporations, registered charities and other asset-locked entities, as well as First Nations and Aboriginal groups.
4. One or more of a C3's primary purposes must be community benefit.
5. Directors of C3s are required to report how the company has both engaged stakeholders and benefited the community.
6. C3s are understood to be held to a "higher degree of accountability" and require at least three directors, as opposed to one director in B.C. company corporations.
7. They must also publish a Community Contribution Report.

⁶¹Social Enterprise in Canada: Context Models and Institution.

https://www.researchgate.net/publication/279199611_Social_Enterprise_in_Canada_Context_Models_and_Institutions

⁶²Community Contribution Company in British Columbia https://www.centreforsocialenterprise.com/wpcontent/uploads/2019/04/C3_Research_Summary_2016-by-Bridget-Horel.pdf

⁶³British Columbia. Guidelines for incorporating Community Contribution Company.

<https://www2.gov.bc.ca/gov/content/employment-business/business/managing-abusiness/permits-licences/businesses-incorporated-companies/incorporatedcompanies/incorporating-bc-company/incorporatec3?keyword=community&keyword=contribution&keyword=company>

⁶⁴Community Contribution Companies and Access to Social Finance

<https://pdfs.semanticscholar.org/cbb0/6568df8b368cb0e7612fab9823ca52c4a7d3.pdf>

Community Interest Companies of Nova Scotia

In 2016, Nova Scotia also passed an act creating a new classification called 'Community Interest Companies'. CICs are supposed to have a community purpose. 'Community purpose' is defined as a purpose beneficial to society as a whole' or a segment of society that is broader than the group of persons who are related to the CIC'. CICs of Nova Scotia are on similar lines with the C3 of British Columbia. Important provisions of the act are as following:⁶⁵

1. Only 40% dividend earned on shares can be distributed among the shareholders (which means 60% has to be given for social benefit).
2. There is a cap on asset transfer. CIC are prohibited from transferring its assets at less than fair market value. Exception can be made with respect to 'Qualified entities such as Canadian registered charities, societies incorporated under the Societies Act.
3. For tax purposes, CICs are treated at par with other business corporations.
4. CIC has to present Annual Community Interest Report. This report should broadly include
 - manner in which the company's activities benefited society or advanced the community purpose of the company
 - amount of dividend declared in that fiscal year
 - the assets that were transferred for redemptions or purchases of shares or other reductions of capital

Best Practices from Singapore

Steps towards developing suitable systems for SEs started in the early 2000s. The Ministry of Social and Family Development was created, and the Social Innovation Park was set up. The Social Enterprise sector in Singapore is dominated by Education, Training, and Health & Wellness sectors.

Unlike the US or the UK, Singapore doesn't have separate legal structures for SEs⁶⁶. SEs in Singapore are using existing legal structures to complete their legal incorporation. As per the Singapore Center for Social Enterprise, 69% of its member SEs are incorporated as Private Limited entities and next preferred form is Sole proprietorship (12% are registered under this).

Without having a dedicated legal structure, the SE ecosystem is developing in Singapore. The government has put up efforts to create various platforms for boosting SEs; e.g. in 2011 the Social Enterprise Hub was created, and in 2012, the President's challenge Social Enterprises awards

⁶⁵Millor Thompson. An In-depth look at Nova Scotia's New Community Interest Companies.

<https://www.millerthomson.com/en/publications/communiques-and-updates/social-impactnewsletter-formerly-the/july-6-2016/an-in-depth-look-at-nova-scotias-new/>

⁶⁶State of Social Enterprise in Singapore. Singapore Center for Social Enterprise (2017).

<https://www.raise.sg/images/resources/pdf-files/raiSE---State-of-Social-Enterprise-in-Singapore-2017-Report.pdf>

Best Practices from Other Countries

Apart from the above countries, Social Enterprises have received policy and legislative support in a number of other countries. One such country is Vietnam; in 2014, the Enterprise Law in Vietnam included a definition of Social Enterprises. The law also requires Government to provide preferential conditions or to consider Social Enterprises for special treatment in the granting of licences and certificates.⁶⁷ To support Social Enterprises, the European Union has adopted the 'Mutuals Reservation' in its procurement rules which allows it to discriminate in favour of certain Social Enterprises in the granting of contracts.⁶⁸

In France, the Social and Solidarity Economy Act, passed in July 2014, includes a framework for moving more easily between different organisational forms. Croatia, Hungary, Czech Republic, Portugal and Spain have created new legal forms for Social Enterprises building on the cooperative legal form. Belgium, Denmark, Italy, Finland, Slovakia, Slovenia and Lithuania have introduced 'transversal' legal statuses that cut across different legal forms and can be adopted by different types of organizations if they meet certain pre-defined criteria.⁶⁹

In Thailand, the Thai Social Enterprise Office (TSEO) was established in 2012 to provide support and funds to Social Enterprises.⁷⁰

⁶⁷British Council, "Social Enterprise: An overview of the policy framework in India" (2015)

⁶⁸Ibid.

⁶⁹Ibid.

⁷⁰Ibid.

Need for New Legal Form of Social Enterprises in the Indian Context

In India, apart from cooperatives/producer companies, the legal forms of Social Enterprises operate either as for-profits or non-profits. However countries such as USA and UK have successfully experimented with hybrid forms. UK's CIC has been a very successful form of hybrid legislation with over 11,000 CICs established.⁷¹ The US has also seen some successes with its L3C (Low-profit Limited Liability Companies) and B-Corporation legal forms.

Compared to non-profit forms, hybrid forms have broader access to debt and equity markets for growth and scaling up, and also greater control over governance, hiring and use of capital. Non-profits face a number of restrictions (such as the extent to which they can enter the commercial sector, stringent reporting requirements, and restrictions on holding assets and commercializing them, and acquiring investments and debts) which make them behave in a risk averse manner which is inappropriate for the capital market. On the other hand, compared to for-profits, hybrid forms have greater credibility with respect to their social goals, because they are monitored by Government and independent agencies, and have regulations to ensure that profits are not mispent. Like non-profits, hybrid forms can attract philanthropic contributions and grants.

Also, in some countries, for-profits are constrained by the shareholder primacy model where the use of profits for any purpose other than shareholder dividends can make a SE vulnerable to legal action by investors. Having no limits on payments to directors, windfall dividends to shareholders and sale of assets makes a SE under a for-profit legal structure less credible as a means of achieving social goals.

India has a growing SE enterprise sector, particularly in sectors such as agriculture, microfinance, health and energy. Several SEs are attempting to balance a Private Limited Company 'trading arm' with a non-profit programming organization. However such dual forms also come with their own difficulties; for example the flow of capital from the trading arm to the non-profit wing is constrained because of restrictions on tax exemptions a corporation can benefit from in transferring large shares of its profits to a non-profit.⁷² Given such struggles to achieve balance between the for-profit and non-profit forms in a dual structure, the hybrid form of UKs' CICs serve as a model that should be considered and investigated actively for how to achieve such balance effectively.

⁷¹CIC Regulator - Annual Report 2015 to 2016

⁷²R Balasubramaniam, Filling the Social Enterprise Gap

Roadmap for the establishment of new Legal Forms of Social Enterprises in the Indian Context

While the CIC form that blends features of for-profits and non-profits is a model legal form, the following need to be kept in mind before adopting such a form for the Indian context:

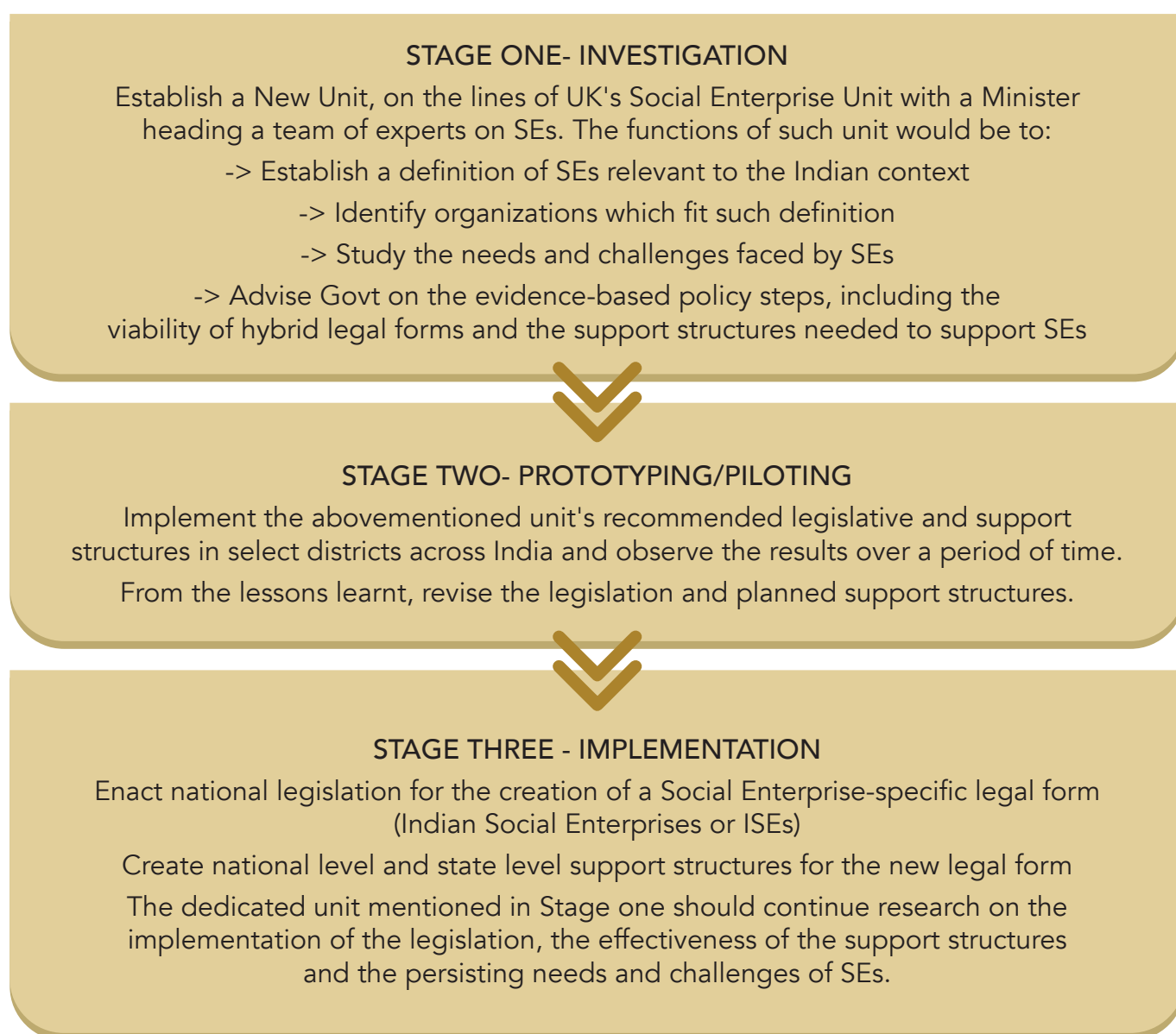
- a) The CIC legislation in UK itself has undergone successive amendments, including the dropping of the dividend cap provision.⁷³
- b) The UK CIC is not the only model from which features can be borrowed; other models such as the US B-Corporation model also have features worth emulating. UK's CIC structure, the most robust and successful SE legal form till date, should be informed with experience of other legal forms such as Benefit Corporations and L3Cs of the US, C3 of British Columbia and CIC of Nova Scotia etc.
- c) The UK's legal and political systems are more similar to India's than the US systems; nevertheless India's social and economic scenarios are entirely different from those of UK.
- d) The legal forms of SEs are in flux everywhere, adapting to the changing and diverse needs of SEs in different contexts.
- e) Without study, it cannot be said which legal form is the best for the Indian context. While a hybrid form such as CIC should be actively considered, it should not be adopted without adequate research and groundwork. There are sources which argue that India should make better use of available legal forms and policy frameworks instead of going in for fresh legal forms.⁷⁴ As seen earlier, Singapore's approach has been to strengthen support for SEs without adopting new legal forms.
- f) Indeed, India should learn from the UK that Government engagement with the SE sector and constituting a dedicated structure to study the needs and challenges of the sector should precede revolutionary steps such as adoption of new legal forms.

The following three-stage investigation and implementation plan may serve as a systematic process to investigate and adopt the legal forms appropriate for the Indian context:

⁷³UK Community Interest Company (Amendment) Regulations 2014.

⁷⁴British Council, "Social Enterprise: An overview of the policy framework in India" (2015)

Figure 2: Roadmap for the establishment of new legal forms of SEs in India



Source: Based on 'Filling the Social Enterprise Gap in India'⁷⁵

⁷⁵R Balasubramaniam, "Filling the Social Enterprise Gap in India"

The following considerations should be reflected on before designing and implementing the new legal forms for SEs in India:

1. Definition of ISEs: The definition should accommodate a wide range of organizational forms including for-profit and non-profit forms but should not accommodate pure for-profits that are only looking for financial benefits. The definition should be mission-centric rather than structure-centric.
2. Deciding which entities qualify as SEs: One approach could be to use scoring on the basis of defined criteria, on the lines of the certification by B-Corporation Lab on the basis of robust assessment criteria.
3. Establishment of Regulator: The dedicated Social Enterprises Unit referred to above may serve as a regulator for the new legal forms of organizations to be created. The other forms of SEs may continue to be regulated by their respective regulators such as the Registrar of Companies, Charity Commissioner etc. Transparency and reporting requirements should be clearly laid down and adhered to. Annual reporting should not only encompass financial performance, operations and programme outputs but also social outcomes.
4. Funding and financing streams: A range of funding and financing streams should be available to ISEs, ranging from crowdfunding to equity, debt and Government grants and service contracts. Participation in Social Stock Exchanges would enhance the range of financing options available to ISEs. Chapter 3 of this report on the roadmap for Social Stock Exchanges provides more details on the same.
5. What tax considerations should ISEs be subject to?: None of the major hybrid legal forms seen internationally such as B-Corporations and CICs get any tax incentives. Tax exemption comes with its merits but would need to be accompanied by stronger regulation to ensure that it is not abused. It can be introduced in a phased manner at a later date and based on studies undertaken by the proposed Social Enterprise Unit.
6. How should ethical use of capital be ensured? CICs until recently made use of asset locks (restricting the sale and use of assets when the CIC is dissolved) and dividend caps (restricting the percentage of annual profits that can be given to shareholders as dividends). CICs also limit the remuneration that can be given to directors. Certified BCorps in USA have some self-created restrictions on the use of assets and payment of dividends.
7. Limiting liability for ISEs: CICs can be limited by shares or by guarantee. Most Benefit corporations are required to include in their statutes methods of limiting the directors' liability against shareholder lawsuits when considerations/constituencies other than shareholder profit are considered.

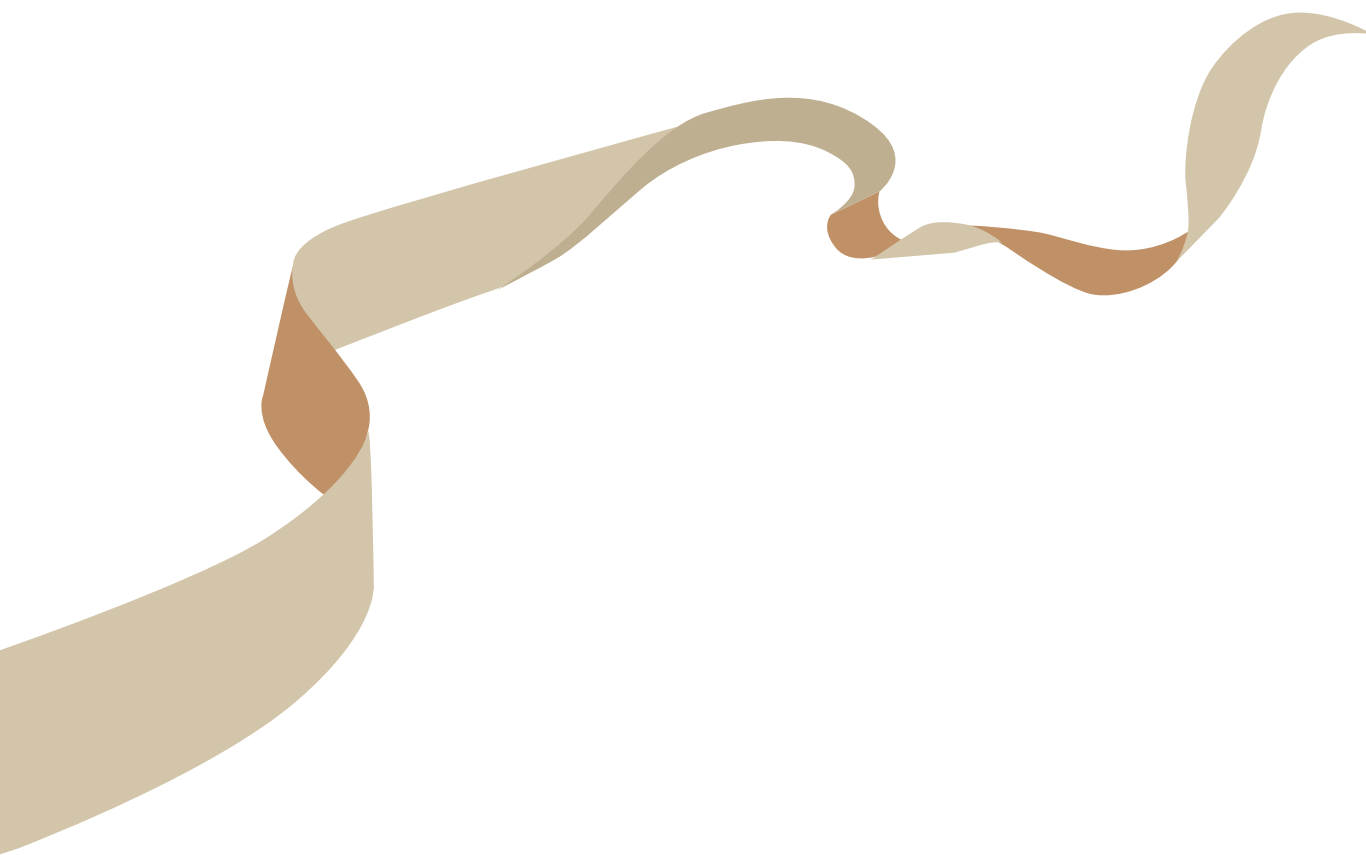
Valuation Parameters for Social Enterprises

Valuation of Social Enterprises is of pivotal importance from the points of view of enhancing their attractiveness to investors, providing accountability for social impact and appreciation by other stakeholders such as Government.

B-Lab is the non-profit that certifies B-Corps. B-Lab certification based on scoring is a widely accepted valuation tool and should be considered as a tool for valuation of Social Enterprises in India as well. There are five organizations based out of India which are certified by B Corporation; these are Ektir, Vaya Powering Institution, IndiVillage Tech Solutions, SAGE Sustainability and Caspian Impact Investment Adviser Private Limited.

B-Corporation carries out B Impact scoring out of 200, and organisations become eligible to be called as B-Corp if they are certified at the score of 80 or above⁷⁶. Ektir, India's first certified B-Corp has an overall B Impact Score of 120 and it is highest amongst the five Indian B-Corps.

There are also other social impact measurement indicator frameworks and rating systems available such as Social Return on Investment and Buffet's Impact Rate of Return (IRR[®]) that can be adopted or customized for the Indian context. These are described in Chapter 3 of this report.



⁷⁶B Impact Score. Retrieved from: <https://bimpactassessment.net/how-it-works/frequently-asked-questions/the-b-impact-score>

CHAPTER 3

Detailed Roadmap for Creation of a National Level Social Stock Exchange

Social Stock Exchanges (SSEs) are trading platforms that allow social businesses to raise capital by attracting ethical investors willing to invest in businesses that have a dual corporate and social mission.⁷⁷ This chapter lays down the rationale and opportunity for SSEs, and the roadmap or steps to be followed in setting up a national level SSE in India.⁷⁸



Rationale and Opportunity for Social Stock Exchanges

- UNDP Estimates shows that India needs USD one trillion to achieve the Sustainable Development Goals by 2020.
- Growth of social entrepreneurship and development sector innovation in India can be an instrument for achieving the SDGs by 2030, especially the 13 SDGs prioritized by the Niti Aayog.
- A common dilemma for social enterprises is the lack of capital for scaling up and achieving financial sustainability while preserving the primacy of the social/environmental mission. SSEs offer social enterprises an enlightened investor base and compared to a traditional stock exchange, much greater control over social and environmental missions.⁷⁹
- SSEs provide certain benefits for investors compared to other forms of support for social enterprises such as liquidity and exit paths (if SSEs allow secondary trading of securities).
- SSEs can provide avenues for different kinds of investing like impact Investing (which expects social return and market rate of financial returns), Socially Responsible Investing (which expects social return along with financial returns below market rate) and Venture Philanthropy (only social impact).⁸⁰
- There has been a global growth in Impact Investing : According to the Global Impact Investing Network (GIIN)'s 2018 Annual Impact Investor Survey, the number of impact investors tracked by GIIN rose from less than 50 before 1997 to more than 200 in 2017. The GIIN Survey showed that the greatest share of capital is allocated through private debt (41%) followed by private equity (18%) and public equity (14%).⁸¹

With an increasing demand for capital by NGOs/VOs and social entrepreneurs in India, setting up a **Social Stock Exchange** can help create an ethical and transparent investment environment in India and boost the availability of funding to them.

⁷⁷<https://www.luc.edu/media/lucedu/prolaw/documents/pdfs/studentjournalbandini.pdf>

⁷⁸This chapter is largely based on "Roadmap towards setting up a Social Stock Exchange" by Dr R Balasubramaniam.

⁷⁹Durreen Shahnaz, Robert Kraybill and Lester M Salamon. Social and Environmental Exchanges In Lester M. Salamon (ed) New Frontiers of Philanthropy (2015)

⁸⁰R Balasubramaniam, "Social Stock Exchanges: Leading to Resurgent India, a Perspective"

⁸¹GIIN Annual Impact Investment Survey 2018 https://thegiin.org/assets/2018_GIIN_AnnualSurvey_ExecutiveSummary_webfile.pdf

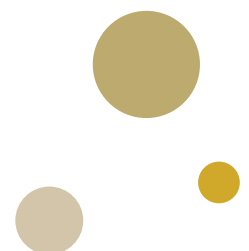


Building Blocks and Requirements for Social Stock Exchanges

A trading system on the lines of a Social Stock Exchange requires the following essential building blocks:

1. Demand Side Ecosystem: Social Enterprise ecosystem that is ready to participate in SSEs. Social enterprises (including non-profits aspiring to participate as well as forprofits in the social space) have to be oriented towards revenue generation and financial sustainability (while ensuring that social purpose is primary and that profits are an instrument for achieving social purpose), robust governance (accountability and transparency) and measurable social impact in their functioning, going far beyond the 'charity' paradigm.
 2. Supply Side Ecosystem: The availability of ethical and socially conscious investors who are driven not just by financial return but also social returns in their investment decisions. Investors need to attach importance to social impact and also need to be open to accepting below market rate financial returns in their investment decisions.
 3. Stock Exchange Infrastructure and Intermediaries.
1. Leadership by the Government and its agencies: Apart from the regulation role, there is also a need for Government or its agencies to play the role of market maker and influencer.
 2. Appropriate legal and regulatory framework that would enable investors to engage in social financing and social enterprises to be more oriented towards the required balancing of social purpose and profits. In India, the majority of non-profit organizations in India are fundamentally not "profit-minded" or geared towards earning returns for investors. Such entities need to be freed from legal and regulatory constraints to be able to generate financial returns. Also, for-profits in the social space should be able to subordinate profit to purpose, and the regulatory framework should ensure that they use profits as an instrument of purpose. There is thus a need for hybrid legal forms that bridge non-profit forms and for-profit forms, on the lines of Community Interest Companies in the United Kingdom. Nevertheless, a Social Stock Exchange should enable participation by a range of potential investees such as forprofits, non-profits and hybrid forms.

Apart from the above three essential ingredients, there is a need for:



Roadmap for creating Social Stock Exchange

Starting point/groundwork

A **coordination committee / group** of all stakeholders should drive the entire process of setting up the Social Stock Exchange and facilitating the ecosystems required for the same. The process should be driven by players such as

- Niti Aayog as a thought leader and for achieving inter-ministerial coordination and federal coordination including policy crafting
- NABARD as mobilizer of Social Enterprises and financial institutions' participation, Venture Capital and as an Equity Partner
- MCA/Min of Finance to bring about the required policy changes
- CII and other Industry bodies for mobilization of the private companies
- SEBI as the architect of the regulatory framework & the Social Stock Exchange
- Representatives from nationally reputed social organisations.

Building up to this promising future, stakeholders should consider the following steps in the run up to the drafting of the rules regarding the SSE's

- Policy papers, either individually or through industry bodies or organizations, addressing obstacles faced by all stakeholders for the Government to consider while drafting the regulations;
- Building consensus within the industry and engaging with Government officials to ensure that the new framework meets the requirements of the stakeholders in terms of draft rules or public consultations
- Closely tracking any developments in the policies agreed, learning from the existing SSEs around the world and exploring how they can be contextualized to the Indian conditions and consider innovative financing arrangements for proposed projects

Preliminary research

There is a need for preliminary research to understand the market size and potential in terms of:

1. Extent of availability of Impact investing
2. The impact investment opportunity: volume of financing required for social enterprises
3. Awareness of potential investors about the impact investing opportunity
4. Investor's motivations and their readiness to invest in Social Enterprises
5. Whether investors are ready to accept below market returns
6. Investees (social enterprises) readiness to be part of SSE ecosystem, willingness to undergo valuation of social impact, be assessed for financial returns and accept extensive/standardized disclosure requirements.



Creating the demand side ecosystem

Establishing the demand side ecosystem would involve a number of tasks such as clarifying the definition of social enterprises, establishing the enabling regulatory system, and establishing a system for measuring social impact and rating social enterprises on social impact.

1. Clarify the definition of Social Enterprises

The social enterprise space in India is highly diverse and unorganized and there is considerable difference of understanding as to the meaning of social enterprises. A clear and legally recognized definition of Social Enterprises is first required in order to ensure complete clarity on participants of the proposed SSE.

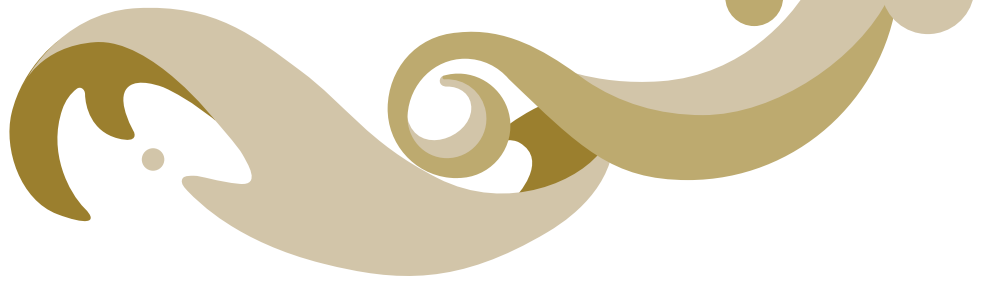
Chapter 2 of this report had provided a definition of SEs, which can serve as a working definition of SEs. SEs are entities which:

- Strike a balance between social logic and profit logic and aspire to achieve this balance through the appropriate organizational structure.
- Aspire to cater to the social mission through commercial activities, and whose profits are primarily reinvested for the social cause undertaken.
- Include start-ups, technological ventures or traditional businesses, which strive to attain double or triple multiple bottom lines through a professional, innovative and sustainable approach.
- Are registered for-profit or non-profit organizations undertaking activities to generate significant social value or solve pressing social issues through innovative and sustainable business models, which generate social and financial returns.

The definition of Social Enterprises should also help distinguish such entities from conventional businesses that incorporate ESG or Sustainable/Responsible Business criteria in their functioning.

It is envisaged that the SSE would allow participation by a range of actors on the demand side, such as PLCs (Private Limited Companies) and even non-profits who can potentially benefit from certain kinds of instruments such as bonds and crowdfunding. Hybrid legal forms, if adopted in the future, can be the most suitable and important participants on the demand side in the SSEs since they can not only generate social returns but also provide financial returns to investors. The SSEs are also expected to be beneficial for start-ups, especially those that have conceptualized innovative solutions to pressing development/social problems.





2. Establish the Regulatory Structure to enable Social Enterprises to be formed and sustained.

Since existing laws do not explicitly permit enterprises to be set up for social purposes and provide returns for investors, a separate hybridized legal entity will need to be conceived and set up. The following regulatory tasks would need to be accomplished:

- Amend rules and regulations to help social entrepreneurs set up their enterprises quickly and with minimal bureaucracy.
- Set up a consistent taxation and legal framework that will be applicable across all organisations under the definition of Social Enterprises and across all States and Union Territories. Existing taxation laws do not permit non-profits (NGOs/Societies/Trusts) to generate more than 25% of their total revenues from self-earned incomes. They are also not permitted to generate profits or share dividends. Currently the legal structure only permits charity based donations and equity participation is not structurally or legally allowed.
- Enable Social Enterprises to be governed by the SEBI for the purpose of listing.

3. Develop a Consistent and Robust system for measuring Social Impact

Social impact as a concept is complex, multi-faceted and can be difficult to measure. Since investors in the SSE would need to consider not just financial returns but also social returns in their investment decisions, there is a need to have an accepted system for the measurement of social impact. Quantified and standardized metrics of social impact are needed in and across sectors such as health, education and rural livelihoods.

Also, social enterprises would need to be transparent in measuring their social impact and be accountable for disclosing social impact in its various dimensions. A rating of social enterprises with respect to social impact would be of great help to investors who aspire to give weightage to social impact criteria in their investment decisions.

Setting standardized data collection, measurement and reporting frameworks that will help investors assess the short-term efficacy of their investment based on outcomes, financial and operational indicators and the final long-term developmental impact achieved, is essential to the success of the SSE.

The Government will have to play a key role in providing resources for building the capacity of Social Enterprises to implement any impact reporting framework successfully, be it in terms of training, technology or data.

There are a number of social impact measurement systems available of which some are frameworks of indicators and others are scoring or rating systems. These can be adopted or customized for the Indian context. These are briefly described below:

A. Frameworks of Metrics

- Impact Reporting and Investment Standards (IRIS) is a publicly available resource managed by GIIN (Global Impact Investment Network). IRIS contains a library of 400 social and environmental impact related indicators with standardized definitions. Companies can choose those indicators that are most relevant to their work.⁸² There are also IRIS metrics recommended for specific sectors.
- ESG Disclosure: ESG (Environmental, Social & Governance) criteria encompass every aspect of a business—such as philanthropy and community activities, environmental impact, governance systems, the willingness to develop human capital, and a company's behavior as a corporate citizen.⁸³ Though ESG criteria are emerging as important factors shaping investment decisions, there is no single or standard ESG framework available.⁸⁴
- Sustainable Accounting Standards Board (SASB): These standards enable businesses to compile and disclose financially-material sustainability information. It claims to focus on sustainability information that is most relevant to investment decisions i.e. on issues that are likely to impact the financial condition or operating performance of a company. SASB has developed 77 industry-specific standards for disclosure along with corresponding metrics.⁸⁵

B. Scoring/Rating Systems

- Global Impact Investing Rating System (GIIRS): The GIIRS developed by B-Lab is considered the Gold Standard in Social Impact rating.⁸⁶ This system is based on the IRIS definitions of social and environmental impact terms. It provides rating or scoring of organizations on the following impact areas: Governance, Community, Workers, Environment and Social and environment focused business models. The composite score provided is based on predetermined 'relative weightings' which depend on the company's geography, sector and size. The GIIS company rating service entails the following: a) online completion of GIIRS assessment (assessment according to GIIRS parameters) b) Verification by a 3rd party (Deloitte -Touche) c) Generation of GIIRS rating report.⁸⁷
- Buffet's Impact Rate of Return (iRR[®]): This is based on the concept of Social Value Investing. This tool developed by Howard W Buffet, faculty at Columbia University, helps organizations calculate how efficient their financial allocations are at accomplishing social, environmental, and/or economic goals. iRR[®] calculates the impact value of money by examining four critical elements relevant to impact: magnitude of impact, quality of impact, time taken to deliver impact, cost involved to generate impact. iRR[®] provides a tool for measuring and reporting impact and a management tool to help organizations make informed decisions.⁸⁸

⁸²https://ssir.org/articles/entry/why_iris

⁸³<https://www.spglobal.com/en/research-insights/articles/standard-esg-framework-is-key>

⁸⁴Ibid.

⁸⁵<https://www.sasb.org/>

⁸⁶<https://medium.com/startingupgood/frameworks-for-measuring-impact-151042f72c8c>

⁸⁷https://ssir.org/articles/entry/sparking_impact_investing_through_giirs

⁸⁸<https://nesfinancial.com/meet-oz-webinar-speaker-opportunity-zones-qa-with-global-impacts-president-howard-w-buffett-part-ii/>

Creating the supply side ecosystem

On the supply side, there is a need for a critical mass of social investors who are willing to invest for the long run in what are typically considered 'non-profit' areas and to consider social impact and not just financial returns in their investment decisions. The following preparatory steps are needed on the supply side:

1. Defining the participants: The participants may include corporates, High Net Worth Individuals (HNWIs), Philanthropic Trusts, Venture Capitalists or even the Government. A call has to be taken as to whether only institutional investors would be allowed or retail investors would be allowed as well. A full SSE, unlike a private placement form, would allow for participation of retail investors.⁸⁹
2. Setting guidelines on what kind of funding approaches will be allowed for investment and the financial instruments that can be traded in. The range of financial instruments could include the following:⁹⁰
 - Equity:** Private equity, public issue of shares, equity funds, limited partnership
 - Debt:** Bonds, debentures, loans with simple interest and capital repayment, Social Impact Bonds
 - Crowdfunding:** Simple donations
3. Disclosure norms and regulations required by the source/ type of funds
4. Creating fiscal incentives to incentivise these investors in terms of tax breaks apart from other non-monetary incentives (status / branding / accreditation as examples)
5. Setting up investor protection norms and issue resolution mechanisms
6. Treatment of Investors from a regulatory/ taxation perspective by each category of participants



⁸⁹Durreen Shahnaz, Robert Kraybill and Lester M Salamon. Social and Environmental Exchanges In Lester M. Salamon (ed) New Frontiers of Philanthropy (2015)

⁹⁰R Balasubramaniam, "Social Stock Exchanges: Leading to Resurgent India, a Perspective"

Establishing the infrastructure to run the ecosystem

1. SSE Infrastructure

These entail a number of tasks:

- a) Defining the platform/ organization that will constitute the SSE,
- b) Laying down the listing rules,
- c) Laying down the exchange rules for trading, settlement and clearance.
- d) Establishing mechanisms to ensure that the social mission of SSEs is protected
- e) Appropriate governance to ensure that trading is rule bound
- f) Other operational processes required for a Stock Exchange

There are two approaches regarding the constitution and running of the SSE infrastructure: either a freestanding or a modular approach can be followed, and there are pros and cons for each approach. The modular approach involves partnering with an existing stock exchange for the creation and running of the SSE; such an approach has advantages in terms of cost and time savings. Also, stock exchanges require sophisticated technological systems which existing Commercial Stock Exchanges may already have developed and which can be used by SSEs. However, the modular approach can also lead to autonomy concerns and investee concerns related to constraints in protecting social missions.⁹¹

The modular approach, if adopted, should ensure that a separate board, separate rules and separate listing criteria for SSEs are adopted to ensure the protection of social missions. Nevertheless, it is expected that rule making for SSEs will borrow a lot from the rules of commercial stock exchanges, whether or not the modular approach is taken up.⁹²

The potential partner stock exchange in the Indian context could be the BSE, which is a partner on UN's Sustainable Exchange Initiative and Asia's first exchange to join the Sustainable Stock Exchange Initiative of the UN. BSE is oriented towards sustainability through its initiatives such as BSE Guidance Document on ESG Disclosures.⁹³

Annexure I of this study provides insights from a number of SSE and equivalent experiments on listing/inclusion requirements, which are summarized below:

⁹¹Durreen Shahnaz, Robert Kraybill and Lester M Salamon. Social and Environmental Exchanges In Lester M. Salamon (ed) New Frontiers of Philanthropy (2015)

⁹²Ibid.

⁹³<https://www.bseindia.com/static/about/sustainability.html>

- 1) **SSX (The Social Stock Exchange), United Kingdom:** Companies must be listed on a SSX-approved commercial stock exchange. Additionally, companies must submit a Social Impact Report (prepared in partnership with expert organizations such as reputed consultancies like PWC and Deloitte). The Social Impact report is reviewed by SSX's admissions panel to judge whether the social or environmental impact is a direct result of the company's product, service or business process.
- 2) **SVX (Social Venture Connexion), Ontario, Canada:** SVX lists small and medium sized local for-profit social businesses with more than \$50,000 but less than \$25 million revenue. Apart from being registered for two years and fulfilling audit requirements, the social businesses need to be either social impact issuers or environmental impact issuers. For-profit businesses, to be listed, must obtain a satisfactory GIIIRS rating.
- 3) **IX (Impact Exchange), Mauritius:** Apart from demonstration of market based approach and financial returns and compliance with conventional securities regulations, issuers must meet certain specific standards on the social side. Potential issuers must appoint an Authorized Impact Representative (AIR) to support them in the listing process and to ensure compliance with the listing requirements. All AIRs must be registered with the Stock Exchange of Mauritius (SEM). Prospective issuers must clearly specify that positive social or environmental impact is the primary reason for their existence, articulate the theory of change, commit to monitoring and evaluation of impact using clearly defined impact indicators, have a minimum of one year of impact reports prepared in accordance with the IX reporting principle, and obtain certification of impact reports by an independent standards or rating body one year prior to listing.
- 4) **Mission Markets, USA:** All issuers must have their impact rated or certified by a qualified third party, and provide annual reporting based on the quantitative operationalization of the IRIS standards.

2. Regulator

- a) Delineating the role of Securities and Exchange Board of India (SEBI) as the regulatory authority for the SSE
- b) Establishing the necessary governing and regulatory framework for the smooth functioning of the entire ecosystem

3. Intermediaries

The financial intermediaries who will enable the smooth flow of capital between the supply and the demand sides, will need to be identified. They will define and set up the investment models and design the outcome-based financial instruments that will define the investment offer within the remits of the SEBI regulatory framework for Social Enterprises. They may also play the role of brokers to potentially facilitate the purchase and sale of these instruments in the marketplace, if and as relevant.



4. Independent Agencies

A number of independent agencies would play a crucial role in maintaining transparency and accountability in the system:

- i. Valuers** who will carry out the valuation of Social Enterprises in financial and social terms and ensure that they meet the definition of Social Enterprises and are qualified to be listed on the SSE
- ii. Ratings Agency** to provide accreditation at all levels- the Social Enterprises, the investors and the intermediaries. Potential players may include CRISIL, which carries out credit rating of Voluntary Organizations.
- iii. Independent Monitoring and Evaluation Agency**
- iv. Social Impact Assessors** such as research organizations to carry out programme evaluations and impact assessments of social projects. Such social impact assessment can also serve as a foundation for the calculation of the SROI (Social Return on Investment).
- iv. Data Standards Agencies** to ensure universal standardisation of data and a robust yet simple methodology and processes in data collection and quality to ensure consistency

Start off with a private placement platform

SSEs differ from private placement platforms in that they offer a broader marketplace for public offering and secondary trading. In private placement platforms, on the other hand, participation is more limited compared to 'true' SSEs. Also, while true SSEs would involve brokers as members of the stock exchange to mediate the sale and purchase of securities, private placement platforms allow the investors to buy and sell securities directly. Full SSEs would have more extensive regulation requirements than private placement platforms, since the latter has a more limited investor base.

The disclosure requirements and information costs of full SSEs would also be more extensive than private placement platforms. Social stock exchanges are in a nascent stage of development wherever they have been experimented with, and in some cases they start out as private placement platforms, obtain the extensive regulatory clearances required and then become full-fledged stock exchanges. Examples of private placement platforms include Mission Markets in USA (see Annexure I) and Impact Partners launched by Singapore-based IIX.⁹⁴ The network of investors developed through the private placement platform would also come in handy in launching a full SSE.

The roadmap for establishing a Social Stock Exchange in India is summarized in the following flowchart:

⁹⁴Durreen Shahnaz, Robert Kraybill and Lester M Salamon. Social and Environmental Exchanges In Lester M. Salamon (ed) New Frontiers of Philanthropy (2015)

Figure 3: Roadmap for Establishment of Social Stock Exchange in India



Lessons from other SSE experiments

Most SSEs currently in existence in different countries are still transitioning from private placement or crowdsourcing platforms to fully fledged public SSEs. While some are targeted at big ticket investors, others accommodate smaller investors including retail investors. Also, some of them exclude non-profits while others a low non-profits participation. The major SSE experiments present a number of lessons⁹⁵ which should be reflected upon and included/adapted as appropriate for the Indian context:

Social Stock Exchange (SSX), UK *Lessons and Successes*

- Partnerships- Since 2018, it has been licensed to trade in partnership with the IIN (Impact Investing Network) and allows secondary trading on NEXGY, a regulated UK stock exchange for SMEs and entrepreneurs
- Focuses mainly on sustainable and socially responsible investors by connecting them to value-driven SMEs and entrepreneurs accredited for positive social and environmental impact.
- Open to retail and institutional investors

Limitations

- Not designed to connect investors to non-profit organisations or projects, given the underlying expectation of high financial returns

Social Venture Connexion (SVX), Ontario, Canada

Lessons and Successes

- It has been successful in providing low cost access to investors for smaller social ventures raising over \$100m+
- It is targeted more at socially responsible investors seeking positive impact alongside financial returns
- Variety of instruments: debt and equity options to raise capital from equity crowdfunding to private placement to structured products and funds

Limitations

- No secondary market trading

⁹⁵R Balasubramaniam, "Social Stock Exchanges: Leading to Resurgent India, a Perspective"

Impact Investment Exchange (IIX), Singapore

Lessons and Successes

- IIX uses IRIS in addition to the Social Return on Investment (SROI) framework which measures how much social and environmental impact (in dollar figures) is created for every dollar invested into this program
- Focus on big ticket investors targeting HNIs, foundations, impact investment funds and institutional investors
- At the same time, it also allows non-profit organisations to raise capital via bonds with low interest rates payable
- Companies have to regularly publish social impact assessments
- It has been successful in working with Asian banks on fundraising and making impact companies 'investment ready'
- The women's livelihood bonds- issued in partnership with DBS bank- has been its biggest success as the world's first sustainable bond raising \$11m for microfinancing for women.
- Variety of instruments: crowdsourcing, IIX growth fund (an equity fund), bonds, private equity placement

Limitations

- Not designed to connect small investors to social investing opportunities

SA Social Investment Exchange (SASIX), South Africa

Lessons and Successes

- It opened to provide vital finance to relatively unknown and small social businesses
- It works like a conventional social stock exchange and offers ethical investors a platform to buy shares in social projects according to two classifications: sector and province
- It conducts independent research, evaluation and monitoring of projects to ensure measurable outcomes
- The low entry cost and a sense of ownership in the project through equity participation offers investors the incentive to invest without a profit motive.
- Equity in social projects from as little as r50 per share

Limitations

- It is designed for non-profit organisations or projects, with no financial returns

CHAPTER 4

Suggested Role of NABARD in Developing Social Stock Exchange



National Bank for Agriculture & Rural Development (NABARD) is the apex development bank of the country. It has been entrusted with matters concerning policy, planning and operation in the field of agricultural credit and other economic activities in rural India.⁹⁶

NABARD was set up for facilitating credit flow for promotion and development of agriculture, cottage and village industries. NABARD has played an important role in fostering the social enterprise ecosystem in India, specifically the microfinance sector, which is the first formal social entrepreneurial system in India.⁹⁷

Given its extensive linkages with actors on the demand and supply side ecosystems of the proposed Social Stock Exchange (SSE), NABARD can play a pivotal role in constituting and running the SSE. In fact, a synergy between NABARD and BSE in establishing the SSE should be considered. While BSE can contribute the required infrastructure (including technological systems, framework of trading rules and listing rules etc. that can be modified and customized), NABARD can contribute in the following ways based on its expertise in working with the social enterprise system in the area of rural development:

As mobilizer of social enterprises

NABARD has partnered with 4000 partner organizations in putting into effect a variety of rural development interventions such as SHG-Bank Linkage programme, tree based tribal communities livelihoods initiatives and many others.⁹⁸ NABARD is very well-placed to mobilize participation by its partner social enterprises in the Social Stock Exchange.

As mobilizer of investors

As an apex financing agency and refiner for the institutions providing credit for rural development, NABARD is suited to promote and mobilize participation by a range of institutional investors including financial institutions in the supply side ecosystem of the Social Stock Exchange.

Providing inputs for regulations that would govern Social Stock Exchange

NABARD is also a regulator of institutions and framer of policies and guidelines for institutions which provide rural credit, and is thus suited to provide input for shaping the regulations that would govern the Social Stock Exchange.

⁹⁶M Karthikeyan, Governance in India: Basics and Beyond (2019)

⁹⁷Usha Ganesh, Pioneer to Mainstream: Lessons from the Indian Impact Investing Ecosystem in Veronica Vecchi, Luciano Balbo, Manuela Brusoni, Stefano Casell (eds). Principles and Practice of Impact Investing: A catalytic revolution (2016)

⁹⁸M Karthikeyan, Governance in India: Basics and Beyond (2019)

Participation as investor and Venture Capitalist

NABARD has been a financier and driver of rural innovation. The Rural Innovation Fund of NABARD is “designed to support innovative, risk friendly, unconventional experiments in farm, non-farm and microfinance sectors that would have the potential to promote livelihood opportunities and employment in rural areas”.⁹⁹ Such experience equips NABARD to be a valuable investor and Venture Capitalist in the supply side ecosystem of the proposed Social Stock Exchange.

Monitoring function

NABARD has the experience of monitoring the projects refinanced by it, and therefore can extend this role to the monitoring of the projects implemented by social enterprises.

Expertise in assessment of credit potential

NABARD’s role in formulation of credit plans for districts and assessment of credit potential¹⁰⁰ equips it to play a role in assessing the volume of the credit/financing needed by social enterprises.

Impact Assessment

Considering the long experience that NABARD has built over several decades in social development, NABARD can set up an in-house Social Impact Assessment Agency. This agency can develop India specific social impact indicators drawn out of the several globally available benchmarks for impact assessment.

⁹⁹<https://www.nabard.org/demo/auth/writereaddata/File/Rural%20Innovation%20Fund%20FAQS.pdf>

¹⁰⁰M Karthikeyan, Governance in India: Basics and Beyond (2019)

ANNEXURE I

THE INTERNATIONAL EXPERIENCE - CURRENT SETUP OF SSEs/EQUIVALENTS IN THE WORLD

The idea of the Social Stock Exchange is emerging across the globe as a way of channelizing investments to the businesses aim to create an impact in the lives of people and the environment. Evident from rising trends of impact investments, businesses, apart from making financial gains, are showing signs of taking responsibility for tackling social and environmental challenges. With this mindset of the businesses to contribute to social welfare, SSE has the potential to evolve considerably in the coming years.

The six SSEs and five SSE equivalents discussed in the subsection are new with Brazil's Socio-Environmental Investment Exchange (BVSA in Portuguese) being the oldest, launched in 2003. For each SSE, we report on the purpose or mission of the platform, the structure of the platform, it's regulatory status and listing requisites.



Social Stock Exchange

Socio-Environmental Investment Exchange (BVSA), Brazil

Purpose

The Brazil stock exchange, B3 - Brasil Bolsa Balcão S.A., formerly BM&FBOVESPA runs the B3 Social, created to coordinate its social investment projects. One of the most important projects of B3 Social is the Social-Environmental Investment Exchange (BVSA).¹⁰¹ It was launched as the world's first 'social stock exchange' in 2003 – a project proposed by Celso Grecco and his CSR-focused marketing firm Attitude Social Marketing.¹⁰² The SSE was recognized by UNESCO as unique, adopted by the United Nations Global Compact Office as a case study, and replicated in South Africa in 2006. The SSE became a model recommended by the UN to other stock exchanges in the world.¹⁰³ The idea behind this platform was to use BOVESPA's infrastructure and expertise to connect ethical investors with carefully screened social purpose projects in Brazil that benefitted children and youth in areas of health, literacy, citizenship, education, training, culture, psychosocial care, and environment.¹⁰⁴

Structure

BVSA is a fundraising platform with a format similar to a stock exchange. It is a virtual environment for donations that is safe, practical and transparent and which aims to encourage a donation culture in Brazil, connecting two ends: the Brazilian organizations that need support for their environmental projects on the one hand and social investors on the other.¹⁰⁵ The system does not involve any transfer of ownership or secondary trading and return on investment are in the form of 'social profits'. To invest, a person has to register on www.bvsa.org.br, choose the project theme, target audience or region – and build the donation portfolio. Investors can track the project's progress and monitor its results in the reports available on the BVSA's website.

Regulatory status and listing requisites

The listed projects pass through a rigorous selection process to be on the BVSA. As of 2016 BVSA adopted the 5 Ps (People, Planet, Prosperity, Peace and Partnership) to reflect the new Sustainable Development Goals, as a selection criterion for listed projects.¹⁰⁶ Each year, 20 projects are selected by a committee composed of the Associate Director of the B3 Institute, a Chief Officer of B3 and a representative of the United Nations Development Program (UNDP) and listed for one year.¹⁰⁷ In 2017, the B3 institute and Brazil Foundation announced 20 projects that made up the portfolio of BVSA. The selected projects are distributed across all of the regions of Brazil, with a wide diversity of themes and aligned with the Sustainable Development Goals (SDGS).

NOTE: Information of listed projects post 2017 is not available and the BVSA website is inaccessible.

¹⁰¹<https://sseinitiative.org/data/b3/>

¹⁰²<https://www.g-casa.com/conferences/berlin17/pdf%20paper/Wendt.pdf>

¹⁰³<https://iixglobal.com/celso-grecco/>

¹⁰⁴Danielle, Zandee. (2004). BOVESPA and the Social Stock Exchange: Mobilizing the financial market for development

¹⁰⁵http://www.b3.com.br/en_us/news/b3-institute.htm

¹⁰⁶<https://sseinitiative.org/data/b3/>

¹⁰⁷http://www.b3.com.br/en_us/news/b3-institute.htm



The Social Stock Exchange (SSX), UK

Purpose

U.K. Prime Minister David Cameron announced the launch of the SSX on June 6, 2013 during the Social Impact Investment Forum. SSX seeks to increase the visibility of social businesses among the investment community and “to create an efficient, universally accessible buyers’ and sellers’ marketplace where impact investors and social impact businesses of all sizes can achieve greater impact either through capital allocation or capital raising.” It further intends to “bridge the gap between the increasing desire of businesses to make a difference alongside making a profit, and those investors who share this vision and have the means to enable it to be fulfilled.”¹⁰⁸

According to Tomás Carruthers, the CEO of SSX, making impact investing accessible to not just specialist and professional investors, but also to the wider public, constitutes the core reason why the SSX was brought into being.¹⁰⁹

Structure

To guide the potential investors to make informed decisions about companies against stated objectives, SSX follows admissions process and mandatory reporting requirements. The admission process or social impact tests follows four stages:

- Submission of a basic application form to the SSX admission panel for first stage of approval including statement about the social issue that the company’s product or service addresses.

- If the company passes the above test, the next step is to produce an Impact Report. This report is prepared under the supervision of an expert organizations such as PWC, Deloitte and many others. This expert organization works with the applicant company to develop and assess the social or environmental metrics relevant to the company’s business area or sector. The expert takes on the role of developing the key reporting requirements, assessment, and verification. The Impact report requires 6 key areas to be addressed: CEO commitment to social/environmental value: The context in which the impact is delivered, The beneficiaries, How business activities are key to the delivery of the impact Assessment of stakeholders, Evidence/Outcomes (key performance indicators)
- The completed Impact Report is reviewed by the SSE’s Admissions Panel to judge the company’s suitability for admission and the admission is made on the basis that clear evidence of delivery of social or environmental impact is being made as a direct result of the company’s product, service or business process¹¹⁰.
- The Admissions Panel composed of 11 finance and impact investing experts reviews the company’s social or environmental metrics which the company must re-state on an annual basis. There is a suspension and striking-off mechanism for companies who exhibit mission drift, or any other failure to maintain the delivery of social or environmental impact. This process allows investors to benefit from a rigorous mechanism that they can review on an on-going basis alongside a company’s financial performance.

¹⁰⁸Sarah Dadush - Regulating Social Finance: Can social stock exchanges meet the challenge? (2015)

¹⁰⁹Karen Wendt - Social Stock Exchange - Democratization of Capital Investing for Impact

¹¹⁰https://www.philanthropy-impact.org/sites/default/files/user-uploads/the_social_stock_exchange.pdf



Regulatory status and listing requisites

The companies listed on SSX must already be publicly traded companies on a conventional stock exchange (CSE) and therefore trade in whatever securities are permitted under their CSE's rules. The SSX is therefore "not for start-ups – it's for more mature companies that need to raise significant amounts of money for growth and expansion. There are two eligibility criteria to be listed on SSX:

a. As mentioned, in order to be listed on the SSX, companies must already be listed on an SSX-approved CSE. Thus, only for-profit companies can be listed on the SSX

b. The company must have social or environmental impact as a core aim. To satisfy this requirement, companies must submit a Social Impact Report (as mentioned above) for the review by the admission panel. To stay listed, SSX issuers must provide annual social impact reports that are made available on the website free of charge.¹¹¹

NOTE: UK SSE website is not accessible.

The Social Venture Connexion (SVX), Canada

Purpose

SVX was launched in September 2013 with support from TMX group (the operator of the Ontario Stock Exchange), the Government of Ontario, the law firm, Torys LLP, KPMG, the Royal Bank of Canada, and three charitable foundations, including the Rockefeller Foundation¹¹². SVX was developed by the MaRS Center for Impact Investing, which was formed in Toronto in late 2011 to "mobilize private capital for public good." As MaRS's leading initiative, SVX creates a "space that allows investors to place their capital in enterprises that can make money and do good, and that allows high-impact organizations to find the capital they need to help them grow."¹¹³

Structure

SVX is "a private investment online platform built to connect impact ventures, funds and investors." SVX uses crowdfunding and direct placement to support capital raising by impact ventures and funds. Investors and issuers can manage their investments on the platform, have 24-hour access to all documents in one place, and make transactions through the platform. Although SVX aims one day to be an exchange that is open to the public, as of now, only accredited investors (who meet certain net worth or income benchmarks) can transact on the platform. Accredited investors, as defined by the OSC, who are sophisticated enough to invest without a prospectus, can access SVX. Depending on the sophistication of the investor, they are subject to caps on how much they can invest on SVX in any given year. Also, SVX Investor Manual identifies "impact-first investors with a focus on achieving positive social and/or environmental outcomes with patient capital investments."¹¹⁴

¹¹¹Sarah Dadush - Regulating Social Finance: Can social stock exchanges meet the challenge? (2015)

¹¹²<https://www.svx.ca/about>

¹¹³Sarah Dadush - Regulating Social Finance: Can social stock exchanges meet the challenge? (2015)

¹¹⁴Ibid

On SVX, every issuer has completed a profile including background on the business, organization and/or fund and key documentation such as business plans, financials, pitch decks, term sheets, and subscription agreements. Investor then can log in online and view active investing opportunities. SVX is currently available for investors in Ontario, Quebec, BC, Alberta and Saskatchewan¹¹⁵.

Regulatory status and listing requisites

SVX is the first online portal registered with a securities regulator in Canada. It is registered as a restricted dealer with the Ontario Securities Commission (OSC) and “adheres to all relevant and applicable securities legislation as prescribed by the OSC,” although the FAQs section of the website clarifies that “[n]o regulatory authority has approved or expressed an opinion about the securities offered on the SVX.” SVX is registered as restricted dealer as it offers opportunities in the “exempt market”, or a section of the capital markets that aren't available on public exchanges like the TSX, New York Stock Exchange, and the NASDAQ.¹¹⁶ SVX brings social and environmental venture of all types - from early-stage, scaling ventures, to funds that invest directly themselves, to nonprofits offering debt opportunities¹¹⁷.

To list on SVX, entities must meet the Platform Access Requirements. SVX lists small and medium sized local for-profit social businesses with more than \$50,000 but less than \$25 million in revenues. It targets for profit businesses, non-profits, and cooperatives looking to raise anywhere from \$100,000 to \$10 million in investments. In order to be listed, the ventures must have been incorporated in Ontario for at least two years and have audited financial statements available. Issuers fall into one of two categories:

a. Social impact issuers defined as ventures that are creating opportunities and breaking the cycle of poverty in sub sectors including affordable housing, employment services, food security, education, First Nations and new Canadians

b. Environmental impact issuers, defined as ventures that are building environmental sustainability in sub sectors including renewable energy, sustainable agriculture, consumer products, water, waste reduction and transportation. For-profit businesses must obtain a satisfactory company rating through the GIIRS rating system.

The Impact Exchange (IX), Mauritius

Purpose

Launched in June 2013, the IX is a joint initiative between the Stock Exchange of Mauritius Ltd (SEM) and Impact Investment Exchange Asia (IIX Singapore), is a Singapore based private limited company. IX's mission is to serve as “the public gateway for those who wish to invest in sustainable change for the betterment of society and the environment.” Like any CSE, therefore, IX is focused on creating a fair, efficient and transparent market with strong investor protections; unlike CSEs, the focus on bettering the world is also central, which requires developing strong mission and beneficiary protections.



¹¹⁵<https://www.svx.ca/>

¹¹⁶<https://www.svx.ca/faq>

¹¹⁷<https://www.svx.ca/faq#faq-2>

Structure

IX is the only one that is an actual public exchange. It is billed as “the world’s first public trading platform dedicated to connecting Social Enterprises (SEs) with mission-aligned investment.” Thus, IX will be fully regulated and able to support the listing, trading, clearing and settlement of social business-issued securities. This means that the securities issued by social businesses on IX are liquid, and can be resold to another investor. That is not the case for private placement platforms, where investors cannot easily “exit,” as there is no secondary market for purchased securities. Like “any other global public trading platform,” IX provides advantages such as “transparency, efficiency and liquidity—while also ensuring that the social and/or environmental mission and impact of the issuers are both safeguarded and showcased.” The trading was due to begin at the end of 2014, but as of this report, that has not happened.

Two types of social impact bonds that will be issued on the IX:

1) **The Humanity Bond:** It will be issued by social service organizations—primarily non-profit, which do not include social businesses of the type at issue in this article—to raise funds for programs that save lives and “enable service organizations to overcome the challenge of unstable, inconsistent cash flows while offering an attractive investment proposition to new investors: One which can create a social/environmental impact while simultaneously generating a modest financial return.”¹¹⁸

2) **The Women’s Livelihood Bond (WLB):** The WLB involves issuing a \$20 million debt product, “targeting women as the core beneficiaries.” IIX’s commitment-to-action to the Clinton Global Initiative, the Women’s Livelihood Bond (WLB) is the first Social Sustainability Bonds* designed to unlock capital for Impact Enterprises (IEs) and Microfinance Institutions (MFIs) that are part of the sustainable livelihoods’ spectrum for women in South-East Asia. The WLB is projected to empower over 385,000 low income women with access to credit, market linkages, and affordable goods and services. This will, in turn, help them transition from subsistence to sustainable livelihoods and redefine the dominant narrative from viewing women as victims to recognizing them as solutions to development, change and progress.¹¹⁹

*Social Sustainability Bonds (ISBs) are innovative financial instruments that effectively mobilize large scale private sector capital by pooling together a basket of Impact Enterprises – defined as revenue generating non-profits or mission driven for-profits, and Microfinance Institutions. ISBs are debt securities that pool together this group of underlying borrowers (IEs and MFIs), depending on their financial needs, repayment abilities, risk profiles and impact potential. ISBs are replicable instruments that can be structured and issued around different themes – depending on the target beneficiary (low income women, at-risk youth, among others) – or sectors (livelihoods, energy, education, among others)¹²⁰

¹¹⁸<https://iixglobal.com/portfolio-item/humanity-bond-life-saving-game-changer/>

¹¹⁹https://iixglobal.com/wp-content/uploads/2019/02/IIX-Foundation_WLB-Final-Blueprint-Paper_FEB-2019.pdf

¹²⁰ibid

Regulatory status and listing requisites

IX is operated by the Stock Exchange of Mauritius (SEM) in cooperation with IIX and regulated by the Financial Service Commission Mauritius. As with SVX and SSX, entities that list on the IX are subject to conventional securities regulation. However, this only matters for the financial dimension of impact investments and does not extend to their social dimension. In other words, as with the other SSEs, IX is responsible for the social regulation of impact investments. The most interesting feature of IX is that it introduces a new figure into the listing and compliance process: Potential issuers must appoint an Authorized Impact Representative (“AIR”) to support them in the listing process and to ensure compliance with the listing requirements. All AIRs must be accredited and registered with the SEM. The listing requirements break down into social and financial categories. In their application, prospective issuers must:

1. Clearly specify that positive social or environmental impact is the primary reason for their existence.
2. Clearly articulate the purpose and intent of the company in the form of a theory of change—the basis for demonstrating social performance.
3. Commit to ongoing monitoring and evaluation of impact performance, using clearly defined impact indicators for performance assessment and reporting.
4. Have a minimum of one year of impact reports prepared in accordance with IX reporting principle.
5. Obtain certification of impact reports by an independent standards or rating body 12 months prior to listing.

On the financial side, a prospective issuer must, among other things:

1. Demonstrate that it uses a market-based approach to achieve its purpose and provide financial returns sufficient to meet investors’ expectations.
2. Publish financial statements meeting internationally accepted standards.
3. Issuers must comply with the securities laws and reporting regulations of Mauritius, the SEM, and with the IX Rules. The latter govern listings, set out the requirements for issuers to remain listed, such as reporting and “certain aspects of issuer conduct,” and the minimum standards of behaviour to ensure that market is “fair, orderly and transparent.” IX issuers cannot sell their securities on another exchange, which means that IX has exclusive regulatory control over its issuers.¹²¹

NOTE: No information is available on the present working of the exchange

¹²¹Sarah Dadush - Regulating Social Finance: Can social stock exchanges meet the challenge? (2015)

Jamaica Social Stock Exchange (JSSE)

Purpose

The Jamaica Social Stock Exchange, JSSE, seeks to engage the entire Jamaican economy in promoting the Social Capital Market, believing that true development of any country happens in all areas of life and facets of society. The JSSE is a state-of-the-art virtual environment and a venue for the process where the “socially responsible investor(s)”, people interested in contributing and improving the quality of life in Jamaica, are enabled to invest in wholesome projects that require public funding, and by extension promote the socio-cultural economy and the protection of the physical environment.¹²² The primary objective of the JSSE through the mobilization of Social Capital is:

Phase 1 - facilitating and promoting a higher culture of donation in Jamaica.

Phase 2 - facilitate Social Value Creation through the business activity of SEs and high-levels of capital investment in Social Service creation.¹²³

Structure

The Jamaica Social Stock Exchange (JSSE) is a state-of-the-art virtual environment, with a transparent simplified donation/investment process which mimics the model of a stock exchange trading practices. It facilitates the selection and listing of Projects and Social Enterprises (SEs) with indication of their funding requirements, while also allowing prospective Investors known as “social or virtuous investors” - both individual and

institutional, to access the Exchange via a website to select the Project or SE in which they wish to “socially invest”. The news section of the JSSE website mentions that the exchange is proposed to be rolled out in two phases:¹²⁴

Phase 1: the Jamaica Social Investment Exchange, or JSIX: started in January 2019, facilitating fundraising by not-for-profit enterprises through an online platform. Under this phase, organizations can apply to list their projects on the JSIX website for donations to finance their start-up or to expand. Projects listed on JSIX will be able to raise anywhere from \$5 million to \$25 million per project. Prospective investors will be given access to the JSIX website to select the project they wish to invest or hold shares in, and donate through the platform. In turn, they will receive 'social shares'. Donors will be issued with receipts for tax purposes, or, where applicable, to facilitate refund of their donations.

Phase 2: the Jamaica Impact Investment Exchange, or JIIX: will allow investors to hold tradable shares in the social enterprises that list on the social platform. But this aspect awaits the passage of legislation to facilitate its operation. On the finalization and implementation of that phase, social shares acquired under JSIX will be tradable under JIIX. However, the managing Director of Jamaica Stock Exchange, Marlene Street Forrest said “For phase two, which is the JIIX, a date has not yet been set, as we wish to launch this segment after legislative changes, which will be passed in relation to social enterprises.

¹²²<https://jsse.jamstockex.com/what-we-do>

¹²³ Ibid

¹²⁴<http://jamaica-gleaner.com/article/business/20181109/two-step-rollout-social-stock-exchange-donation-site-goes-live-january>

Regulatory status and listing requisites

The JSSE, is a social program driven by the Jamaica Stock Exchange's (JSE) own practice of Corporate Social Responsibility (CSR), in partnership with companies listed on the JSE, international development partners, local donors and donors in the Jamaican Diaspora. The JSSE has its own Advisory Board along with a Listing and Selection Committee and a dedicated in-house Management Team as a division of the JSE. Any company registered with the Companies Office or as a non-profit organization with a technically and financially viable project/program with a SOCIAL MISSION that will solve a social or environmental need, can apply. To be listed however the applicant must first go through a Selection process to qualify to go to market for funding. Only after full funding is obtained then listing on the JSSE will follow.¹²⁵

The following procedures will apply to projects to be listed:

- Projects/Organizations must undergo a transparent and rigorous selection process comprised of five stages which includes a site visit.
- The JSIX will hold three evaluation rounds annually ending on February 15, May 15 and August 15. Selected projects will then be listed on the JSIX website and so become eligible to receive contributions.
- Projects applying to be listed on JSIX can request JMD \$5-25M per project.
- Organizations will be required to provide quarterly and semi-annual reports concerning the activities, progress and status of their projects throughout the listing period. Such reports must be submitted in the form provided by JSIX upon signing of the Partnership Contract.
- Projects will only begin receiving funding when they obtain 100% of the funds needed to affect the project.
- Projects will be required to self-generate 10% of project funding needed.¹²⁶
- Donors will have the option of making either project specific' or 'general' donations - the latter are a "keep the change" programme for donors who want to ensure there is a pool of funds that can assist any programme. Funds that are donated for 'general' purposes will be deposited to a JSIX Consolidated Fund account, proceeds from which may be used to close the funding gap for projects that fall short of their fundraising targets on the platform.¹²⁷

¹²⁵<https://jsse.jamstockex.com/faq>

¹²⁶<https://www.jamstockex.com/what-is-the-jamaica-social-stock-exchange/>

¹²⁷<http://jamaica-gleaner.com/article/business/20181109/two-step-rollout-social-stock-exchange-donation-sitegoes-live-january>

South Africa Social Investment Exchange (SASIX), Johannesburg

(Not Working anymore)

Purpose

SASIX aims to address global, regional and country poverty and sustainability issues. It believes that sustainable poverty eradication will only be achieved if we mobilize private sector funding for economic development on a significant scale. It also believes that by pulling together a rich diversity of strategies, markets and business, capital and commerce, can be harnessed not simply for the creation of individual wealth but also for the creation of global prosperity and value in its fullest sense.¹²⁸

Structure

Launch in 2006, SASIX was the second global SSE after Brazil's BVSA. The SASIX had replicated Brazil Stock Exchange model of BVSA but evolved in terms of management model by incorporating similar tools into those by traditional stock markets. SASIX offers a transparent intermediary infrastructure providing social investment broking and portfolio management capabilities to stimulate a holistic, effective and dynamic social capital marketplace.¹²⁹ However, despite the initial plan of developing SASIX into the world's first fully independent SSE, as of 2017, the platform no longer exists.¹³⁰

Regulatory status and listing requisites

SASIX provides independent research, evaluation and monitoring to ensure that listed projects meet a set of criteria, including the ability to deliver measurable returns whether these are social or financial or a combination of both. SASIX applies the same sort of due diligence consideration to projects as would be applied to purely financial investments, including assessing needs and evaluating depth, breadth, permanence, strengths and risks.¹³¹

¹²⁸<https://www.bfi.org/ideaindex/projects/2018/global-social-investment-exchange-sasix>

¹²⁹ Ibid

¹³⁰ Karen Wendt. Social Stock Exchange - Democratization of Capital Investing for Impact (2017)
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3021739

¹³¹<https://www.sasix.co.za/>

SSE Equivalents

Mission Market

U.S. (Mission Markets). Mission Markets (MM), launched in 2010, is a private capital (online) marketplace for impact investing in the U.S. The company is affiliated with Bendigo Securities that provides Broker Dealer services for the company. MM has no desire to ever be a public exchange.

Accredited investors registered with MM can log into the site to view approved offerings of social enterprises. MM is a one-stop shop—it connects socially-minded companies to investors, provides review for due diligence and offering documents, brings in the capital, and closes the transactions through its broker dealer partner. For issuers, Mission Markets help social enterprises and organizations extend their reach through their support of alternative capital raising structures like the Direct Public Offering, Cooperative Shares, Private Equity, Private Placements, and unregistered debt offerings. They provide marketing for offerings through widespread promotion of the platform and Virtual Road Show. Investor members are invited to online presentations, where individual issuers create video presentations describing their work and investment opportunities.¹³²

All issuers must have a qualified third party assess, rate, or certify their impact, as well as provide annual reporting using quantitative metrics that follow Impact Reporting and Investment Standards (IRIS).

Kenya Social Investment Index (KSIX)

(Not Working anymore)

KSIX was formally registered as a company limited by guarantee in 2009. It was launched in 2011 as an exchange to foster the growth of triple bottom line enterprises that are structured to yield social, environmental and financial returns. KSIX acts as trusted source of vetted Social Purpose Enterprises (SPEs) for investors looking for social, environmental and financial returns. Conversely, KSIX offers a platform through which SPEs can attract finance and investment for their activities. The SPE assessment processes must be informed by Global Reporting Initiative (GRI) and Impact Reporting and Investment Standards (IRIS).

NZX (New Zealand Stock Exchange)

Share for Good is a fundraising initiative of NZX in collaboration with JBWere, Computershare and Link Market Services that allows investors to donate small parcels of shares to a designated charity. As this could be more of an administrative burden than benefit to investors, all partners waive the fees associated with donations to ensure the viability of the programme. The Graeme Dingle Foundation is the current Shares for Good recipient.

¹³²<https://www.naturalinvestments.com/blog/mission-markets-advances-impact-investing/>

Luxembourg Green Exchange (LGX)

LGX is a platform dedicated to sustainable financial instruments, which include bonds, funds and other financial instruments. It is a unique repository for green, social and sustainability information and thus constitutes an accessible and comprehensive place where trustworthy information can be retrieved easily and for free. LGX is not a separate market. It is a dedicated platform for securities that are listed on one of the LuxSE's markets (Bourse de Luxembourg, EuroMTF) or registered on the Securities Official List (SOL). In other words, LGX complements LuxSE's existing markets by focusing on ESG, green, social or sustainable securities.¹³³

Only funds benefitting from a label delivered by one of the following label agencies: LuxFLAG (Luxembourg), FNG (Germany), Swan (Nordics), and the TEEC, or SRI labels French government) can be displayed on LGX. The display on LGX also implies that the fund commits to an ongoing reporting covering the sustainability performance of the fund's portfolio as well as a proof of label accreditation renewal.¹³⁴

Impact finance organization (IMFINO), Austria

Imfino is a global impact investing platform that aims to connect impact investors with impact investment projects (entrepreneurs). As of this report, Imfino is at beta stage, offering only "Industry Know How" of impact investing sector, and an open marketplace in which entrepreneurs are able to present sustainable projects (companies) for interested investors free of charge.¹³⁵ The online platform for investors and entrepreneurs (the GIIVX, Global Impact Investing Vienna Exchange) is going to be the major service of Imfino, yet there is no specific information available.

¹³³<https://www.bourse.lu/faq-lgx-funds>

¹³⁴ Ibid

¹³⁵<https://imfino.com/en/>

ANNEXURE II

DEFINITIONS OF SOCIAL ENTERPRISES, SOCIAL ENTREPRENEURS AND OTHER ASSOCIATED TERMS

*Source of the definitions:

1 to 31¹³⁶

32 to 51¹³⁷

52 to 55¹³⁸

56 to 57¹³⁹

58 to 62: given individually in the footnote

Sl. No.	Definition	Author/Source
1	"A revenue generating venture to create economic opportunities for very low-income individuals, while simultaneously operating with reference to the financial bottom-line"	REDF (1996)
2	"Any private activity conducted in the public interest, organised with an entrepreneurial strategy but whose purpose is not the maximisation of profit but attainment of certain economic and social goals, and which has a capacity of bringing innovative solutions to the problems of social exclusion and unemployment"	OECD (1999)
3	"Put simply it is about trading with a social purpose, using business tools and techniques to achieve explicitly social aims. [...] A social enterprise is not defined by its legal status but by its nature: what it does that is social, the basis on which that social mission is embedded in a form of social ownership and governance and the way that it uses the profits it generated through its trading activities."	Bates, Wells and Braithwaite and Social Enterprise London (2001)
4	"Social enterprises are not-for-profit organisations, which seek to meet social aims by engaging in economic and trading activities. They have legal structure, which ensure that all assets and accumulated wealth are not in the ownership of individuals but are held in trust and for the benefit of those persons and/or areas who are the intended beneficiaries. They have organisational structures in which full participation of members is encouraged on a co-operative basis with equal rights accorded to all members. They also encourage mutual co-operation with other similar organisations."	CONSCISE Project (2001)
5	"Competitive businesses, owned and trading for a social purpose"	Smallbone, Evans, Ekanem and Butters (2001)
6	"A social enterprise is any kind of enterprise and undertaking, encompassed by nonprofit organization, for profit companies or public sector businesses engaged in activities of significant social value or in the production of goods and services with a embedded social purpose"	Social Enterprise Knowledge Network – Harvard Business School (2001))

¹³⁶Social Enterprises: Definitions and boundaries <http://www.anser-ares.ca/files/conf11/papers/Brouard-Larivet.pdf>

¹³⁷A typology of Social Entrepreneurs: motives, search and ethical challenges.

<http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.454.7961&rep=rep1&type=pdf>

¹³⁸Social Business: Meaning, Scope and Evaluation.

https://www.researchgate.net/publication/305473345_SOCIAL_BUSINESS_MEANING_SCOPE_AND_EVALUATION

¹³⁹Bc center for social enterprises. <https://www.centreforsocialenterprise.com/what-is-social-enterprise/>

Sl. No.	Definition	Author/Source
7	Social enterprise - An organization that is equally committed to generating economic, social and environmental profit – known as ‘multiple bottom lines’ – and is geared towards creating meaningful and lasting change within the community.	Bibby (2001)
8	“A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners”	DTI (2001)
9	“Social enterprise refers to a broad set of approaches that use business acumen to address social goals.”	Gray, Healy and Crofts (2003)
10	“Most simply, an organisation where people have to be businesslike, but are not in it for the money. Defined in this way, social enterprise is a generic term encompassing many very different sorts of organizations (just as private enterprise does)	Palton (2003)
11	“Defines social enterprises as those which are: not-for-profit organisations; seek to meet social aims by engaging in economic and trading activities; have legal structures, which ensure that all assets and accumulated wealth are not in the ownership of individuals but are held in trust and for the benefit of those persons and/or the areas that are the intended beneficiaries of the enterprise’s social aims; have organisational structures in which full participation of members is encouraged on a cooperative basis with equal rights accorded to all members’.”	Pearce (2003)
12	“A social enterprise is any business venture created for a social purpose—mitigating/reducing a social problem or a market failure—and to generatesocial value while operating with the financial discipline, innovation and determination of a private sector business.”	Alter (2006)
13	“Social enterprises are organisations that are driven by a social mission, aims and objectives, that have adopted an economic business model to achieve their social aims”	Crossan, Bell and Ibbotson (2004)
14	“Social enterprise is considered synonymous with organizations becoming more market driven, client driven, self-sufficient, commercial, or businesslike	Dart 2004
15	“Social enterprise potentially covers everything from not-for-profit organizations, through charities and foundations to cooperative and mutual societies”	Hardings (2004)
16	“A business that trade for a social purpose”	Haugh and Tracey (2004)
17	“A venture/business activity within a non-profit organization providing financial and/or social benefits that further the mission”	Fondation Muttart - Shelley Williams (2005)
18	“TSVs [technology social ventures]...develop and deploy technology-driven solutions to address social needs in a financially sustainable manner...TSVs address the twin cornerstones of social entrepreneurship – ownership (financial return) and mission (social impact) using advanced technology.”	Desa and Kotha (2006)

Sl. No.	Definition	Author/Source
19	"Organizations with an explicit aim to benefit the community, initiated by a group of citizens and in which the material interest of capital investors is subject to limits. Social enterprises also place a high value on the autonomy and on economic risk-taking related to ongoing socio-economic activity."	Defourny and Nyssens – EMES Network (2006)
20	A social enterprise is a business dedicated to a social mission, or earning a profit for the financial furtherance of a social mission, although these are likely not the sole reasons for existence."	Gould (2006)
21	"Social enterprise is a collective term for a range of organizations that trade for a social purpose. They adopt one of a variety of different legal formats but have in common the principles of pursuing business-led solutions to achieve social aims, and the reinvestment of surplus for community benefit. Their objectives focus on socially desired, non financial goals and their outcomes are the non financial measures of the implied demand for and supply of services."	Haugh (2006)
22	"Social purpose business ventures are hybrid enterprises straddling the boundary between the for-profit business world and social mission-driven public and nonprofit organizations. Thus they do not fit completely in either sphere."	Hockets (2006)
23	"A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners"	Office of third sector (2006)
24	"Social enterprises – defined simply – are organisations seeking business solutions to social problems. They need to be distinguished from other socially-oriented organisations and initiatives that bring (sometimes significant) benefits to communities but which are not wanting or seeking to be 'businesses'."	Thompson and Doherty (2006)
25	"Social enterprises typically engage in delivery of social services and work integration services for disadvantaged groups, as well as community services, including in the educational, cultural and environmental fields, in both urban and rural areas."	Babos, Clareence and Noya (2007)
26	"Social enterprises are enterprises devoted to solving social problems. The reason for their existence is not to maximize return to shareholders, but to make a positive social impact"	Cohran (2007)
27	"Social enterprises are businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community. Social enterprise is not just 'business with a conscience'. It is about actively delivering change, often tackling entrenched social and environmental challenges."	Office of third sector (2007)
28	Social enterprise: Any organization, in any sector, that uses earned income strategies to pursue a double or triple bottom line, either alone (as a social sector business) or as part of a mixed revenue stream that includes charitable contributions and public sector subsidies."	Institute of Social Entrepreneurship

Sl. No.	Definition	Author/Source
29	"Social enterprises are organizations that take different legal forms across OECD countries to pursue both social and economic goals with an entrepreneurial spirit. Social enterprises typically engage in delivery of social services and work integration services for disadvantaged groups and communities, whether in urban or rural area. In addition, social enterprises are also emerging in the provision of community services, including in the educational, cultural and environmental fields.	OECD – LEED Programme
30	"Social enterprise: An organization or venture that advances its social mission through entrepreneurial, earned income strategies."	Social Enterprise Alliance
31	"Social enterprises are competitive businesses that trade for a social purpose. They seek to succeed as businesses by establishing a market share and making a profit. They emphasise the long-term benefits for employees, consumers and the community. They bring people and communities together for economic development and social gain by combining excellence with action for change."	Social Enterprise London
32	The use of entrepreneurial behavior for social ends rather than for profit objectives, or alternatively, that the profits generated from market activities are used for the benefit of a specific disadvantaged group.	Leadbetter (1997)
33	Social entrepreneurs are driven by a desire for social justice. They seek a direct link between their actions and an improvement in the quality of life for the people with whom they work and those that they seek to serve. They aim to produce solutions which are sustainable financially, organizationally, socially and environmentally.	Thake and Zadek (1997)
34	Play the role of change agents in the social sector, by: 1) Adopting a mission to create and sustain social value (not just private value), 2) Recognizing and relentlessly pursuing new opportunities to serve that mission, 3) Engaging in a process of continuous innovation, adaptation, and learning, 4) Acting boldly without being limited by resources currently in hand, and 5) Exhibiting heightened accountability to the constituencies served and for the outcomes created.	Dees (1998)
35	Social entrepreneurs create social value through innovation and leveraging financial resources...for social, economic and community development.	Reis (Kellogg Foundation) (1999)
36	Social Entrepreneurship is the creation of viable socio-economic structures, relations, institutions, organizations and practices that yield and sustain social benefits.	Fowler (2000)
37	Individuals constantly looking for new ways to serve their constituencies and add value to existing services	Fowler (2000)

Sl. No.	Definition	Author/Source
38	A multidimensional construct involving the expression of entrepreneurially virtuous behavior to achieve the social mission...the ability to recognize social value creating opportunities and key decision-making characteristics of innovation, proactiveness and risk- taking	Mort et al. (2002)
39	A major change agent, one whose core values center on identifying, addressing and solving societal problems.	Drayton (2002)
40	Creates innovative solutions to immediate social problems and mobilizes the ideas, capacities, resources and social arrangements required for social transformations	Alford et al. (2004)
41	Entrepreneurs motivated by social objectives to instigate some form of new activity or venture.	Harding (2004)
42	The work of community, voluntary and public organizations as well as private firms working for social rather than only profit objectives.	Shaw (2004)
43	A professional, innovative and sustainable approach to systematic change that resolves social market failures and grasps opportunities	Said School (2005)
44	The art of simultaneously pursuing both a financial and a social return on investment (the "double" bottom line)	Fuqua School (2005)
45	Applying practical, innovative and sustainable approaches to benefit society in general, with an emphasis on those who are marginalized and poor.	Schwab Foundation (2005)
46	The process of using entrepreneurial and business skills to create innovative approaches to social problems. "These non-profit and for profit ventures pursue the double bottom line of social impact and financial selfsustainability or profitability."	NYU Stern (2005)
47	Process whereby the creation of new business enterprise leads to social wealth enhancement so that both society and the entrepreneur benefit.	MacMillan (Wharton Center) (2005)
48	Making profits by innovation in the face of risk with the involvement of a segment of society and where all or part of the benefits accrue to that same segment of society.	Tan et al. (2005)
49	...a process of creating value by combining resources in new ways...intended primarily to explore and exploit opportunities to create social value by stimulating social change or meeting social needs.	Mair and Marti (2006)
50	Social entrepreneurship is exercised where some person or group...aim(s) at creating social value...shows a capacity to recognize and take advantage of opportunities...employ innovation...accept an above average degree of risk...and are unusually resourceful ... in pursuing their social venture.	Peredo and McLean (2006)

Sl. No.	Definition	Author/Source
51	Social entrepreneurship is the: 1) identification a stable yet unjust equilibrium which the excludes, marginalizes or causes suffering to a group which lacks the means to transform the equilibrium; 2) identification of an opportunity and developing a new social value proposition to challenge the equilibrium, and 3) forging a new, stable equilibrium to alleviate the suffering of the targeted group through imitation and creation of a stable ecosystem around the new equilibrium to ensure a better future for the group and society.	Martin and Osberg (2007)
52	Social business is a financially sustainable organization created only to solve a social problem. Whereas original investments may be recovered, all potential profits are reinvested to further increase the organization's social impact	Abm Shahidul Islam
53	A social business has products, services, customers, markets, expenses, and a revenue like a regular business.....it is no-loss, no-dividend, selfsustaining company that repays its owners' investment. It is not a charity, but a business in every sense. The managerial outlook must be the same as in a conventional profit –maximizing business. At the same time, as it is trying to achieve its social objective, social business needs to recover its full costs so that it can be self-sustainable.	Abm Shahidul Islam
54	The first type of social business focuses on business dealing with social objectives only. E.g.: the product or service produced is for the benefit of the poor or targeted to solve a specific social problemT.	Abm Shahidul Islam
55	The second type of social business can take up any profit maximizing business so long as it is owned by the poor and the disadvantaged, who can gain through receiving direct dividends or by some indirect benefits. E.g.: the product could be produced by the poor but exported to an international market while net profits would go towards workers benefit.	Abm Shahidul Islam
56	Social enterprises are revenue-generating businesses with a twist. Whether operated by a non-profit organization or by a for-profit company, a social enterprise has two goals: to achieve social, cultural, community economic and/or environmental outcomes; and, to earn revenue.	bc center for social enterprice
57	On the surface, many social enterprises look, feel, and even operate like traditional businesses. But looking more deeply, one discovers the defining characteristics of the social enterprise: mission is at the centre of business, with income generation playing an important supporting role ¹⁴⁰	The Center for Community Enterprises
58	The preference for "social entrepreneurship" in the United States already implies that the solution to social problems is to be found in private (and usually individual) initiative; non-reciprocal donations are relegated to "philanthropy". The European preference for "social enterprise," on the other hand, leaves questions of profit status, funding, and corporate governance, open .	(Kerlin 2006, 2009; Defourny & Nyssens 2010; Van de Gronden 2011; Brouard & Larivet 2011)

¹⁴⁰Business Model for Social Enterprises: A design approach to Hybridity
http://www.acrn-journals.eu/resources/JoE012012/Grassl_SE-Hybridity.pdf

Sl. No.	Definition	Author/Source
59	Impact Enterprise: 'Impact Enterprises' (IEs) which can be classified either as mission driven for profits (such as high impact Small Medium Enterprises or Social Enterprises) or revenue generating non-profits (such as NGOs that are financially sustainable) ¹⁴¹ .	Impact Investment Exchange, Singapore
60	Social impact issuers defined as "ventures that are creating opportunities and breaking the cycle of poverty in subsectors including affordable housing, employment services, food security, education, First Nations and new Canadians ¹⁴² ;" Environmental impact issuers, defined as "ventures that are building environmental sustainability in subsectors including renewable energy, sustainable agriculture, consumer products, water, waste reduction and transportation."	Social Venture Connexion (SVX) (Canada)
61	"BUSINESSES whose mission is to solve social, cultural, economic or environmental problems at the community and/or national level, through effective and ethical business practices with the reinvestment of profits to the social mission ¹⁴³ ."	Jamaica Social Stock Exchange
62	"Social enterprise" is a form of social impact investment. Social enterprise has clear social and environmental objectives and targets from the beginning. However, it operates as a business with financial sustainability. Social impact investment is a form of investment made for investors who want to invest in the business that can generate positive impact on society and environment, in addition to financial returns. The impact should last long with long-term sustainable financial rewards. ¹⁴⁴	Social Impact Investment, Thailand.

¹⁴¹ IIX, Singapore. https://www.unescap.org/sites/default/files/IIX%20Shujog_Case%20Study_24032016.pdf

¹⁴²SVX , Canada. <https://www.torys.com/~media/files/insights/publications/2014/03/social-venture-connexion-a-canadian-model-for-im/files/ar20143pdf/fileattachment/ar20143.pdf>

¹⁴³Jamaican Social Stock Exchange. <https://jsse.jamstockex.com/faq>

¹⁴⁴Social Impact Investment, Thailand. https://www.set.or.th/sustainable_dev/en/social_impact_investment/about_p1.html

ANNEXURE III

EXAMPLES OF SOCIAL ENTERPRISES IN INDIA

As there is no legal structure like B-Corp or CIC in India, 'what constitutes Social Enterprises?' is an open-ended question. There is no consensus among academicians or practitioners about the examples. However, the thought process underlying Social Enterprises has been present in India since a century. Mahatma Gandhi had also talked about trusteeship which states that the businessmen are the trustees of the overall welfare of the society. There are two authentic organizations which have identified Social Enterprises in India based on their robust methodology. One is B-Corp which is a standard recognition system of Social Enterprises based out of the United State and second is British Council which has also identified social enterprises through its report on state of Social Enterprises in India.

It is safe to say that B-Corp certification is a good tool to recognize Social Enterprise. There are five organization based out of India which are certified by B Corporation¹⁴⁵. B-Corporation gives B Impact scoring out of 200 and organizations become eligible to be called as B-Corp certified at the score of 80. These organizations and their working areas are been given in brief:

eKutir¹⁴⁶

Ekutir is India's first certified B-Corp. This Delhi based company was started in the year 2009. Now, it is also active in Nepal and Haiti. This for-profit enterprise has vision to "to provide equal opportunities and sustainable development to people at the bottom of the pyramid. It has different models to cater to the needs of the society such as social venture, social business, ICT platform. Overall B Impact Score of 120 and it is highest amongst the five Indian B-Corps.

Vaya Powering Institution¹⁴⁷

It is a Hyderabad based Fintech Company established in 2014 which provides working capital loans for small and micro-enterprises. As per banking regulations, it is a registered NBFC (Non-Banking Financial Company). Loans are given at the interest rate of 10% or 12% based on the cost of funds. Along with this Vaya also work in financial literacy of its customers. Vaya has an Overall B Impact score of 120.

IndiVillage Tech Solutions¹⁴⁸

It is a Yemmigannur, Andhra Pradesh based BPO (Business Process Outsourcing) for IT related services. It uses impact sourcing to bring economic opportunities for rural India. It gives services like e-commerce catalogue, 3D content creation in the US, Europe and some south-east Asian countries. The company reinvests profit back into the community through Education, Nutrition and Drinking Water related programs of the company. IndiVillage's overall B Impact score is 93.7.

SAGE Sustainability¹⁴⁹

It is a Bangalore based company which works in sustainability related issues and gender issues. It also works in sustainability report writing services and sustainability related capacity building and training. Company gives 1% of its profit to planet and 1% towards people. It has an overall B impact score of 91.9.

¹⁴⁵B Corp Directory. <https://bcorporation.net/directory?search=&industry=&country=India&state=&city=>

¹⁴⁶eKutir. <http://www.ekutirsb.com/>

¹⁴⁷Vaya Powering Aspirations. <http://www.vayaindia.com/about-us>

¹⁴⁸Indivillage. <https://www.indivillage.com/#business-outsource>

¹⁴⁹SAGE Sustainability. <https://sagesustainability.in/>

Caspian Impact Investment Adviser Private Limited¹⁵⁰

Caspian is a Hyderabad based company which does 'impact investment'. Since 2005, they are investing in such companies which creates social and environmental impact and also gives financial returns. It has overall B-Impact score of 109.7.

British Council in its Survey of the Social Enterprise Landscape in India (2016) had identified few examples of Social Enterprises in India¹⁵¹. As per this report profit as well as non-profit entities can be Social Enterprises. Few examples of Social Enterprises from this report are given below:

Priyadarshini Taxi Services¹⁵²

It started in 2008 at Mumbai with a thought process that there are very less number of women drivers in Mumbai. This is created "for the safety, security and dignity of the women". Under this, women from marginalised communities and who has an income below Rs. 10,000 per month are trained and employed to drive taxis. This enterprise is contributing towards marginalised section of the society by creating employment opportunities for them and by that increasing their standard of living. The training is provided free of cost. It provides taxi services to Mumbai airport, within Mumbai city and outstation also.

vRemind¹⁵³

It is a company established in 2014 at Hyderabad which works in the healthcare sector. Company sends SMS reminders to parents about the immunization of their child. Two reminders are sent, one 10 days before and another just a day before immunisation. Company started this services so that the avoidable deaths caused by missed immunization can be curbed.

¹⁵⁰Caspian. <https://www.caspian.in/>

¹⁵¹British Council, "Social Value Economy: A Survey of the Social Enterprise Landscape in India" (2016) 152 Priyadarshini Taxi Services http://www.priyadarshinitaxi.com/about_us.php

¹⁵³vReminder. <http://vremind.org/#Whatwedo>

ANNEXURE IV

COMPARISON OF COMPANY AND NGO TYPES

Potential Social Enterprises in India are of different types, ranging from trusts to for-profit entities such as Private Limited Companies.

The table below shows a comparison between the different forms of potential Social Enterprises from a legal point of view.

COMPANY							NGO		
Company / NGO Type	Private Limited	Limited Liability Partnership	One Person Company	Partnership	Proprietorship	Public Limited	Section 8 Company	Society	Trust
Registration	Registration with ROC under 2013 Act	Registration with ROC under 2013 Act	Registration with ROC under 2013 Act	No formal Registration	No formal registration	Registration with ROC under 2013 Act	Registration with ROC under 2013 Act	Registration with the Deputy Registrar of societies of the concerned state under Societies Registration Act, 1860	Registration with Sub Registrar of Registration/ Charity Commissioner under State Act, if any, or under Bombay Trust Act, 1950
Name Approval	Need to be approved with MCA	Need to be approved with MCA	Need to be approved with MCA	No name approval required	No name approval required	Need to be approved with MCA	Need to be approved with ROC (cannot be approved if the name is restricted under Emblem Act)	Need to be approved with the Registrar of Societies (cannot be approved if the name is restricted under Emblem Act)	No Name approval Required if the name is not under Emblem Act
Legal Status	Separate legal entity from Owners, Capital is a Personal Liability	Separate legal entity from Owners, Capital is a Personal Liability	Separate legal entity from Owners	NO Separate Legal Entity for Owner	NO Separate Legal Entity for Owner	Separate legal entity from Owners, Capital is a Personal liability	Separate legal entity from its members	Separate legal entity from its members	Trust is not a separate legal entity. It is considered as a separate legal arrangement. A trustee may be an individual or a company.
Owners Remuneration	Allowed as per Agreement (Can't exceed 11% of Profits)	Partner's remuneration allowed. Certain restrictions	Partner's remuneration allowed. Certain restrictions	Allowed as per Agreement	Owner's Salary not allowed	Allowed as per agreement	General body of Company can approve to get payment	General body of Association can permit and approve to get payment	Trustee cannot receive payment for their governance role but if there is a provision to get funds in the trust deed then Trustees can receive payment for projects or if the trustees are providing professional services or consultancy

COMPANY							NGO		
Company / NGO Type	Private Limited	Limited Liability Partnership	One Person Company	Partnership	Proprietorship	Public Limited	Section 8 Company	Society	Trust
Min v/s Max No of Shareholders /Members	2-200	2-Unlimited	1:1	2:20	1-1	7-Unlimited	Minimum 2	Minimum 7 members at state level and 8 at national level	2-Unlimited
Min v/s Max No of Directors	1-15	2-15	2-15	2-20	1-1	3-Unlimited	Minimum 2	-	-
Foreign Member	Allowed. But Govt. approval is needed in some cases	Need's Govt. Approval	Not Allowed	Not Allowed	Not Allowed	Not allowed in Gambling, Betting Chit Funds and sectors not opened for pvt. ltd	Foreigner can be a director. A foreigner cannot be a member of society if FCRA registration is done	A foreigner cannot be a member of society if FCRA registration is done	A foreigner cannot be a member of society if FCRA registration is done
Transferability	Can be transferred easily	Can be transferred	Can be transferred	Not Allowed	Not Allowed	Can be transferred	Can be transferred. Restriction on the transfership can also be placed	Not Allowed	Not Allowed
Board Meetings	To be held periodically	No need	Not Allowed	Not Allowed	No need	To be held periodically	At least one Annual General meeting and 4 board meeting are required in a year	General Body and board meetings are required to be held as prescribed in the bye laws of the society. To follow the democratic pattern of the society regular meetings should be held in active societies	No provisions exist to organise meetings. But to follow the democratic pattern of the society regular meetings should be held in active trust

ABOUT THE PRINCIPAL AUTHOR

Having embarked on his journey in the development sector by living and working for several years among remote forest based indigenous tribal communities in the southern Indian district of Mysuru, Dr R Balasubramaniam (Balu) is a widely respected development activist, policy analyst, leadership trainer and writer. He has uniquely been able to combine a vast development sector experience with studying and teaching at the world's leading schools of policy and development, including Harvard and Cornell. The founder of Swami Vivekananda Youth Movement (SVYM) and Grassroots Research And Advocacy Movement (GRAAM), Dr Balasubramaniam embodies a rare blend of grassroots and macro perspectives on public policy and development, thanks to his multi-faceted experience of more than three decades. He also holds membership and consulting positions in Government Bodies and Commissions, World Bank, Academic Boards and Development agencies.

He is a visiting professor at Cornell University, USA and IIT-Delhi, India. His current area of study includes Social Businesses, Social Stock Exchanges and the 'for-benefit' economy.

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ABOUT THE PROJECT

Social entrepreneurs in India have an increasing demand for capital for tackling the major development challenges of the day. Setting up a Social Stock Exchange (SSE) can help create an ethical and transparent investment environment in India and boost the availability of funding to them. In comparison to traditional stock exchanges, SSEs give social enterprises much greater control over social and environmental missions.

A basic prerequisite for a Social Stock Exchange is a Social Enterprise ecosystem that is ready to participate in SSEs. Social enterprises have to be oriented towards revenue generation and financial sustainability (while ensuring that social purpose is primary), robust governance and measurable social impact in their functioning.

Supported by NABARD, GRAAM has carried out a secondary data based study to extensively analyse the Social Enterprise system in India, identify its gaps and challenges, define the role of the Government in supporting Social Enterprises and suggest forms of Government support for Social Enterprises. This study also suggests the appropriate legal form for Social Enterprises, and lays down a roadmap for the development of the Social Stock Exchange in India.

GRAAM

GRAAM (Grassroots Research And Advocacy Movement), is a public policy research and advocacy initiative in India. It was founded with the aim of nurturing a space for evolution of public policy that embodies community 'voice' and is driven by empiricism, democratic principles and progressive interaction of the key stakeholders in development. GRAAM's extensive expertise spans over policy research, program evaluation, community consultation, policy engagement, strategic consultation and academic programs. With an eclectic mix of professionals from diverse backgrounds and experiences, GRAAM has successfully undertaken research, evaluations, consultancies and advocacy initiatives in different sectors with a multi-dimensional approach. (For more, visit: <http://www.graam.org.in/about-us/>)



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