Indian Social Stock Exchange as a Funding Avenue for Social Enterprises

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Abstract

Purpose : The growth of Indian social enterprises faces a significant obstacle, which is a lack of access to finance. The social stock exchange was recently launched to cater to this problem. This study explored the financial challenges the selected social enterprises faced in India and analyzed the performance of small and medium enterprises platforms.

Methodology : Three variables were subjected to descriptive analysis: migration to the principal board, funds generated, and listings by small and medium-sized enterprises. Furthermore, market volatility was evaluated using the generalized autoregressive conditional heteroskedasticity (GARCH) model. To explore financial constraints, primary research entailed conducting in-depth interviews utilizing the case study technique with both for-profit and non-profit social companies.

Findings : The findings from the study concluded that IPO financing significantly supported Indian SMEs. Additionally, social enterprises face significant financing challenges related to affordability, availability, and regulation. Social stock exchange presents a promising solution to these constraints.

Practical Implications : The study has recommended defining social enterprises legally will help in strengthening the operating framework of a social stock exchange. The study emphasized the important role of finance in the viability of social enterprises by highlighting financial challenges. The findings provided useful information for various stakeholders to bridge the funding gap, thereby promoting the potential advantages of the social stock exchange platforms.

Originality : The study addressed the research gap with an examination of small and medium enterprise platforms and the influence of the social stock exchange on social enterprise financing in India. Primary data from both for-profit and non-profit social entrepreneurs added a disaggregated dimension.

Keywords : **social enterprises, social stock exchange, for-profit enterprises, non-profit enterprises**

JEL Classification Codes : G0, G1, O16

Paper Submission Date : August 20, 2023 ; Paper sent back for Revision : March 14, 2024 ; Paper Acceptance Date : April 8, 2024 ; Paper Published Online : July 15, 2024

In India, there is a presence of close to two million social enterprises which have been creating an impact across sectors (British Council, 2016). According to the United Nations Conference on Trade and Development (UNCTAD), developing countries face a financing gap of $2.5 trillion annually in achieving Sustainable Development Goals (SDGs); India faces an explicit financing gap of $565 billion (Ravi et al., 2019). Social entrepreneurship can be crucial in achieving SDGs by offering financially self-sustaining models for positive

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DOI : https://doi.org/10.17010/pijom/2024/v17i7/173636

social change (Al-Qudah et al., 2022; Budhedeo & Doshi, 2015). However, several challenges hinder the growth of social enterprises, particularly financial challenges (Seda & Ismail, 2020). A British Council assessment on social companies in India found that one of the biggest obstacles to their capacity to grow and remain sustainable was their inability to obtain loans or equity, according to 57% of the social entrepreneurs surveyed (Natu et al., 2016). To beat social enterprises' financial constraints, India has adopted a new method of financing – the Social Stock Exchange (SSE) and the Securities and Exchange Board of India (SEBI) has worked on building India's first SSE to provide a structure and an operational framework for social entrepreneurship. Global SSE adoption is limited to a select few nations, including Singapore, the United Kingdom, Canada, and South Africa.

In 2022–2023, SSE was launched as a separate segment under the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). Under the current regulations for the SSE, social enterprises can be divided into two subgroups: For-Profit Social Enterprises (FPEs) and Not-for-Profit Organizations (NPOs). Because traditional and social firms have different core qualities, they face different financial constraints (Securities and Exchange Board of India, 2022).

The available literature shows that the existing literature on SSE in India and its future, or the comparison between the frameworks of different SSEs globally is very scarce. Particularly, studies are nearly absent that analyze the performance of India's present platforms for social enterprises – BSE SME, NSE EMERGE using a quantitative approach. Furthermore, studies on the challenges of social enterprises are limited, and studies with primary research exploring the financial challenges of both NPOs and FPEs social enterprises separately are scanty. Thus, by addressing the topic of what role SSEs play in helping social entrepreneurs overcome their financial obstacles, this study seeks to examine the financial challenges that the selected social enterprises in India confront, as well as the performance of the SME platforms. An effective basis for accomplishing the Sustainable Development Goals can be implemented by addressing such a question.

A Brief Review of Previous Literature and Methodology

Recent years have seen a large amount of research on the entrepreneurship (small and social) landscape, its effects on economic development (Aggarwal, 2019), and its challenges. Lokhande (2017) examined how small enterprises in India are supporting in equal distribution of wealth. However, these entrepreneurs, especially entrepreneurs from disadvantaged groups, should be provided with financing and infrastructural support (Lokhande, 2017). Khatik and Shrivastava (2023) looked into how the government might support the development of a startup environment, with an emphasis on the opinions of Indian youth. The importance of developing government initiatives that foster innovation and entrepreneurship, particularly social entrepreneurship, through financial assistance, is emphasized by this study (Khatik & Shrivastava, 2023). Behal and Gupta (2022) provided evidence about the reporting of corporate social responsibility (CSR) practices among Indian BSE-listed enterprises, highlighting the growing significance of social and environmental initiatives in business operations. The alignment of the CSR initiatives of companies listed on the BSE exchange with their objectives demonstrates a broader trend towards sustainable business practices (Behal & Gupta, 2022). Sajjad et al. (2023) highlighted the importance of SMEs in the economic development of a country and determined the direct effect of entrepreneurial orientation on SME execution. Similarly, in their examination of entrepreneurial talent among Bangalore MBA students, Chavadi and Sirothiya (2018) highlighted the value of hands-on learning experiences in forming entrepreneurial attitudes.

A brief review of the previous studies based on secondary research found that financing was the most prominent challenge for social enterprises among various challenges, such as lack of human capital resources, bureaucratic challenges, and economic and legal issues (Rawal, 2018; Sharma, 2015; Singh & Sharma, 2019). Among financial challenges, accessing funds through market instruments of debt or equity and heavy reliance on grants, regulatory hindrances, and lack of financing mechanisms and tools catering to the needs of social enterprises are critical challenges for social enterprises (Baporikar, 2016; Kumarasamy & Krishnan, 2014). SSEs have made it possible for them to access capital globally by attracting investors who are drawn to businesses that have both social and corporate objectives. These exchanges have also been improving the performance of enterprises due to increased competition. However, these exchanges are not free from regulatory challenges, and lessons from global exchanges suggest that the addition of a beneficiary-protection mandate could be the first step towards the same (Chhichhia, 2015; Dadush, 2015; Wendt, 2017).

SSE, as a financing avenue, could proposedly resolve several challenges faced by Indian social enterprises. Some of these positive impacts of the SSE in India could be increased access to finance by connecting social enterprises with potential investors, bringing standardization to the processes, creating market discipline, and providing an exit option. Additionally, by providing a platform to for-profit and non-profit entities, India's social stock exchange would be competent to reach many organizations. A social stock exchange would be more attractive for impact investors than other investors. However, social enterprises currently have limited awareness regarding the proposal of the social stock exchange (Adhana, 2020; Parekh et al., 2021).

Research Methodology

The aim of the study is twofold: One is to analyze the performance of SME platforms, and the second is to explore the financial challenges faced by the selected social enterprises in India. To analyze the performance of the SME platforms, the source of data is secondary and was collected from the NSE EMERGE and BSE SME platform's website for the period from 2012–2023. The study has considered SME exchanges – NSE EMERGE and BSE SME as a proxy to analyze the performance of newly launched SSE. For the descriptive analysis of the performance of SME exchanges in India, the data were collected for three variables: (a) SME listings, (b) the number of funds generated, and (c) migration to the mainboard. The study has used closing price data of two indices: Standard & Poor's Bombay Stock Exchange Small and Medium Enterprises (S&P BSE SME IPO); and National Stock Exchange Fifty (Nifty) SME EMERGE to analyze the market volatility (Ashwani & Sheera, 2018). A GARCH model was built on E-views to assess the market volatility of SME exchanges.

The financial challenges that social enterprises encounter have been analyzed using primary data gathered from the chosen social enterprises in order to understand how the SSE might bridge the funding gap for social entrepreneurs. In-depth interviews with two NPOs (based in Madhya Pradesh) and two FPEs (based in Madhya Pradesh and Karnataka) were conducted using the case study method. The case method specifically focused on three distinct sections: *Availability* of financial products and mechanisms for social enterprises, *Affordability* of finance, and *Regulatory framework* to understand regulatory hurdles restricting access to finance. The interview data was subjected to thematic analysis, a qualitative data analysis technique, to find recurrent themes and patterns within the interview data (Kogen, 2024).

Analysis of the Performance of SME Exchanges in India

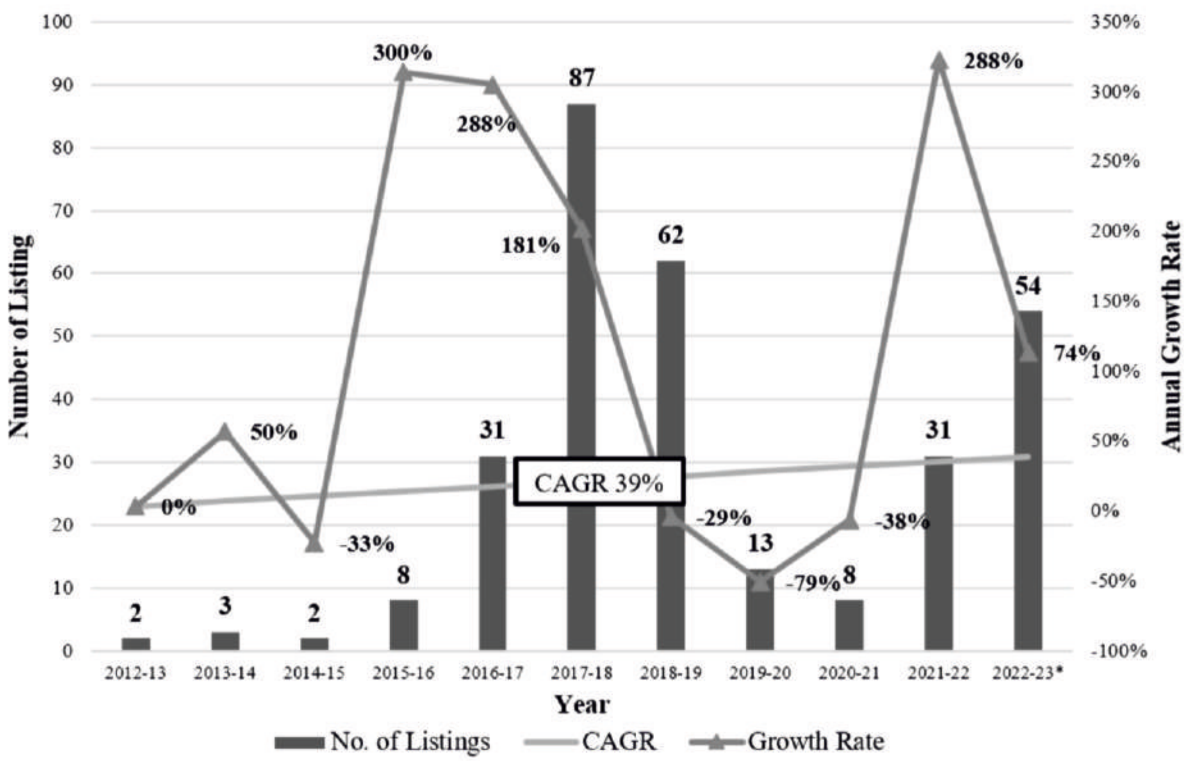
SME exchanges in India have the primary function of lowering the debt burden on SME entrepreneurs by providing easy equity financing to grow and expand their businesses. These exchanges are regulated by SEBI, established under NSE and BSE exchanges, to provide all the benefits of a public exchange like leading board platforms. The two most popular exchanges, BSE SME and NSE EMERGE, facilitate financing for start-ups and give investors an opportunity to back these fledgling, creative companies. NSE EMERGE features streamlined, curated procedures for each prospective interested company to get listed on the platform. The portal lists companies using the book-building process. It provides an excellent opportunity for enterprises that need to be more significant to get listed on the primary exchange board. India has experienced an increase in the financing of various business ventures through public exchanges; consequently, the notion of creating social stock exchanges dedicated to social companies has surfaced. Nonetheless, SSE is a specific subset of already-existing exchanges rather than an independent exchange.

An analysis of the performance of SME exchange would provide an understanding of how it benefits its listed enterprises. Performance analysis includes the subheads: Number of listings, capital raised, migration to the primary board, and volatility.

Number of Listings

The number of listings is an essential criterion for determining the progress of public exchange. Growth in the number of companies depicts the usefulness and benefits of an exchange. An increasing number of listings on a public exchange shows that the exchange has performed well in raising capital for the companies listed on the exchanges, encouraging other enterprises to get listed. BSE SME has 278 active companies listed as of June 2023, while NSE SME EMERGE has 301 companies listed as of February 2023. Figure 1 shows the listing of SMEs on NSE through the launch of the initial public offerings (IPOs). The number of IPOs of SMEs has been increasing. The annual average growth rate of the SME IPO at NSE EMERGE is 100%. The average reduced significantly during the pandemic as the number of listings in 2020. NSE EMERGE is similar to the BSE SME; still, the platform has succeeded in the number of listings, growing at a compound annual growth rate (CAGR) of 39%.

Figure 1. ***The Number of Listings of SMEs (2012–2023) at NSE EMERGE***



** Until February 2023.*

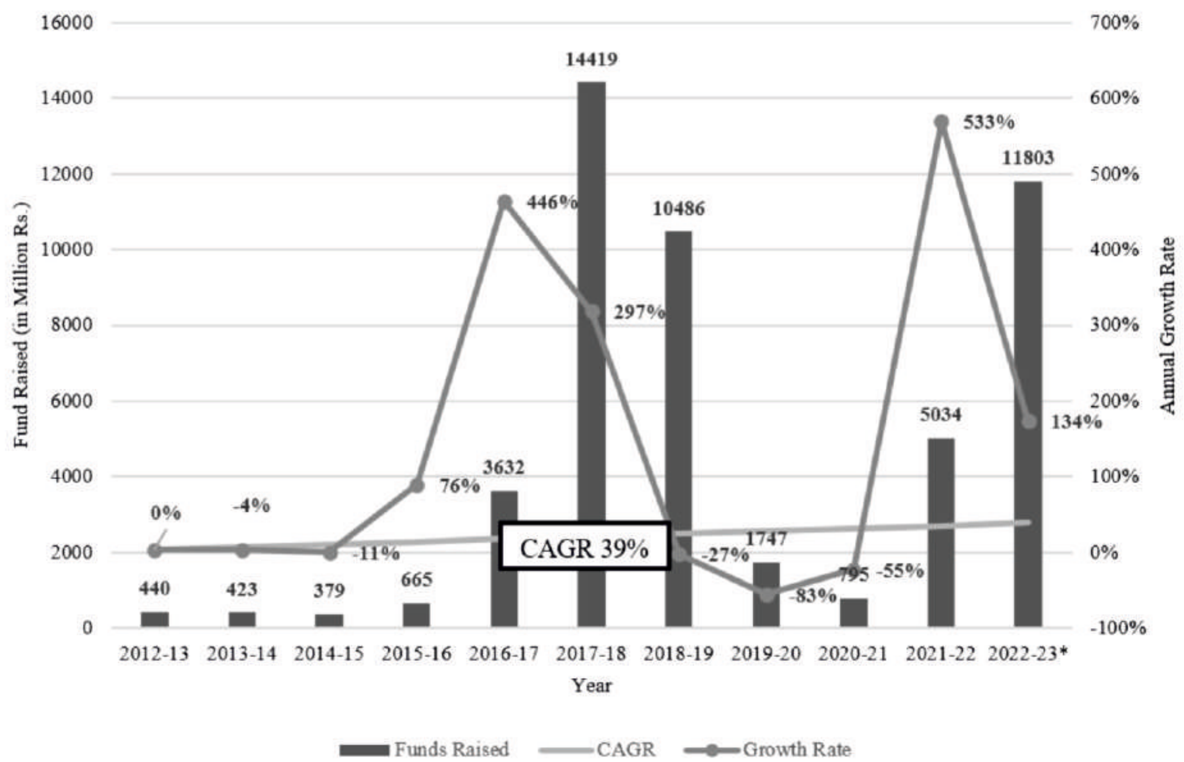
Note. Bombay Stock Exchange SME; National Stock Exchange Emerge.

Thus, launching additional similar platforms' growth is not compromised by the competition of other platforms. The market is vast, and additional platforms only do better by increasing the opportunity for SME enterprises to raise capital through different sources and different market instruments.

Capital Raised

The primary aim of any public exchange is to help the number of listed enterprises raise capital, meet their financial needs, and provide a platform for investors who wish to invest their money in these companies. Between 2012 and 2023, BSE SME raised a total of ₹ 52.07 billion, while NSE EMERGE raised a total of ₹ 564.58 billion. Figure 2 illustrates the funds raised by NSE EMERGE SMEs. The average annual growth rate of the amount raised is 131%, and NSE EMERGE has succeeded in terms of funds raised with a CAGR of 39%. Companies have successfully financed their enterprises as only 10 SME IPOs (as of February 2023) failed or were withdrawn to raise capital. In 2018, there was a sudden increase in the IPOs and the funds raised, which was as high as ₹ 14,419 million for NSE EMERGE. The primary reason was that SEBI also offered the startups to explore their financing options through SME exchanges other than existing options such as angel investments and private equity. SEBI also offered specific relaxations in the listing requirements for these startups, mainly in terms of profitability and net worth. The main reason for small-scale startups' failure is the need for more access to capital. Therefore, SEBI allowed smaller startups to access capital through institutional trading platforms under SME exchanges. Maharashtra has the highest fundraising to date, and the number of listings appears to be the highest from Gujarat.

Figure 2. ***Fund Raised (2012–2023) at NSE EMERGE***



** Until February 2023.*

Note. Bombay Stock Exchange SME; National Stock Exchange Emerge.

The companies are broad-based, ranging from textiles to food processing, agriculture, and entertainment. Marquee investors' involvement in the pre-and post-listing stages of SME IPO has also been increasing, showing that SME financing has gained massive popularity in India. The investors investing in SME platforms are increasing as these companies establish even more. SME Platforms have become extremely attractive as the returns are increasing (Lakhi & Sinha, 2019).

Migration to the Primary Board

Large private companies (with a minimum post-issue paid-up capital of ₹ 100 million) use a primary board initial public offer to offer their shares for the first time to the public and get listed at the exchange. The transition to the main board represents a noteworthy measure of the SME platforms' efficacy in augmenting the financial magnitude of the organization. Table 1 illustrates how the requirements of SMEs and the principal board are very different from one another.

Any company on the primary board must be four times the size of the company listed on the SME exchange. BSE SME platform has enabled 175 companies to migrate to the primary exchange board. NSE SME EMERGE has enabled 134 companies to migrate to the primary board, implying these exchanges have provided a clear push for financial expansion.

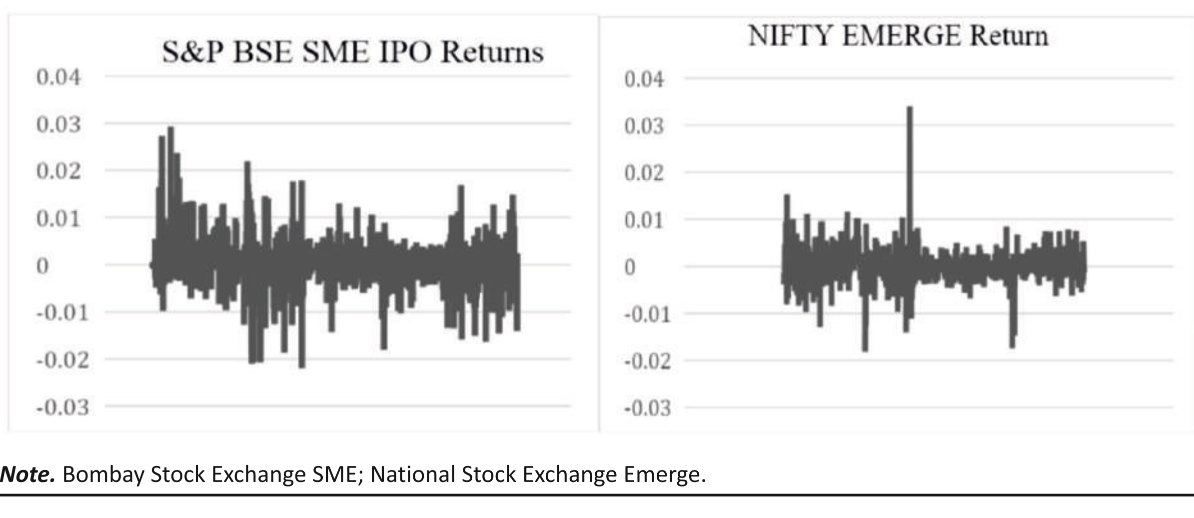
Volatility

Volatility is the up-and-down movement of the market. Volatility means measuring the deviation of expectations of movements of the market. Volatility is not constant; however, studies showed that a market's yearly volatility is around 20% and monthly is nearly 6% (Ibbotson, 2011). The most significant factors affecting the volatility of

Table 1. ***Migration to Primary Board***

Particulars	Primary Board	SME Platform
Post-issue paid capital	Not less than ₹ 100,000,000	Less than ₹ 2,500,000
Minimum application value	₹ 100,000	₹ 10,000–14,000
Minimum Allottees	1,000	50

Figure 3. ***Volatility in SME Markets***



Note. Bombay Stock Exchange SME; National Stock Exchange Emerge.

markets are the exchange rate, inflation rate, world market index, interest rate, and dividend yield. Other factors, like government changes, can also majorly affect volatility (Ashwani & Sheera, 2018). Standard deviation measures volatility in a traditional approach; it indicates the tightness of the clustering of prices around the mean. Risk increases and investment reduces if these deviations are more significant than the mean. Therefore, this (as shown in Figure 3) has become an essential indicator of stock market performance because it shows the riskiness of investing in a particular market.

Augmented Dickey-Fuller (ADF) was performed to check the unit root on E-views. The result of this test was that the indices return was stationary at the level (as shown in Table 2), which means there is no autocorrelation. The null hypothesis is rejected because the indices return was stationary.

The GARCH (1, 1) model created was without a regressor model because both the OLS models (Table 3) on E-views had the ARCH effect in residuals (Table 4).

Once the GARCH (1, 1) model was constructed using the formula GARCH = $C(2) + C(3)$*RESID(–1)2 + $C(4)$*GARCH(–1), as indicated in Table 5, the post-estimation – ARCH LM test demonstrates that neither model

Table 2. ***Results of the ADF Test***

Index	*t*-statistics	*p*-value	R^2
S&P BSE SME IPO Return	–16.532	0.0000	0.4069
Nifty SME EMERGE Return	–18.5066	0.0000	0.4447

Table 3. ***OLS Regression***

Index	*R*-square	*C* Coefficient	*C* Prob. Value	*C t*-statistics
Nifty SME EMERGE Return	0.0000	0.0002	0.03	2.16
S&P BSE SME IPO Return	0.0000	0.0000	0.0000	6.01

Table 4. ***Heteroskedasticity ARCH Test***

	Nifty SME EMERGE	S&P BSE SME IPO
F statistics	3.6965	93.30460
Prob. *F* statistics	0.0448	0.0000
Observed *R* square	3.690709	89.46249
Prob. Chi-square	0.0447	0.0000
Resid^2(–1)	0.0587	0.205132

Table 5. ***GARCH Model***

	Variable	Coefficient	Standard Error	Prob.
S&P BSE SME IPO	*c*	1.32E–06	1.32E–07	0.0000
	Resid(–1)^2	0.172880	0.012509	0.0000
	GARCH(–1)	0.770148	0.013293	0.0000
Nifty SME EMERGE	*c*	1.99E–07	5.97E–08	0.0008
	Resid(–1)^2	0.108492	0.015157	0.0000
	GARCH(–1)	0.884173	0.013360	0.0000

Table 6. *ARCH LM Test*

	Nifty SME EMERGE	S&P BSE SME IPO
F statistics	0.005055	2.237309
Prob. F statistics	0.9433	0.1349
Observed R square	0.0050064	2.2373060
Prob Chi-square	0.9433	0.1347
WGT_RESID(–1)^2	0.00002	0.032438

Table 7. *Volatility Indicators*

Index	Alpha (α)	Beta (β)	Summation
Nifty EMERGE	0.108492	0.884173	0.992665
S&P BSE SME IPO	0.172880	0.770148	0.943028

was affected by the ARCH effect and that both models were appropriate because the probability values were negligible (Table 6).

Both the indices of the stock market's summation of α and β are less than 1, depicting the decay in volatility over some time (as shown in Table 7). The decay in volatility indicates that these markets have less volatility, meaning they have not been affected by the external factors mentioned above. The fact that the markets are less risky also means that they have been providing consistent returns, which has attracted more investors who are willing to take on less risk.

Financial Constraints of the Selected Enterprises

This section presents the findings from the in-depth interviews to explore the financial challenges faced by the enterprises. The responses from NPOs and FPEs have been categorized under the themes of affordability, accessibility, and regulation.

Finance affordability is a significant obstacle for both FPEs and NPOs. The affordability issues for NPOs are exacerbated by expenditures associated with government support, alternative funding, and audit charges. NPOs in India must register on NITI Ayog's NGO portal, NGO Darpan, in order to be eligible for government funding. The respondents mentioned that the registration process on this platform is complex and often requires an intermediary, resulting in additional costs. Besides government funding, alternate platforms that connect donors and NPOs online are available. These platforms help NPOs amplify their reach and attract donations by listing the numerous non-profits on their portals. The prospective investors, generally the corporates looking at fulfilling CSR activities by funding an NPO or other donors looking to donate, visit these platforms and identify NPOs for donation. However, these private platform services are expensive, and both respondents mentioned that these are unaffordable. The respondents cited the benefits and drawbacks of being a Section 8 corporation as another important concern. One major benefit of being a Section 8 firm is that rigorous adherence to openness allows for publicly accessible financial documents that show contributors how their money is being used, which in turn encourages donations. However, the high expense of auditing procedures means that preserving openness incurs additional costs.

For FPE, affordability of finance becomes a challenge because of three main factors that are the transformation of ownership, investors' numbness to the social impact created, and working capital requirements. As per the respondents, the transformation from sole proprietorship to private limited is essential to expand business operations. According to these respondents, social enterprises are in a gray area during inception years. They must transform into a private limited company to have a label as a start-up, leverage sound finances, and get big clients. However, incorporation as a private limited is quite expensive, with regulation, tax, liability, and Registrar of Companies (ROC) filling. For the ROC filing, businesses must hire a company secretary, which adds to their expenses. Additionally, the respondents made clear that social entrepreneurs are afraid of growing their operations even when there is a decrease in financial risk because doing so increases the possibility that their social mission may be compromised.

Additionally, while receiving external financing, the impact created by social enterprises is not discounted, as investors require returns. The respondents state that when they have to deal with private banks, they offer credit at market rates, which range from 12% to 16%, making it more expensive for small businesses. Moreover, as per the respondents, the financial challenges adversely affect the working capital requirements, leading to liquidity issues. Usually, there is a minimum of 30-day credit in the market; this becomes a challenge for small companies, especially in terms of working capital; moreover, for a social enterprise, this challenge becomes even more significant as they have high marketing costs. These businesses are also unable to recruit individuals who share their vision because of their dire financial situation. Social entrepreneurs are searching for a position at the nexus where they must follow the rules, obtain funding, and make an impact.

The availability of finance is a more significant challenge for FPEs in comparison to NPOs. For NPOs, the limited availability of customized financial products is a challenge. There are established means and mechanisms for NPOs to obtain funding from diverse sources. However, obtaining funding from these sources often becomes challenging for NPOs due to the regulatory constraints faced by NPOs such as the requirement of a tax exemption certification (the challenge is discussed in detail under the regulatory challenges section). Nevertheless, NPOs voiced concern about the absence of incubators that train them and provide them with the information they need to fulfill their funding criteria. The restricted network and external funding difficulties limit the availability of finance for FPEs. One of the issues limiting the amount of capital available is the small network of social entrepreneurs. Respondents emphasized that the size and nature of the social entrepreneurs' networks determine their ability to secure outside funding. External financing is challenging if social entrepreneurs don't know and are not connected with potential investors.

Additionally, the major external sources of funding are banks, investors, and the government. Lending from banks is often constrained due to affordability or regulatory challenges. FPEs are often not even able to find investors, as most of them give limited importance to the social impact mission of the enterprises. Therefore, FPEs who uphold the social impact mission take a back seat as they fail to receive enough investments. There are government packages and plans that support specific businesses, such as women's enterprises or MSMEs, but these are not specifically available for “social” for-profit businesses, despite the fact that social enterprises can benefit from them. Social enterprises can benefit from certain subsidies and subsidized borrowing rates offered to specific kinds of enterprises if they belong to the same category. But they also come with strict conditions like collateral or a 50% fixed deposit.

Several regulatory challenges for both NPOs and FPEs constrain access to finance. For NPOs, some of the severe regulatory challenges include a three-year cap, tax exemption certificate, and annual turnover and funding requirements. Non-profit enterprises face funding challenges significantly during the inception years as there exists a cap of three years to receive any funding. The three-year cap has been restricting operations for NPOs severely, as even if they have potential projects and collaborators, they cannot go through it due to the three-year cap. Regulation of tax exemption certificates has several implications for the financing of NPOs. Even the modern funding mechanism- online crowdfunding sources such as Milaap prefers a well-established NPO and has 80G certification. Therefore, the initial years become highly challenging for NPOs. The vast regulatory constraint includes receiving tax exemption certificates like 80G, 35 AC, 12 A, and the Foreign Contribution Regulation Act (FCRA). For instance, 80G certification is received only after the first audit, resulting in less funding, as donors do not receive tax rebates without 80G. Therefore, there are fewer donations. Moreover, 80G is received at the income tax commissioner's discretion even after audits are submitted. Due to the difficulties in acquiring an FCRA certificate, receiving foreign funding—even from foreigners who are interested in contributing funding—often becomes a substantial obstacle for non-profit organizations. Due to these funding constraints, nonprofits cannot bear various costs such as staff salaries and often end up using most of their paid-up capital and sometimes even over it. Finally, NPOs have significant regulatory challenges related to annual turnover and funding needs. NPOs need to receive funding of 10 lakh per year and have a turnover of 50 lakhs. For nonprofit organizations, this problem can occasionally get worse when it gets harder to measure in-kind support. The application of plans, policies, and regulations pertaining to FPEs differ from one another.

The impact of schemes and packages that social enterprises can benefit from is limited as there is a considerable gap between the regulatory and operational requirements of the banks at the regional level. FPEs approach the banks to support the lending criteria and to take advantage of a specific scheme, providing that they meet the standards for the company's financial health and other background information. The bank's internal operating procedures to avoid problematic loans make it difficult for the FPEs to obtain money. For instance, one of the respondents from FPEs approached the bank to receive benefits under a central government scheme for women-led MSMEs. The scheme offers a loan of up to 1 crore without a collateral requirement. The manager of the MSME raised doubts about the company's potential because of its social impact mission; thus, the bank declined to grant any loan under the scheme. As a result, in actuality, there are strict collateral requirements even for loans as modest as 5 lakhs. The experience of the other FPE was similar, where in the state-run financial corporation, it took one and a half years to approve and process the provision of credit to the FPE. Social enterprises have to bear the brunt of this challenge twice compared to a non-social enterprise start-up because the product or services offered by social enterprises in India still needs a ready market despite growing markets. In the case of social enterprises, they not only have to put effort and money into selling but also create awareness about the importance of their product (environmentally/socially/culturally). As a result, the load is greater when they don't get any financial assistance. Not only must these businesses make an impact, but they must also abide by standard corporate rules without charging for them. In the end, sometimes, the fundamental goal of making an impact takes a backseat in order to survive financially.

Framework of SSE vis-à-vis the Financial Challenges

Based on the analysis of the performance of the SME exchanges and financial challenges explored through primary data, Table 8 summarizes the framework of SSE vis-à-vis the financial challenges (Securities and Exchange Board of India, 2022).

Table 8. ***Summary of Financial Challenges of Social Enterprises Vis-à-Vis Proposed Framework of SSE***

Theme	Type of SE	Challenge Faced	Proposed Framework of SSE
Affordability	NPOs	Cost of Raising Funds	SSE will : • reduce the cost of raising funds • bring in the standardization to the process • provide a better structure to the process of raising funds
	FPEs	Investor's numbness to the Social Impact created	The creation of a special segment for "social enterprises" under existing exchanges will : • increase awareness among investors regarding the importance of social enterprises • connect enterprises and investors who give importance to

			impacting the vision of the enterprises • enables investors' receptivity toward creating an impact
Availability	NPOs	Few customized products/ instruments	SSE will enable NPOs to raise funds through specialized products like: • Development Impact Bonds • Social Impact Fund (presently Social Venture Fund) and • Donations by investors through mutual funds Also, SSE will introduce new finance products like: • Zero Coupon Zero Principal Instrument • Development Impact Bonds • Social Impact Fund (presently Social Venture Fund) • Donations by investors through mutual funds
	FPEs	Few borrowed funding avenues	FPEs will be able : • to access equity financing through public issues of shares • to get listed on an existing platform, which will expose them to an already existent group of investors • to attract investors with the credibility of the existing exchanges
Regulatory	NPOs	Tax Exemption Certificates	The process of obtaining tax exemption certificates, like 80G 12A, would be expedited.

Policy Implications

SSE is a significant first step toward building an excellent financial ecosystem that supports the growth of social enterprises in India. The framework of SSE mentions resolution for a few challenges social enterprises face, such as unavailability of customized financial instruments, limited network, diversion from the mission, and other regulatory challenges. Nevertheless, there are several serious financial issues that social entrepreneurs confront that the SSE framework ignores.

First and foremost, social enterprises fail to receive acknowledgment and distinction from clients, investors, or financial institutions. Additionally, there needs to be more effort from the government to incentivize the growth of such enterprises, and considering there is no distinction made for social enterprises, providing incentives seems complicated. SSEs would start a conversation about “social” enterprises. However, the framework has yet to define social enterprises legally and has left considerable scope for interpretation. Second, SSEs might be an early step as other challenges should be resolved for social enterprises to reap maximum benefits from this exchange. FPEs (specifically) need more consumer demand regarding their products or services in India. For instance, the Indian market is not entirely open to clean energy (as it is expensive) or eco-friendly products. Investors should be encouraged to support social companies' goods and services since they must financially support customers as well. Social entrepreneurs will incur significant marketing expenses to raise awareness of the impact their goods and services have, even in the event that one end of the problem—creating financing platforms to satisfy financial needs—is resolved.

Finally, the criteria for selecting social enterprises, NPOs in particular, will be crucial in determining the impact SSE would have on NPOs. The non-profit sector of India is vast and diverse; therefore, how an SSE would support such a large number of NPOs in India is ambiguous. It will be concerning if the strict due diligence requirements only help a small number of well-known NPOs as there will already be other beneficiaries.

Conclusion

IPO financing for SMEs in India has been seeing massive growth in India. SME exchanges have helped SME enterprises to raise capital through public issues of equity. The number of listings has been increasing as well as the capital raised. Along with this, SME enterprises listed on the exchanges have also seen an expansion as part of these enterprises were able to migrate to the primary board. Therefore, SME exchanges can act as alternative platforms to help meet the financing needs of social enterprises in the future. The financial difficulties faced by the chosen social businesses demonstrated how expensive it is to obtain financing in India, particularly for FPEs. Although there are many products and ways to fund NPOs, they are dispersed and costly.

Regarding FPEs, schemes, packages, subsidies, or incentives are unavailable for "social" enterprises. These enterprises are taking advantage of schemes and packages designed for other categories of enterprises (such as MSMEs and women-led). However, there are regulatory challenges to all the available products and mechanisms for both NPOs and FPEs. One of the main regulatory obstacles that non-profit organizations face is the process of acquiring tax exemption certificates. On the other hand, FPEs comprise strict collateral requirements, the separation of central schemes, and regional banks' operational needs.

Limitations of the Study and Scope for Further Research

This study is not without limitations. The primary limitation of the study lies in its analysis of the performance of the SSE. Given that the SSE was established less than two years ago, data directly from the SSE itself was not adequate to understand the trends. Therefore, the study had to use SME exchange data as a proxy. Even though this design approach provided useful insights, it does not fully capture the characteristics of the SSE. Another limitation pertains to exploring the financial challenges of social enterprises through in-depth interviews. The study conducted four interviews in total with enterprises that are not yet listed on the SSE. This may not adequately represent the diverse array of financing challenges faced by social enterprises and the effectiveness of the SSE in resolving these financing challenges. Therefore, future studies can incorporate data directly from the SSE itself. As the SSE matures, researchers will have a richer dataset to analyze, enabling a more accurate assessment of its trends and performance. Future studies could also be undertaken to understand financing challenges by interviewing more social enterprises, including those already listed on the SSE.

Authors' Contribution

Nishtha Agarwal conceptualized the idea as part of her dissertation and, under the guidance of Dr. Roopa Patavardhan, developed a mixed method to undertake the empirical study. Nishtha Agarwal and Dr. Roopa Patavardhan extracted relevant research papers. Dr. Roopa Patavardhan verified the analytical methods and supervised the study. Nishtha Agarwal and Dr. Roopa Patavardhan conceptualized the interview questions and conducted the interviews in English. Nishtha Agarwal further transcribed the same. The numerical computations were done by Nishtha using E-views under the guidance of Dr. Roopa Patavardhan. Nishtha Agarwal and Dr. Roopa Patavardhan together wrote the manuscript.

Conflict of Interest

The authors certify that they have no affiliations with or involvement in any organization or entity with any financial interest or non-financial interest in the subject matter or materials discussed in this manuscript.

Funding Acknowledgment

The authors received no financial support for the research, authorship, and/or for the publication of this article.

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