

Driving Social Impact and Inclusive Growth: Role of Indian Social Stock Exchanges

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Citation: Poornima, A. S., Padmaprabha, C., Poomagal, A., Dinesh, S., Balakrishnan, S. & Rajendran, Y. D. (2025). Driving Social Impact and Inclusive Growth: Role of Indian Social Stock Exchanges, *Journal of Cultural Analysis and Social Change*, 10(4), 627-632. <https://doi.org/10.64753/jcasc.v10i4.2919>

Published: December 06, 2025

ABSTRACT

The paper examines Social Stock Exchanges (SSEs) and their potential to bridge the funding gap for achieving Sustainable Development Goals (SDGs) by 2030, focusing on India. It explores eligibility criteria, investment opportunities, and impact measurement frameworks for SSEs. Additionally, it discusses how mutual funds can channel donations to social causes via SSEs. Finally, it recommends ways to improve transparency and investor confidence in the SSE ecosystem.

INTRODUCTION

India faces a huge funding gap (\$2.64 trillion) to reach UN's SDGs by 2030. The Social Stock Exchange (SSE) is a game-changer, connecting investors with social enterprises (both non-profits and for-profits) working on SDG-related issues. With India's vast network of NGOs, the SSE can channel capital towards crucial social needs. Backed by the government, the SSE aims to boost investment and inclusive growth. Early listings like SVYM show the growing interest in social impact investing. The SSE bridges the gap between capital markets and social good, paving the way for a more sustainable and inclusive future.

Examining the nexus of inclusive growth and financial markets, this paper explores the emergence of Social Stock Exchanges (SSEs) as a mechanism for fostering equitable economic development. By analyzing various SSE models worldwide, their performance metrics, drawbacks, and lessons learned, this paper aims to distill best practices for advancing inclusive growth agendas through financial innovation."

LITERATURE REVIEW

Understanding Inclusive Growth

Inclusive growth goes beyond just economic expansion; it ensures everyone participates and benefits from progress. It's not just about raising average income, but also reducing inequality and fostering broad-based economic participation (Sabir & Qamar, 2019; Katuka, 2023; Adeniyi et al., 2021). This means advancement across

all sectors, particularly benefiting lower and middle-income groups, while narrowing the income gap (Adeniyi et al., 2021).

The benefits extend beyond economics. Inclusive growth aims to improve societal well-being and create a more equitable society (Adeosun & Tabash, 2021). Key aspects include: reducing poverty (Adeosun & Tabash, 2021), ensuring equal access to education and employment (Khan et al., 2016), addressing income inequality (Mitra, 2017), promoting sustainable practices (Aoyagi & Ganelli, 2015), and using resources efficiently (Mitra & Das, 2018). It also fosters social inclusion for marginalized groups (Khan et al., 2016) and invests in human capital through education, health, and social services (Raheem et al., 2016). Balancing economic growth with environmental sustainability is another critical factor (Soleh et al., 2019).

Inclusive growth strategies are key to achieving sustainable development goals. Governments play a vital role through targeted spending and initiatives that promote equal opportunity and pro-poor development (Avcı & Tonus, 2022; Ernowati et al., 2021). Social Stock Exchanges (SSEs) can further fuel this progress by channeling private investment towards social enterprises. By embracing inclusive growth, we can create a future where everyone benefits from economic prosperity.

Social Stock Exchanges as a Vehicle for Inclusive Growth

Social stock exchanges (SSEs) are new financial platforms where investors can support social and environmental businesses while potentially earning returns (Inci, 2020). The first SSE launched in 2003, and others have followed, using either existing exchanges or independent platforms. Social stock exchanges (SSEs) have diverse operational frameworks worldwide. The concept emerged in 2003 when Brazil launched the first SSE, followed by South Africa in 2006 and Portugal in 2009. Subsequent SSEs were established in Canada (2013), Singapore (2013), the United Kingdom (2013), and Jamaica (2019), either integrated into existing exchanges or as standalone matchmaking platforms.

The Matchmaking Platform Model

Social impact matchmaking platforms connect investors with social causes. Unlike exchanges, they directly connect investors and social enterprises. This model allows for-profits (FPEs) and non-profits (NPOs) to participate. Examples include Brazil's BVSA (NPO focus) and South Africa's SASIX (FPE focus). Challenges include attracting investors to NPOs and liquidity constraints in FPE platforms.

The Alternative Investment Instruments Model

The Alternative Investment Instruments Model aimed to direct capital towards social challenges like gender equality and economic empowerment, benefiting investors and society. Yet, Singapore's implementation showed bias towards For-Profit Enterprises (FPEs) over Non-Profit Organizations (NPOs), hindering systematic funding for the latter and raising concerns about inclusivity. This imbalance requires a holistic approach recognizing diverse needs, fostering collaboration for a more inclusive impact investing landscape. Among cited Social Stock Exchanges (SSEs), only Jamaica, Singapore, and Canada continue operations due to financial and structural barriers elsewhere, including limited user base and awareness.

Top of Form

Table 1 provides a summary of the Social Stock exchanges of the world, their performance, drawbacks, lessons learnt and best practices.

Sl no	Country	Exchange Name	Established	Operating Model	Data/Statistics	Drawbacks	Lessons learnt	Best practices
1	Brazil	Socio-Environmental Impact Exchange (BVSA)	2003	Non operational since 2018	Promotion of listed initiatives: Investment through "social shares" has garnered approximately. Over its 15-year operational span, it has raised approximately R\$19 million, equivalent to around \$3.6 million USD, distributed across more than 188 projects	Limited investor interest and financial viability.	Focusing solely on non-profits may not be sustainable long-term.	Successful fundraising efforts for various projects.

2	UK	Social Stock Exchange (SSX)	2013	Not operational	Catalog of authenticated enterprises with social influence - Yearly assessment of impact report - Absence of trading activity - Accumulation of 400 million euros by 2015	Absence of trading hindered investor engagement and liquidity.	Lack of trading and focus only on verified businesses with social impact may limit appeal to investors.	Directory of verified businesses and annual review of impact reports built credibility and trust.
3	Canada	Social Venture Connexion (SVX)	2013	Primary offering platform (secondary trading not allowed)	A networking platform facilitates connections.- Returns encompass social, environmental, and financial aspects.- Mobilized capital totals approximately \$350 million.- The mobilization engages over 500 organizations.- It also involves more than 1200 investors.	Limited secondary trading options and lack of scalability.	Providing a networking platform for social and environmental impact ventures can attract investors.	Emphasis on primary offerings and focus on delivering both social/environmental and financial returns.
4	Singapore	Impact Investment Exchange (IIX)	2013	FPEs and NPOs	- Promotion of social initiatives coupled with both financial and social/environmental returns.	Limited investor interest or difficulties in scaling operations.	Marketing social projects and offering financial returns alongside social/environmental impacts attract investors.	Inclusive model catering to both For-Profit Enterprises (FPEs) and Non-Profit Organizations (NPOs).
5	South Africa	SASIX	2006	Closed down in 2009	Investors receive tax benefits.- They can expect both social and financial returns.-It operated as an impact investment exchange.-The total funds raised amount to \$2.7 million.by 15 listed projects.	Limited investor participation and sustainability issues.	Challenges of sustaining an impact investment exchange, even with tax benefits for investors.	Initial success in mobilizing capital for social and financial returns.
6	Jamaica	Jamaica SSE	2018	Available for NPOs only	A crowdsourcing platform is in place.- Financial returns are not part of the arrangement. There are specific audit and reporting requirements.	Lack of financial returns for investors may limit long-term sustainability.	Focusing solely on social impact without financial returns can attract donors.	Focus on audit and reporting requirements built trust and ensured transparency.
7	Portugal	Bolsa de Valores Sociais (BVS)	2009	Discontinued in 2015	Limited to non-profits, this platform offers social shares for social impact, raising €2 million for 26 projects by 2015	Challenges in attracting both donors and projects.	Relying solely on social shares and donations may not be sufficient for long-term sustainability.	Initial success in raising funds for registered projects and facilitating donations.

From the above table, it is clear that Global SSEs faced low investor interest due to lack of tradable options and weak incentives. While some like BVSA and SSX struggled, Canada's SVX and Singapore's IIX succeeded with dual returns and strong networks. India's SSE leverages this by offering both donations and tradable securities, aiming for a sustainable model that bridges the gap between investor returns and social impact.

The Indian Model of Social Stock Exchange

India's Social Stock Exchange (SSE) is a unique model that uses existing stock exchange infrastructure to connect social enterprises (both businesses and nonprofits) with investors. This platform focuses on projects

aligned with the UN's SDGs, aiming to tackle social and environmental issues. By bringing together investors and social enterprises, the Indian SSE has the potential to drive sustainable development and positive social change.

Eligibility of Enterprises that can be Listed on Social Stock Exchange

The Securities and Exchange Board of India (SEBI) has identified 16 welfare activities that entities seeking listing on the Social Stock Exchange (SSE) must engage in to demonstrate their commitment to social impact and sustainable development. These welfare activities encompass a wide range of initiatives aimed at addressing pressing societal challenges and advancing the United Nations' Sustainable Development Goals (SDGs). The 16 welfare activities enlisted by SEBI include:

1. Eradicating hunger, poverty, and malnutrition
2. Promoting education and literacy
3. Promoting gender equality and empowering women
4. Ensuring environmental sustainability and conservation
5. Combating climate change and its impacts
6. Protecting flora and fauna, biodiversity conservation
7. Ensuring animal welfare and preventing cruelty to animals
8. Promoting healthcare, including preventive healthcare and sanitation
9. Supporting differently-abled persons and promoting their welfare
10. Ensuring social justice and human rights, including rights of indigenous peoples
11. Promoting livelihood enhancement projects
12. Rural development initiatives, including rural infrastructure development
13. Urban development projects, including infrastructure development in urban areas
14. Disaster management, including relief, rehabilitation, and reconstruction activities
15. Promoting arts, culture, and heritage conservation
16. Any other activity aimed at promoting the welfare of society or public welfare as may be specified by SEBI from time to time.

Entities seeking listing on the SSE must engage in at least one of these welfare activities to demonstrate their social intent and impact. By addressing these welfare activities, organizations contribute to building a more equitable, sustainable, and inclusive society, aligning with the overarching goal of the SSE to mobilize capital for social good.

Mode of Fundraising in the Indian Model of Social Stock Exchange

The SEBI-endorsed SSE Framework offers various avenues for Non-Profit Organisations (NPOs) and for Profit Enterprises (FPEs) registered as SSEs to raise funds. Figure 1 below indicates the various avenues by which the NPO's and FPE's can raise funds through social stock exchanges.

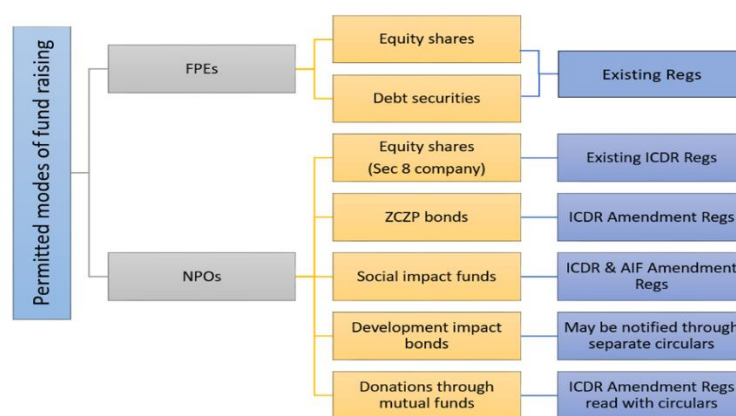


Figure 1. Possible modes of fund raising by NPO s and FPE s
 Source: <https://vinodkothari.com/2022/08/social-stock-exchanges-philanthropy-on-the-bourses/>

Zero Coupon Zero Principal Bonds

The SSE framework approved by SEBI allows fundraising avenues for registered SEs, both NPOs and FPEs. However, current ICDR Amendment Regulations do not fully facilitate fundraising through all approved sources. ZCZP Bonds are the sole instrument permitted for NPOs, recognized as securities under the Securities Contracts Act. These nil coupon, zero principal bonds fund specific projects with termination upon goal achievement.

Social Impact Fund

Social Impact Funds (SIFs) act like investment pools for social enterprises.. SIFs issue "social units" to investors seeking social benefits without financial returns, subject to revised corpus and investment thresholds. While ZCZP bonds are project-specific, SIFs can aggregate various social projects, allowing portfolio diversification

Development Impact Bond

Development impact bonds (DIBs) are a risky way to fund projects in poor countries. Like social impact bonds, they attract private investors with the promise of repayment only if the project succeeds. Investors front the money, and governments or donors repay them for positive outcomes.

Donation through Mutual Funds

Mutual funds can invest in social enterprises on stock exchanges and donate a portion of returns to charities, aligning with investor values. An intermediary picks charities and ensures transparent giving. This creates a steady stream of donations for social good.

CONCLUSIONS AND RECOMMENDATIONS

To strengthen India's SSE, transparency is key. Clear listing rules and ZCZP bond guidelines will build trust. More investment options and investor education are needed for long-term support. Collaboration with government and clear impact measurement will attract investors. Regulatory support and training for social enterprises will boost the SSE. Fintech and a values-driven growth strategy are essential. Regular evaluation and adaptation are crucial for lasting impact. Additionally, mandating (with tax benefits) listed companies to invest in SSEs could further fuel social good

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