December 13, 2018

Social Stock Exchanges

https://www.socialimpactconference.it/conference-programme/

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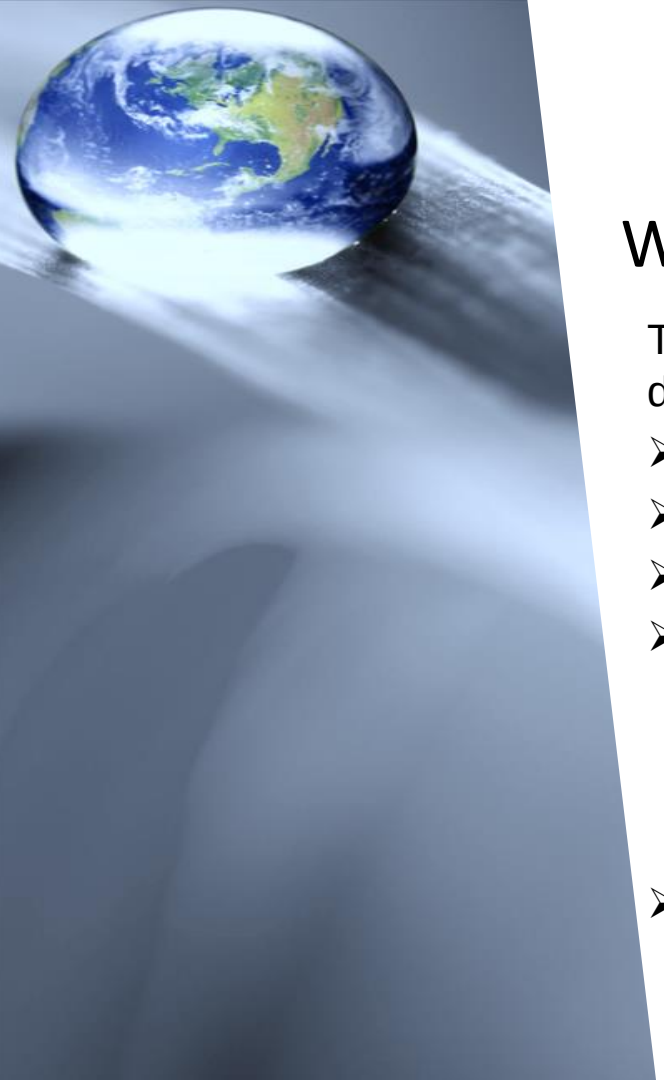
Motivation for Social Stock Exchanges

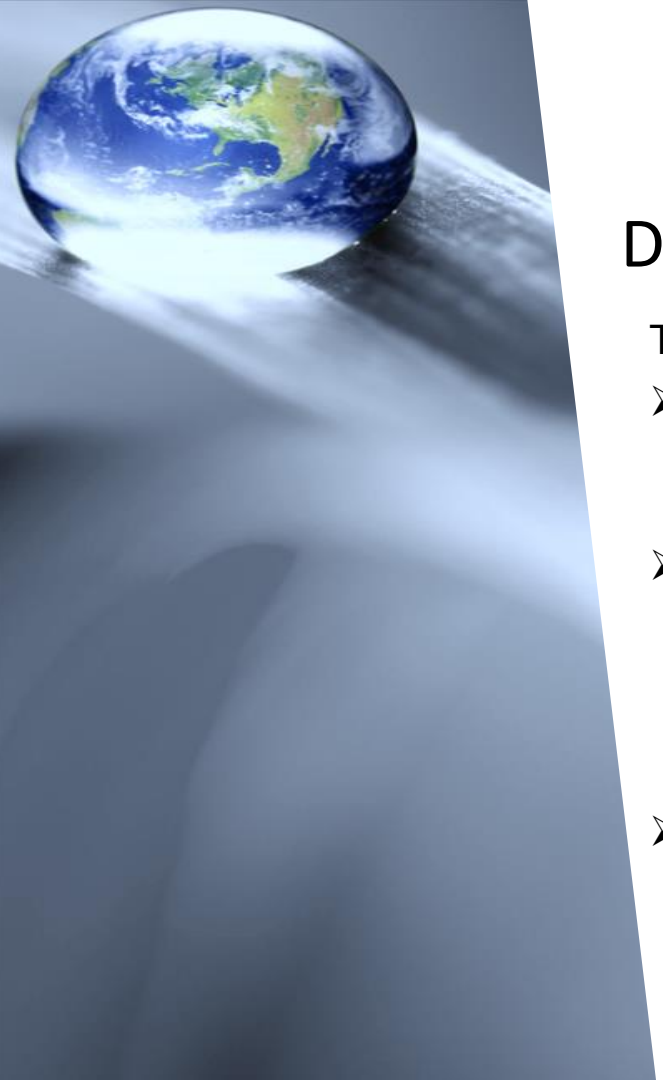
- Why Social Stock Exchanges?
- Debate about Social Stock Exchanges
- Research Questions
- Research Design
- Literature Reviews
- Definition
- Market Size
- Commonalities, Differences, Challenges
- Findings
- Prognosis
- Conclusions



Why Social Stock Exchanges

The demand for investments that combine financial return with desired social or environmental impact is growing.

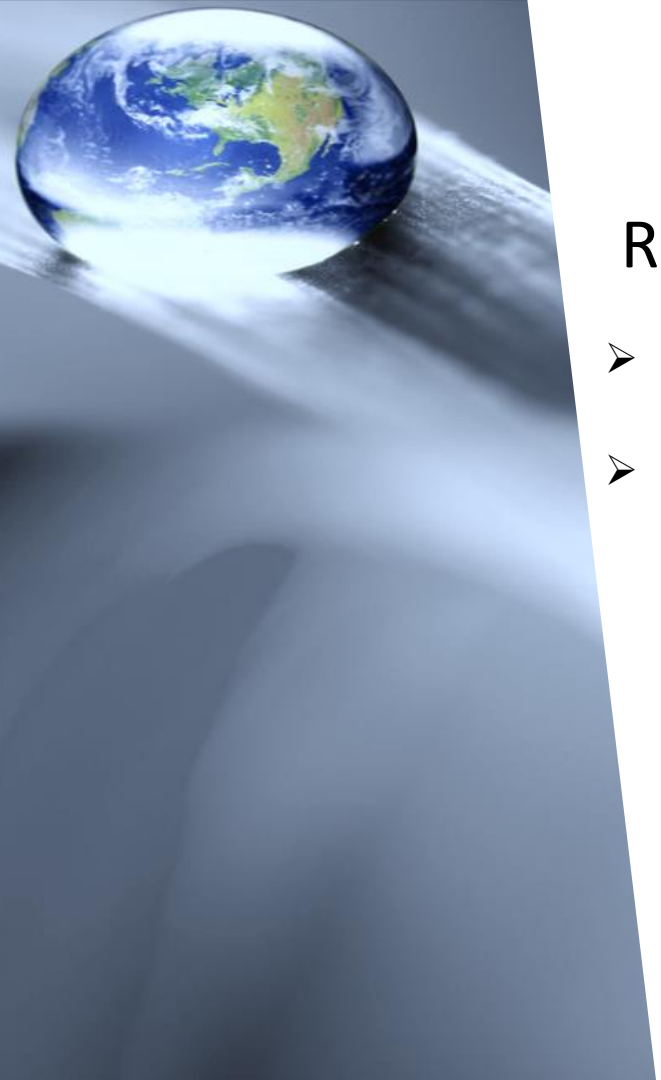
- Given the recent upsurge in entrepreneurship.
- shifting attitudes towards the role of business in society, and
- a broad policy push for sustainable development.
- There should also be no shortage of investors and financiers eager to absorb this demand. The problem, as emphasized both by WEF and UNEPFI, lies in **matching assets that create positive impact with investors in a manner that is efficient, effective, transparent, and scalable.** GINN 2016.
- SSEs heavily debated, but first SSEs came into existence.



Debate about Social Stock Exchanges

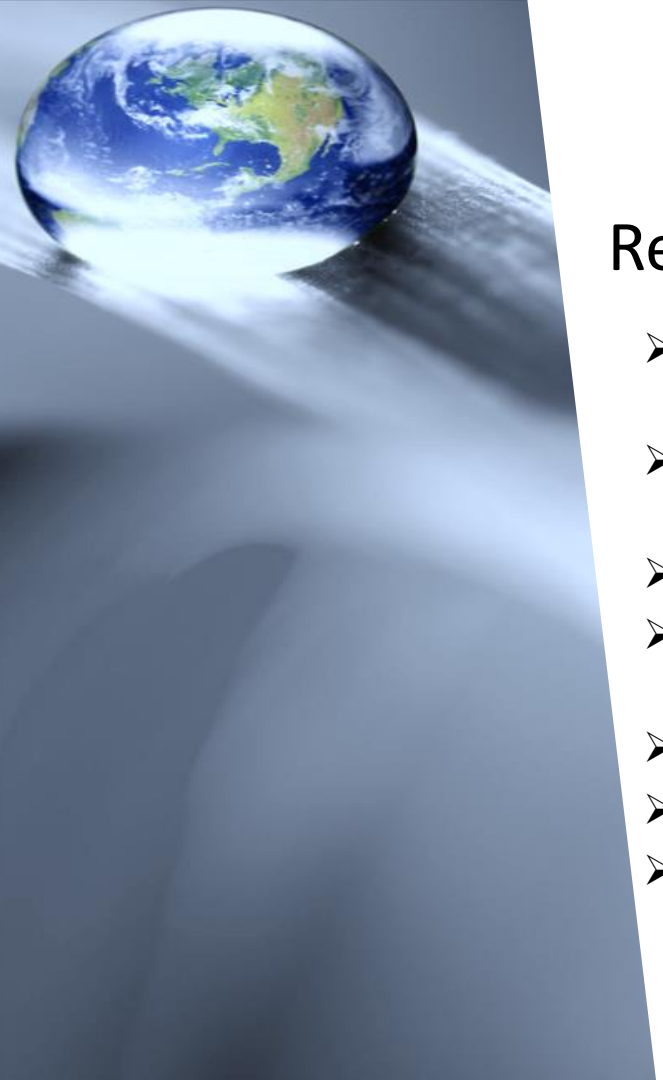
The debate around social stock exchanges is growing.

- The UK is no longer the only country with a social stock exchange, as Canada follows suit with its own version (The Guardian 2013).
- Forbes Magazines stated in 2014 “As the spotlight on investors seeking social investments continues to brighten, the rise of social stock exchanges—places where people can buy shares in social businesses with missions that align with theirs—shouldn’t be all that surprising ”(Forbes 2014).
- A third dimension is slowly finding its place in traditional market dichotomy—a dimension that includes social business, impact investing, and now social stock exchanges (SSEs). (Standfort School 2015).



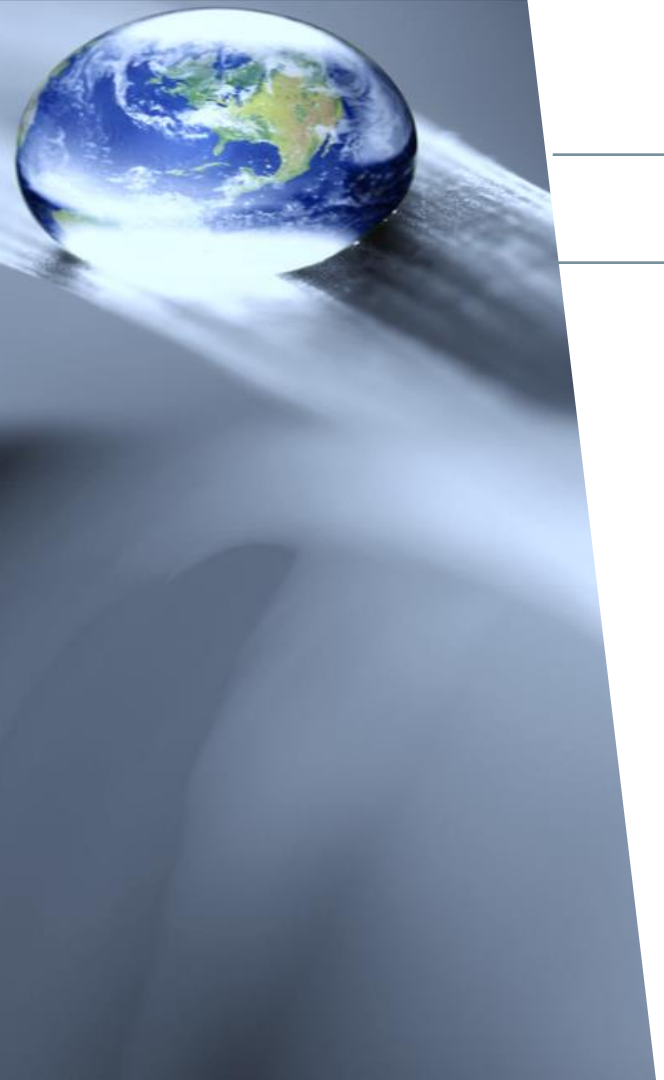
Research Questions

- Prognosis about contribution of fully fledged regulated SSEs in establishing an efficient market addressing investment gaps.
- Would they operate like conventional stock exchanges by serving as “marketplaces for listing, trading, settlement and clearance of shares, bonds, and other financial instruments issued by or for social and green businesses,” in the context of highly specific listing and reporting requirements (Shahnaz et al. (2014, 157))?



Research Design

- Literature Review on Impact Investing, Social Stock Exchanges Market Size.
- Literature Research on Existing SSEs – what do they have in common how are they different.
- Interviews with founders of SSEs (7 interviews conducted).
- Interviews with Impact Investors Networks, Pension Funds, Asset Managers, Family Offices (20 interviews conducted).
- Interviews with Research Institutions (2).
- Interviews with Social Entrepreneurship Networks (3).
- Prognosis about potential of SSEs filling investment gaps.



Literature Review

Two-pronged methodology plus control

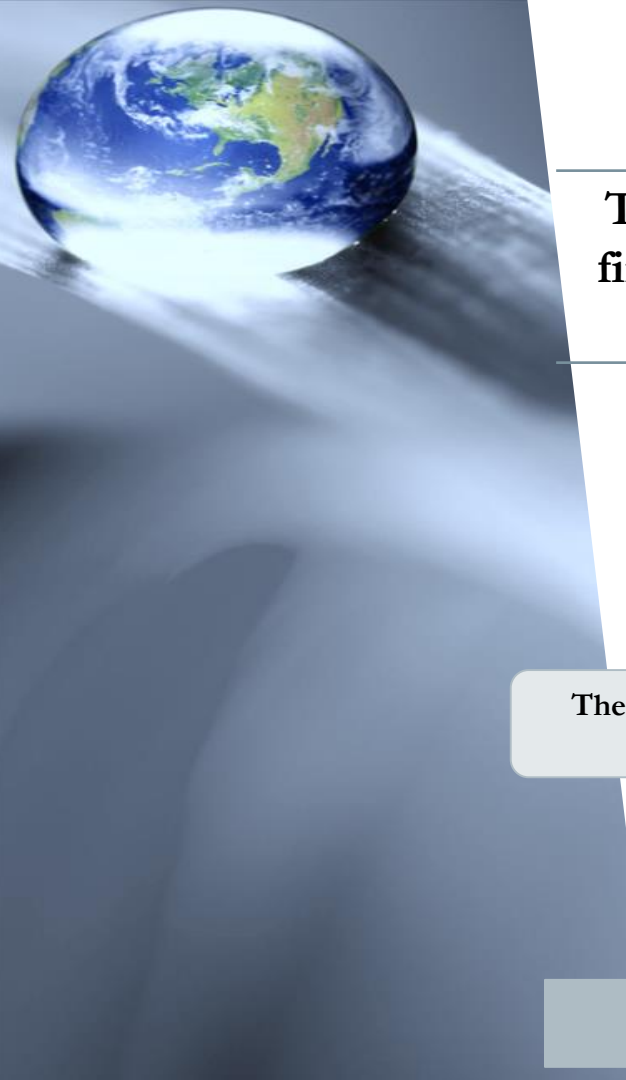
Systematic literature review

in order to perform a selection of the most relevant works published to date in the field of impact investing

Existing SSXs' Interviews

in order to provide a preliminary analysis of motivations for founding an SSE

The final literature sample is composed by 220 works.



Definition

The idea behind impact investing is that investors can pursue financial returns while also intentionally addressing social and environmental challenges following a Theory of Change.

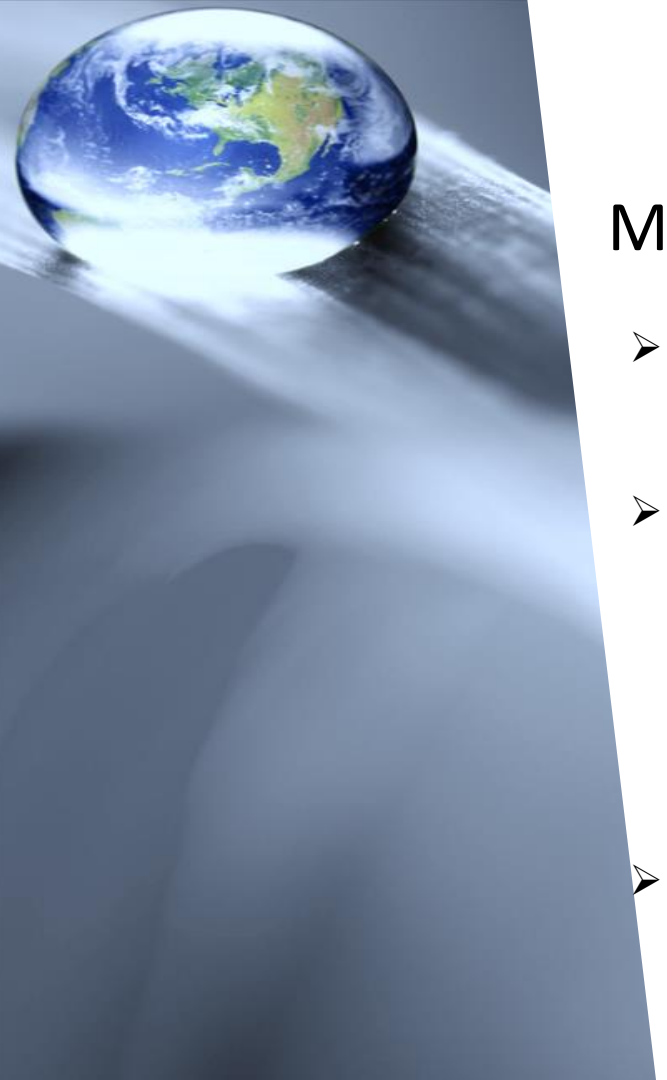
Impact Investing definitions are based on three common principles:

- **The blended value principle**
- **The Theory of Change**
- **The Principle of Sustainable Financial Return (6 yrs + view)**

However, the precise conceptual boundaries and terminology are still under discussion (Glänzel & Scheuerle, 2016),

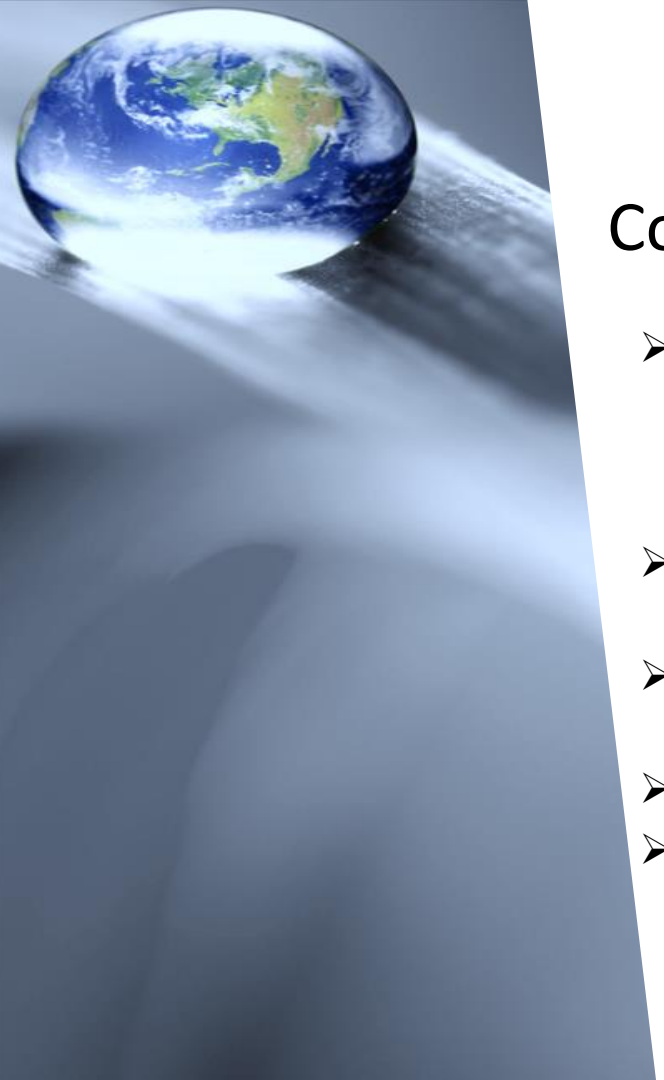
Market Size Research

Market estimates vary depending on definitions and criteria	
Source	**Market size estimate**
Monitor Institute (2009)	US$ 500 billion by 2020
JP Morgan & Rockefeller Foundation (2010)	US$ 400 billion – 1 trillion by 2020
Calvert Foundation (2012)	US$ 650 billion by 2020
World Economic Forum (2013)	US$ 15-28 billion as of 2013
Global Impact Investing Network (GIIN) membership survey (2016)	US$ 77.4 billion of impact investing assets managed by GIIN members as of 2015



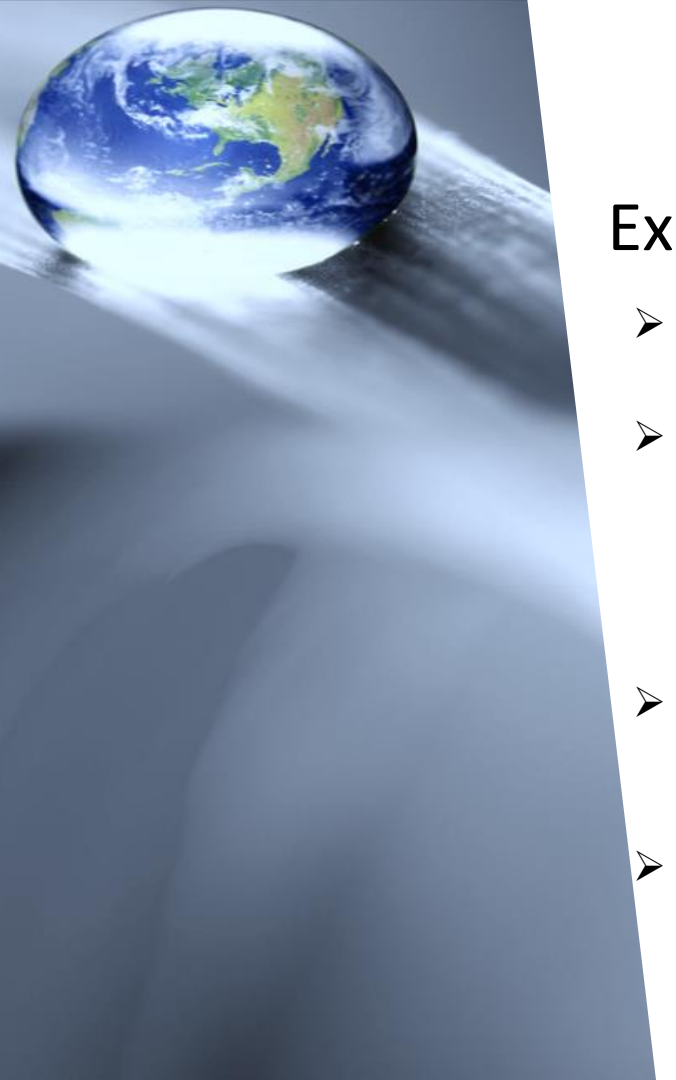
Market Size based on Needs Analysis

- United Nations claim a 2,5 trillion USD annual investment gap in Emerging Markets which they hope to close with impact investing.
- “Post-financial crisis governments, charities, philanthropists alone were no longer capable of dealing with the twenty-first century’s social and environmental challenges. Focusing on the act of charitable giving rather than on achieving social outcomes and a dependence on unpredictable funding hindered many charitable organizations from realizing their full potential concerning innovations, effectiveness and scale.* “
- SSEs were a response from unconventional actors, namely private sector fund managers that saw real value in creating a more holistic investment market..



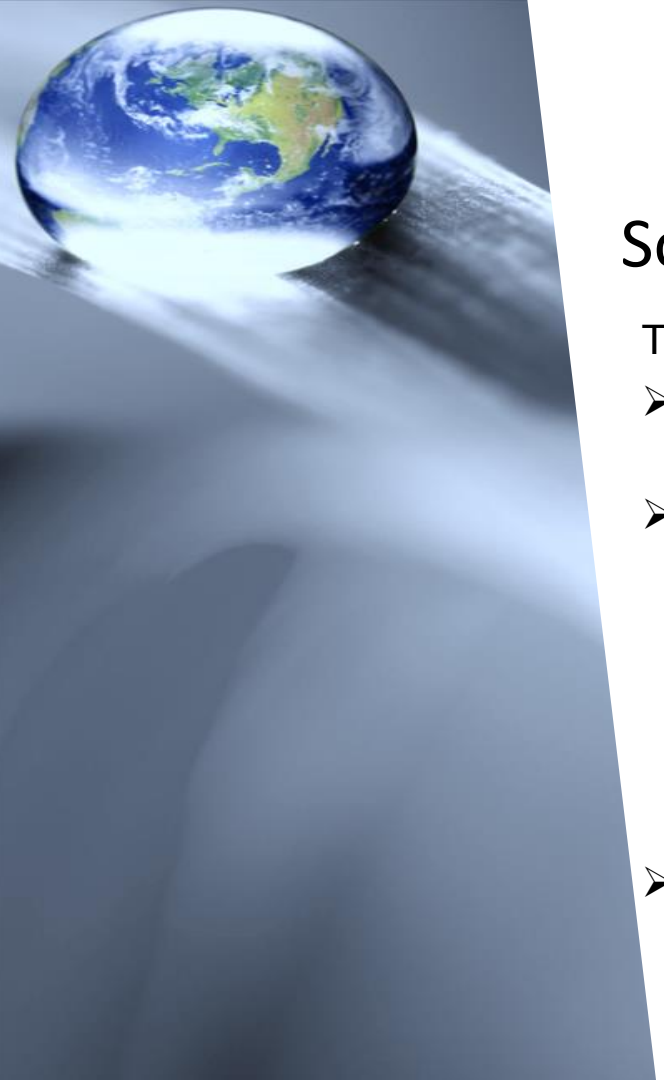
Commonalities of SSEs

- All follow a triple bottom line however some of them impact based (Canada, Brazil, Singapoore) and others ESG based (London). Note: Currently the demarcation line between ESG and impact is not always clear (Glänzel and Scheuerle 2016).
- They all replace the subjective choice of individual intermediary of what impact is by clear listing criteria.
- SSEs assist in creating social and green economy finance markets.
- boost the organizational capacity of the social sector.
- “provide a framework within which investors can make more holistic decisions that include social businesses and SSEs.



Existing SSEs Differences

- Attracting institutional capital remains a significant constraint to SSEs that focus on a crowdfuncing approach.
- UK has had a political shift towards social finance and Tony Blair's "Third Way" initiative where the government has actively sought to create a social finance market worth nearly GPB 60b by 2010. This market operates still outside the London SSE model, London Stock Exchange listing is a prerequisite.
- Developing a comprehensive financial performance database to identify critical success factors and develop customized benchmarks for impact and key impact metrics- a must.
- JP Morgan "Perspectives on Progress" revealed an overwhelming focus on growth stage businesses (78%),

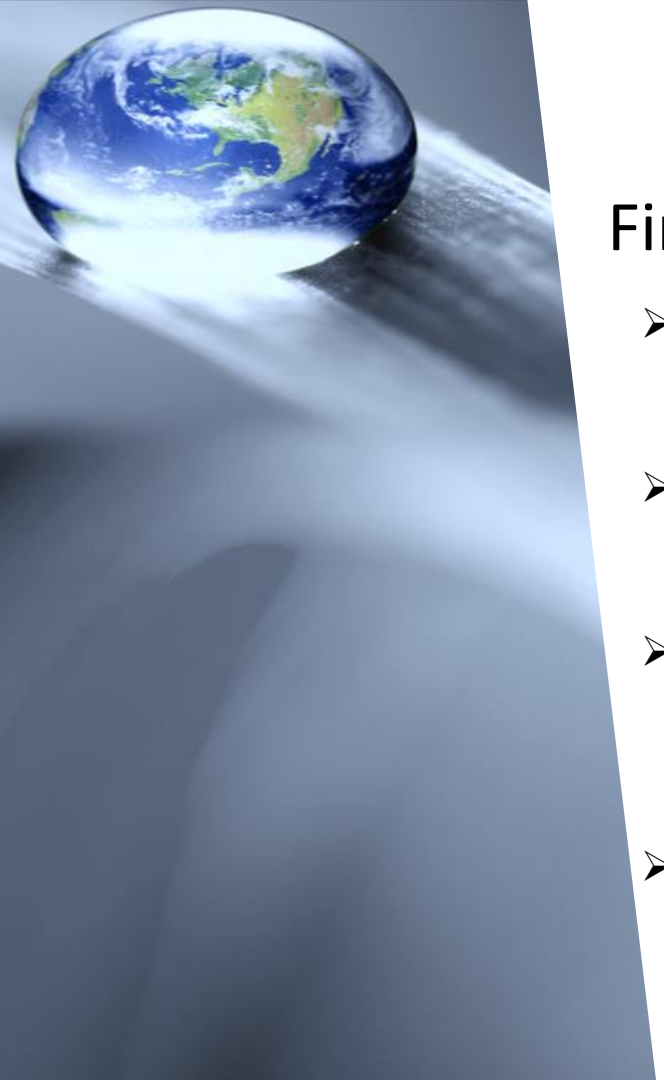


Social Stock Exchanges Challenges

The challenges are:

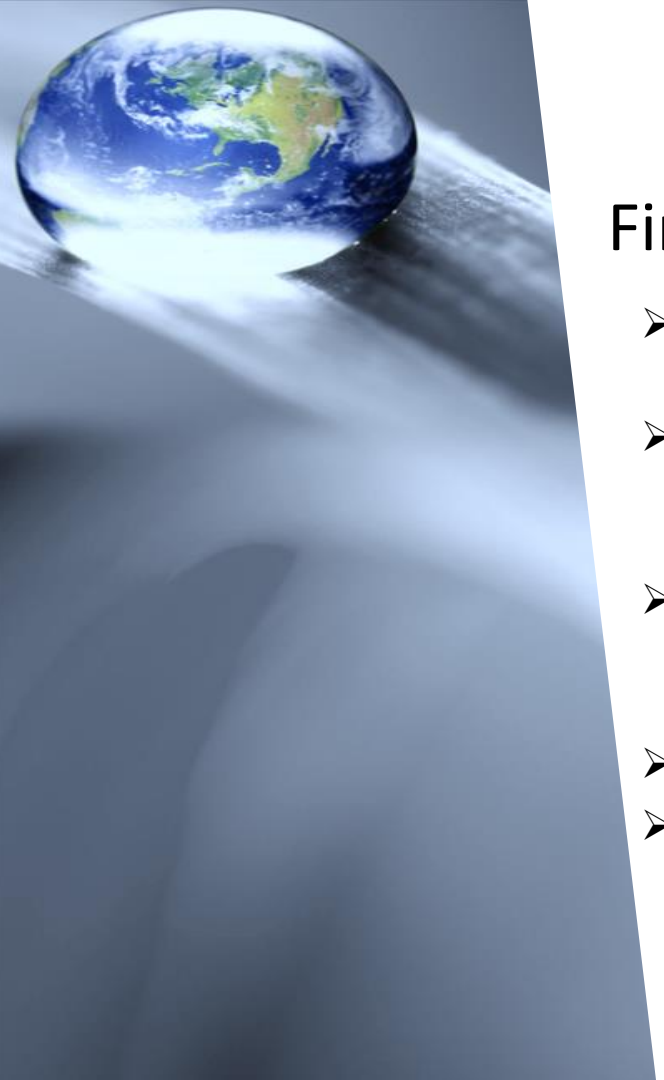
- accreditation at all levels and issue— among investors, social businesses, and the intermediaries.
- UK listing only after listing at London Stock Exchange based on a pre-set of indicators), Canada full fledged, but only for institutional investors, Gov. Ontario, objective criteria). To avoid the valuation muddle, the Brazilian model has shied away from valuation completely; it simply matches social businesses to interested social investors, similar to how crowdfunding platform. Each SSE very different.
- *Impact investing is currently growing linearly. In order for it to grow exponentially, we need to find a way to incorporate mainstream investors into the mix.*"

  - Randall Kempner, Executive Director, Aspen Network of Development Entrepreneurs, Aspen Institute, USA (WEF 2013)



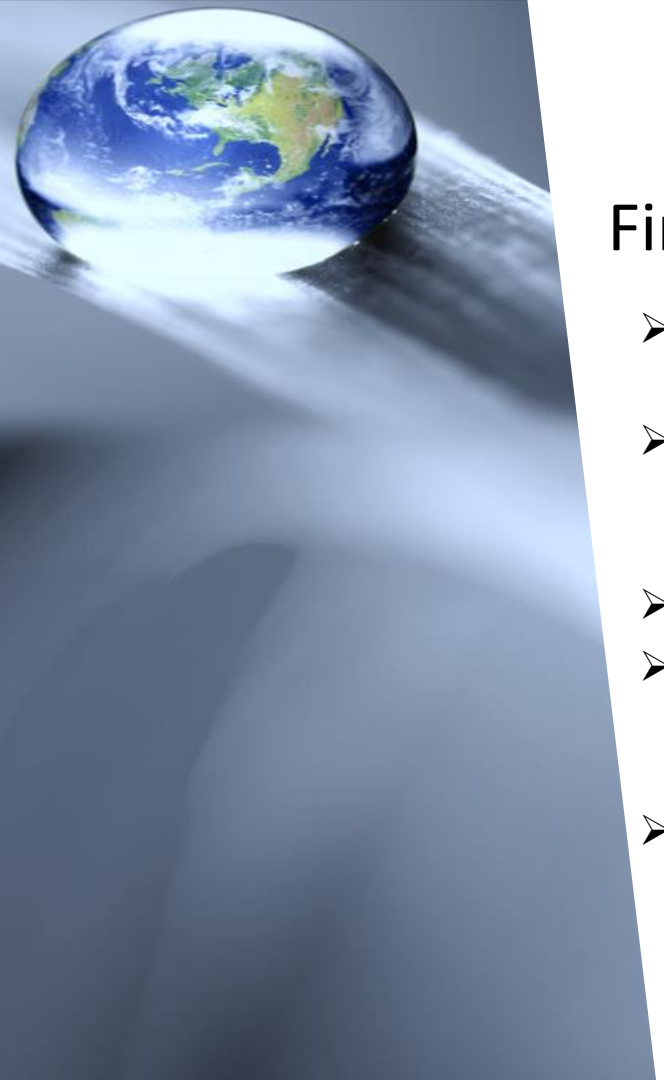
Findings from Interviews – SSE

- Players from jurisdiction that have ”a tradition in impact investing” like the UK stress that a supportive policy environment with practical initiatives is a key success factor.
- Transferring the task form individual intermediaries with different models to the regulator (applying one universal model) creates a level playing field and eliminates uncertainty.
- Measurement Systems exist and are of use for regulator. Impact Reporting & Investment Standards (IRIS), Global Impact Investing Rating System (GIIRS) and the B Impact Assessment powered by B Lab “(Antadze and Westley 2012).
- universally shared Theory of Change provided by UN SDGs.



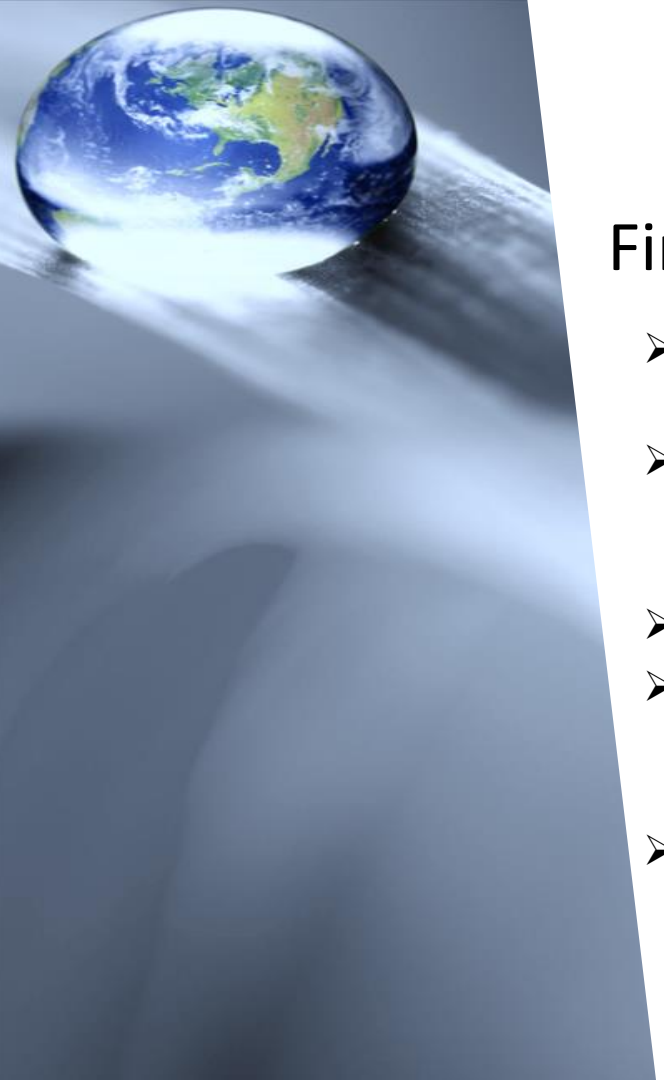
Findings Investors (need Level Playing)

- UN SDGs could potentially provide a useful framework for a universal ToC.
- Application of external measurement criteria taken from GIIRS, EIRIS, IRIS, B Lab, GIIN can help create credibility, legitimacy and market attractiveness for stakeholders.
- Level Playing Field (listing criteria, impact definitions, business models a pre-requisite for having a double blind auction process across the world.
- LPF will increase liquidity, allow fungability.
- more work could be done on the regulatory, legal and policy implications of impact investing and SSEs, including the assessment of existing regulatory gaps and potential policy incentives.



Findings Research Institutions

- would be both effective and efficient for global SSEs to converge over time.
- create positive ecosystems for SSEs so that they become not just a normal way of trading and investing on par with traditional markets.
- Ecosystem to make assets investment ready.
- provide more seed funding to understand and gauge the necessary drivers for impact investment, and boost the organizational capacity of the social sector and SSEs.
- Consistent “Global” Policy Framework and Regulation Framework for SSEs around the 17 SDGs.



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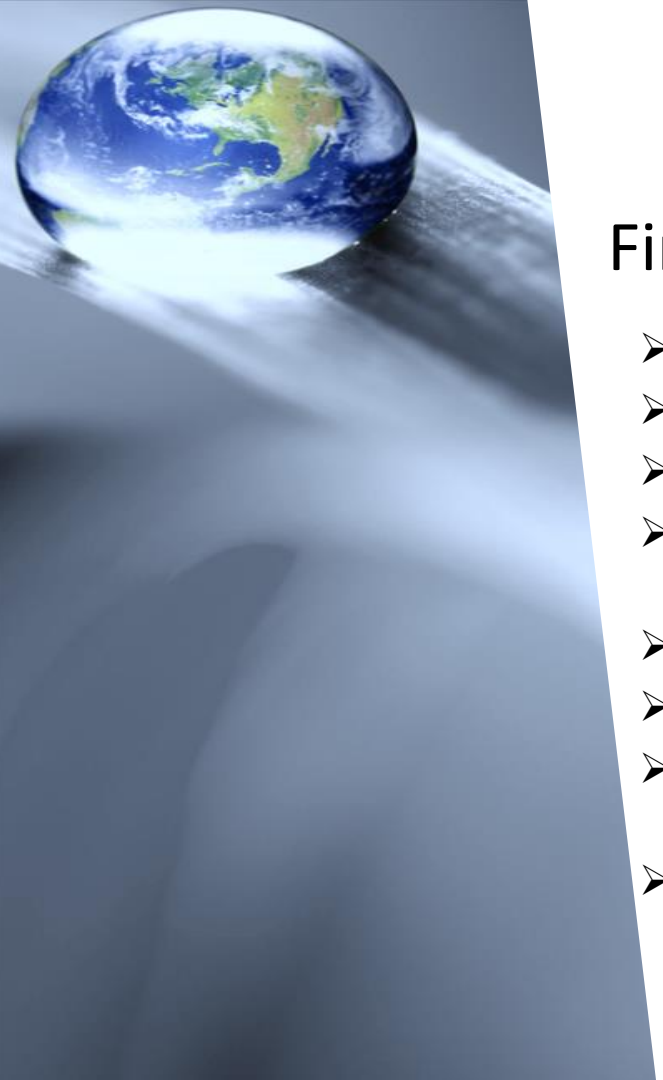
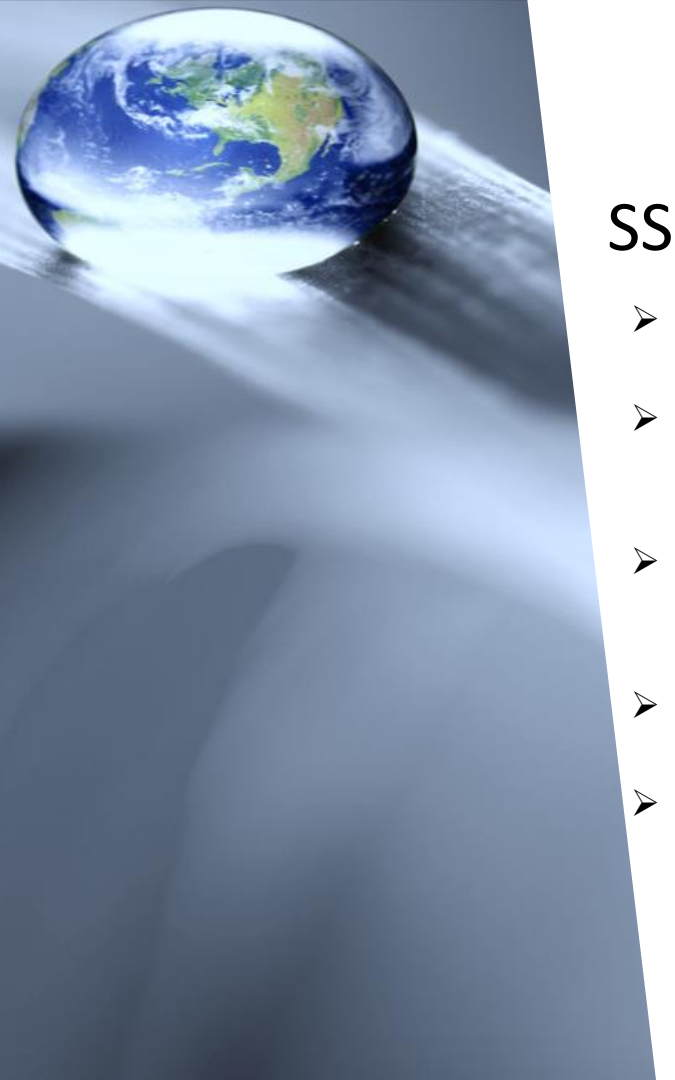


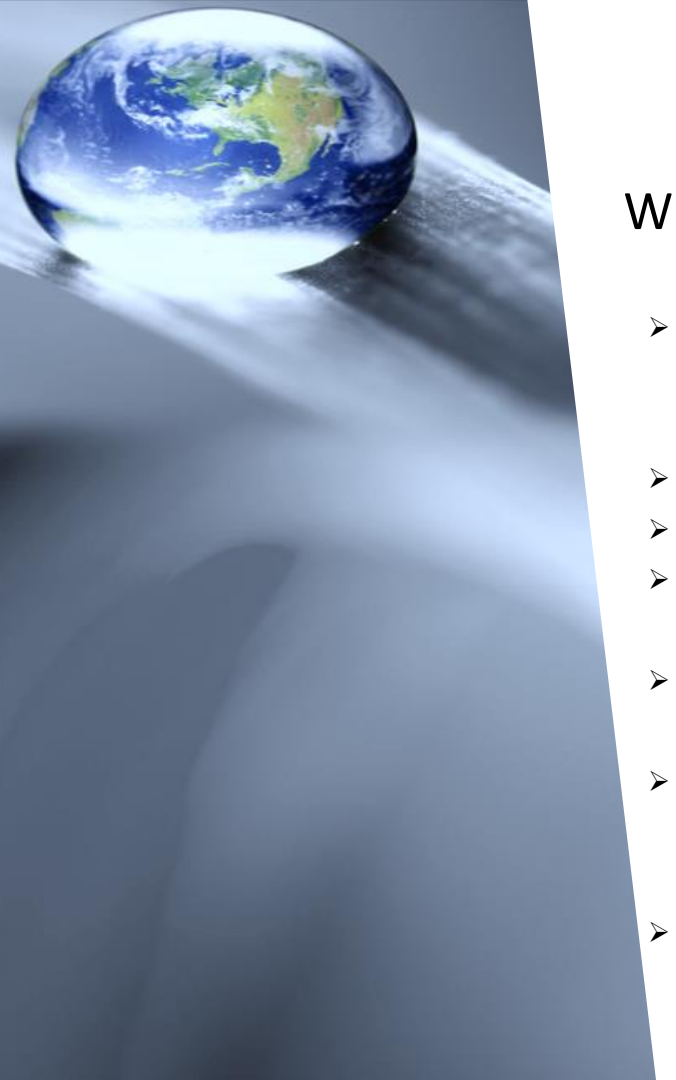
Finding: Social Entrepreneurs Networks

- SSEs can materially reduce the costs of research for funding.
- Ecosystems supporting SSEs to be developed.
- provide more seed funding.
- legal restrictions preventing fund managers from investing in social finance in many countries.
- minimal guidance for type B-Corporations in many countries.
- Incentives for investors are missing in msny countries.
- Social entrerprises are more unique and therefore more difficult to scale.
- No money for scaling in existing programmes.



SSEs=Marketplaces for Listing,Trading?

- SSEs improve market access by connecting impact companies with investors.
- SSEs help democratize and popularize impact investing by making it accessible to a wider set of investors (dispersed owners, higher liquidity, additional attraction to investors).
- By aggregating data on impact companies and organizing analyst coverage, SSEs reduce information and transaction costs while being essential for the accurate valuation of the listed securities.
- Being SSE-listed company serves as a seal of quality, providing investors with confidence of proper due diligence (Newsweek).
- Without a liquid marketplace, investors may be excessively cautious, reducing the amount of capital available to impact companies (Shahnaz et al. 2014, 155). SSEs offer an exit route for early- stage investors.



What benefits do Social Stock Exchanges have

- An open market place free of charge for both entrepreneurs to showcase their sustainable projects and interested impact investors to present their investment interests until the end of 2017
- A double Blind MACHING PROCESS eliminating the Intermediary and its Subjectiveness
- Information on impact investment opportunities including their correlation to the SDGs
- Industry Know How on the sector of impact investing (studies, articles, glossary, conferences, events, etc.)
- Searching options by matching criteria for entrepreneurs and investors adding transparency to the process
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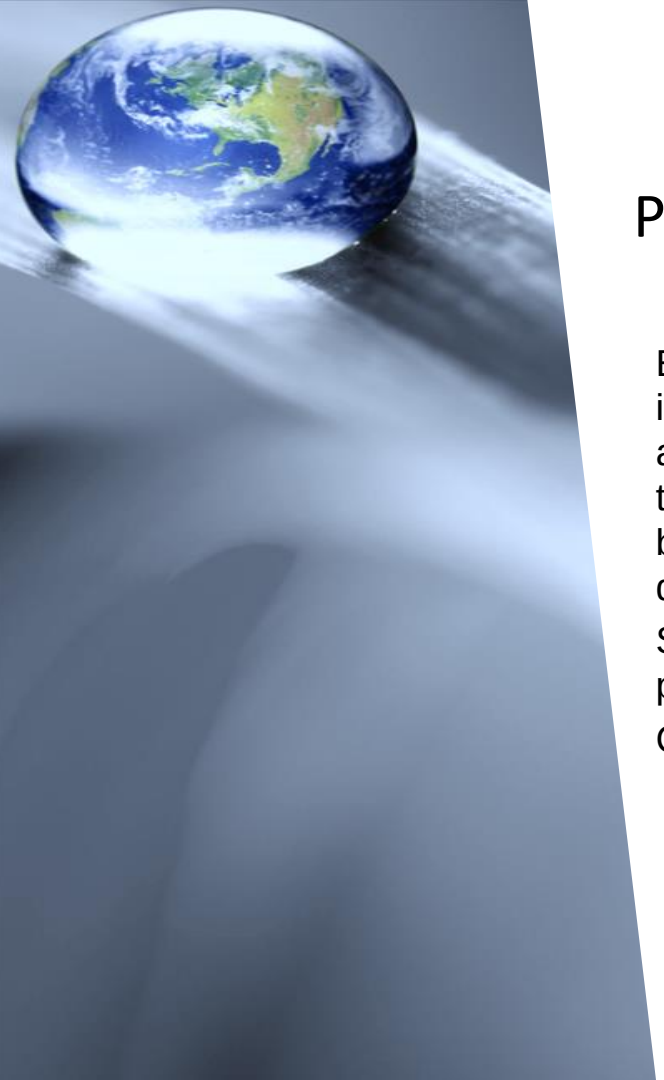
- Innovative and lean impact measurement tools worked out by researchers

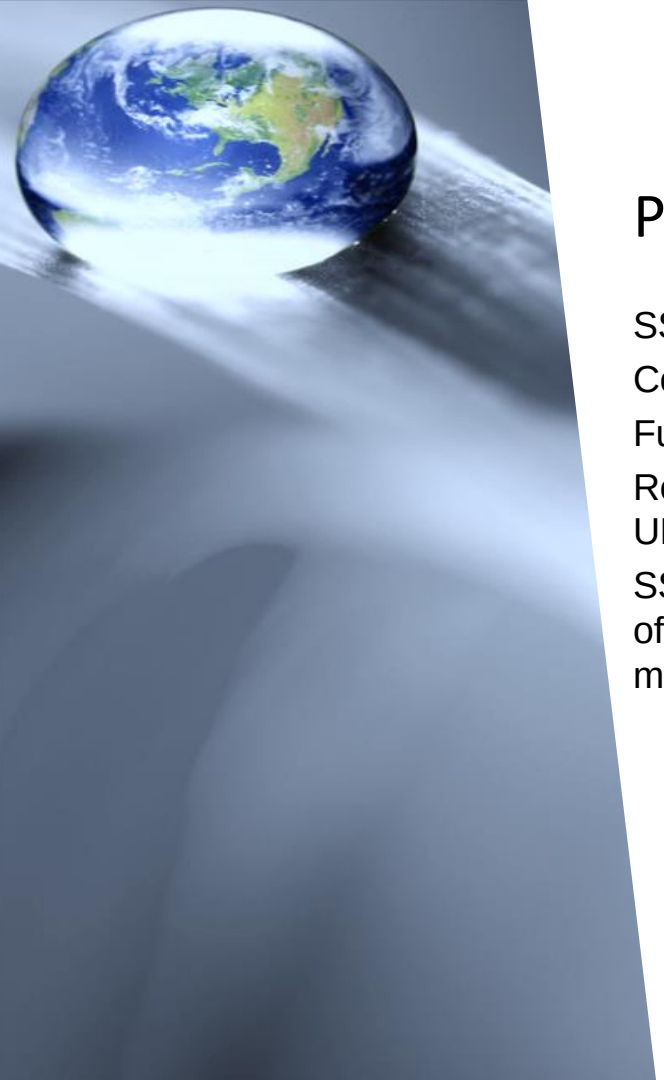


Prognosis1:Market Infrastructure Assistance

Enabling conditions: bring new issues to market (ecosystems), support impact companies in finding and securing start-up finance (listing criteria and infrastructure), attract new investors (incentives and fungibility), provide training to companies in regulatory and compliance issues (capacity building), and generate liquidity, thus offering the opportunity for investors to disinvest.

Set eligibility and reporting Criteria, procedures to identify malpractice and prevent mission drift.

Create ability to attract new issuances.



Prognosis 2: Global Administrative Law

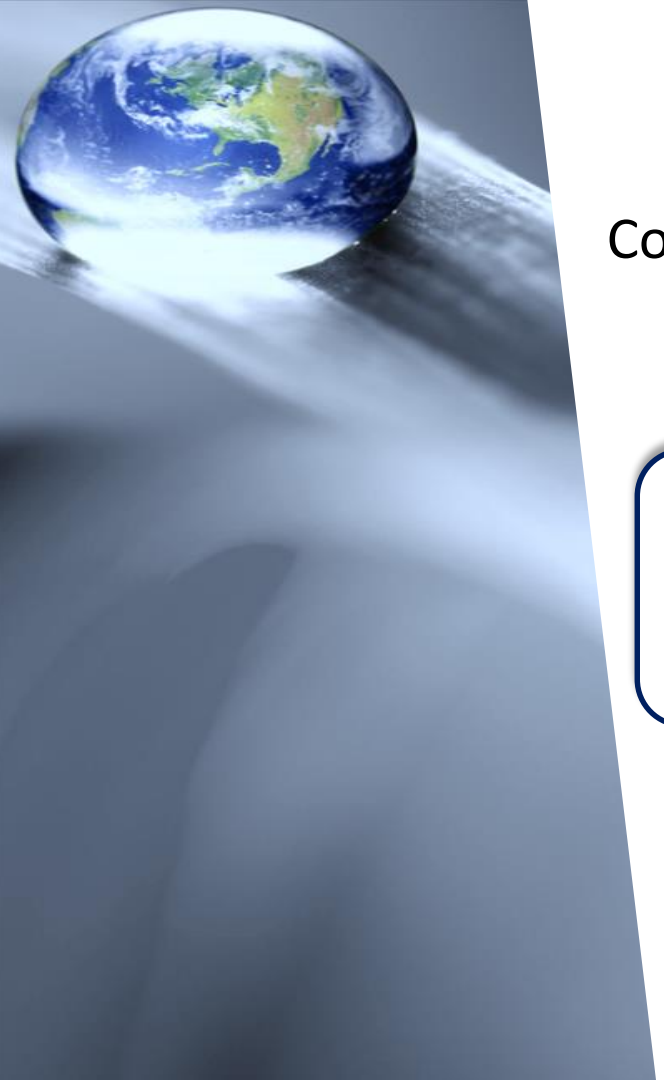
SSEs need a clear harbour – within EU or Global Regulation

Conformity helps fungibility.

Funds for Scaling required.

Recognized and Regulated Investment Exchanges (London: regulated by the UK Financial Conduct Authority (FCA).

SSEs can function as a quality seal for green and social enterprises and as officially listed assets have higher visibility, higher analysts interest and better market making.



Conclusions:

SSES might be operated as places for listing trading settlement
Global Framework is missing
SSEs – when converging have a number of advantages for market participants, but not necessarily intermeidaries

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Thank you!

Questions / Comments?

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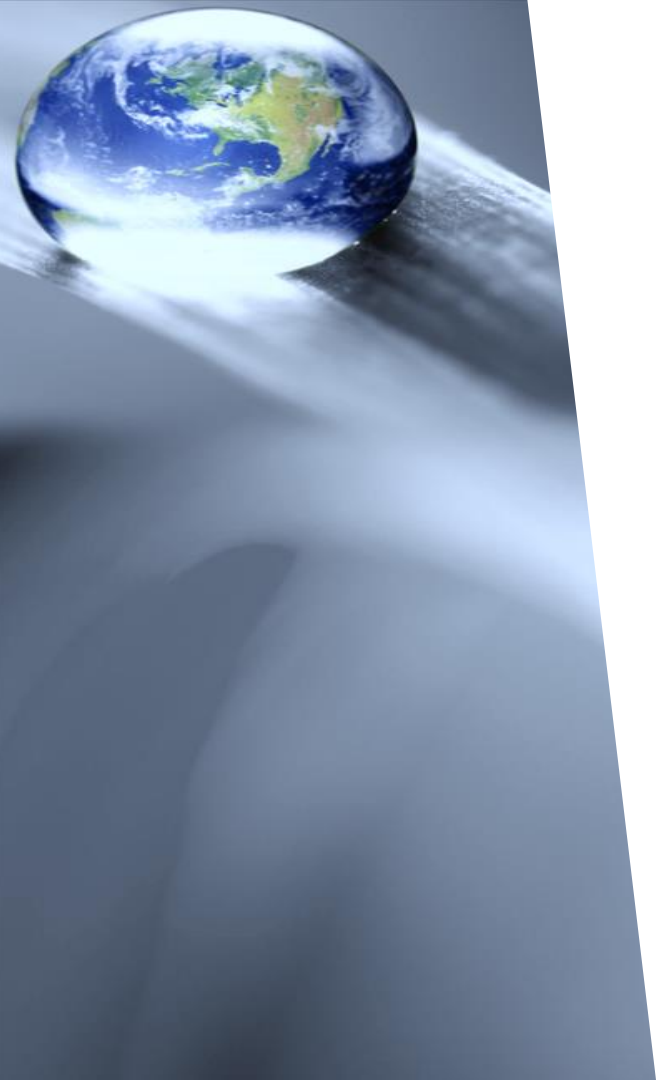

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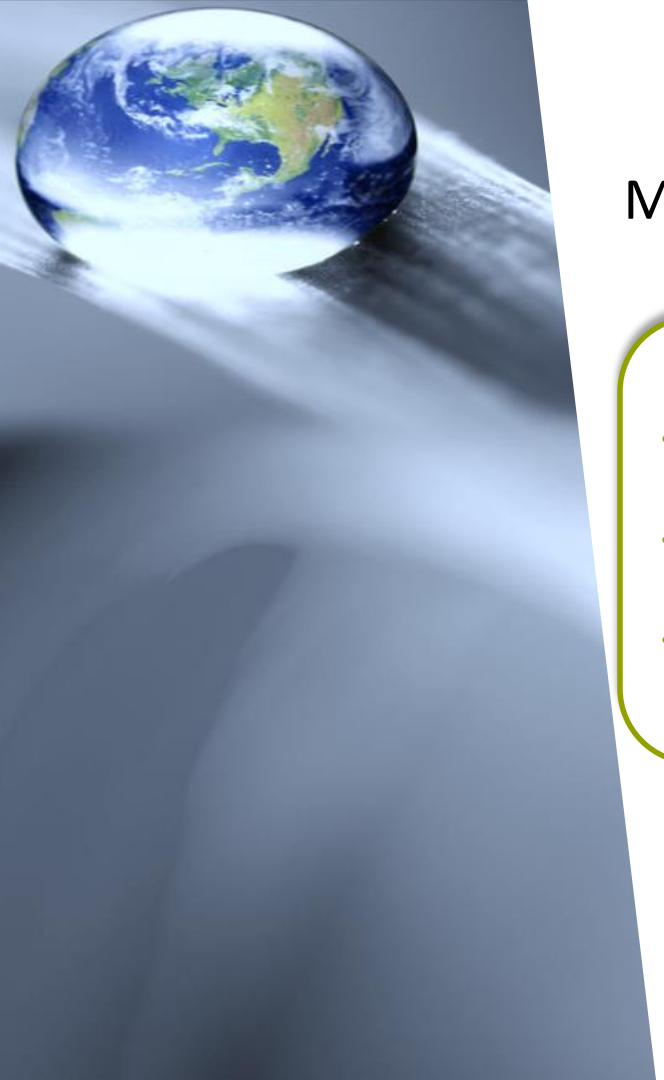
BackUp Slides?

Market potential - Sustainability

In the post-COP21 world, a strong business case can be made central principle driving infrastructure development, technological R&D, and innovation.

The idea of sustainability permeates the whole economy, and combined with ICT, cleantech will lead to creative destruction across many industries, not just energy and transport.

Investment opportunity



Market potential – Social entrepreneurship

- In the coming decades, the millennial generation will inherit trillions of dollars in both financial and non-financial assets.
- According to The Deloitte Millennial Survey (2016), this generation puts a much stronger emphasis on the impact that businesses have on society.
- Social entrepreneurship is on the rise around the world (SGS 2016).

Investment opportunity

Theory of Change (ToC)

Theory of Change is a comprehensive description and illustration of why and how a certain change is expected to take place.

Defining goals

What would success look like?

"Backcasting"

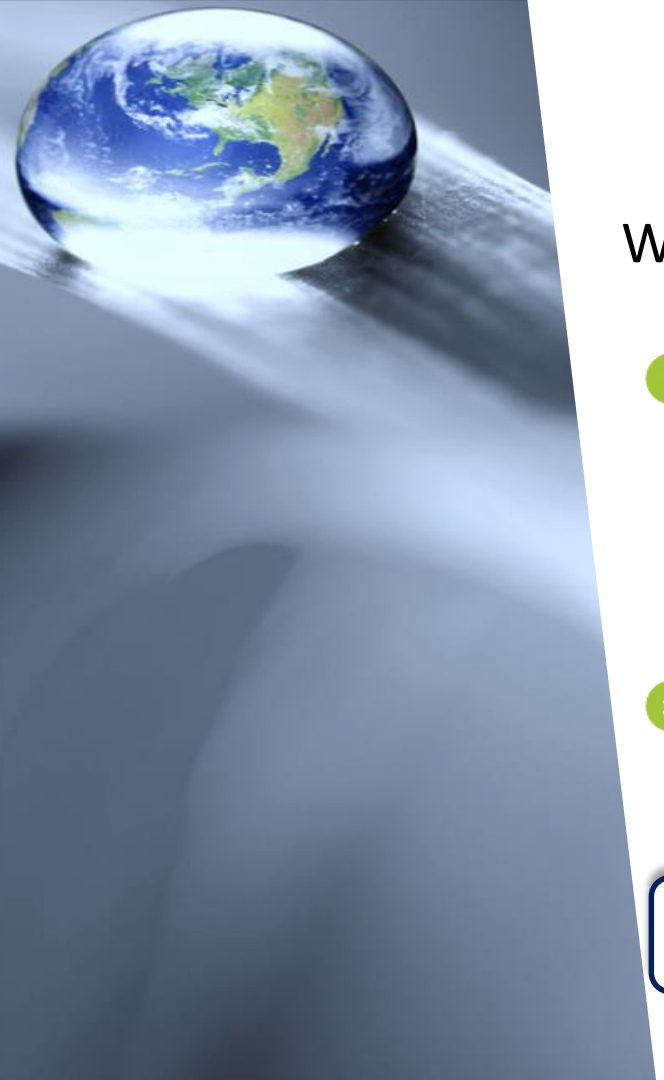
Identifying all the conditions required to get from here to there?

Mapping

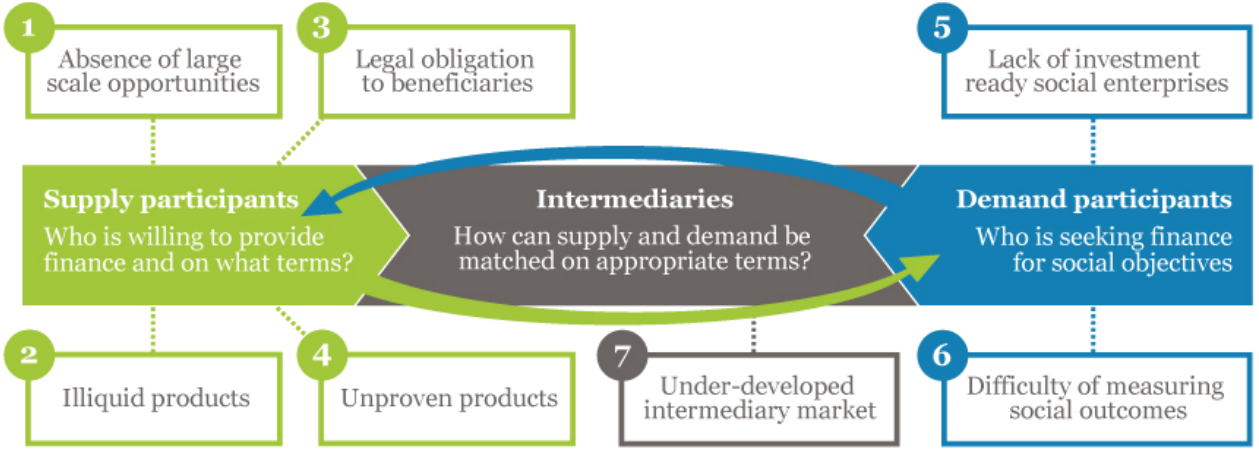
Creating a visual pathway that can be used for strategy.

Strategy

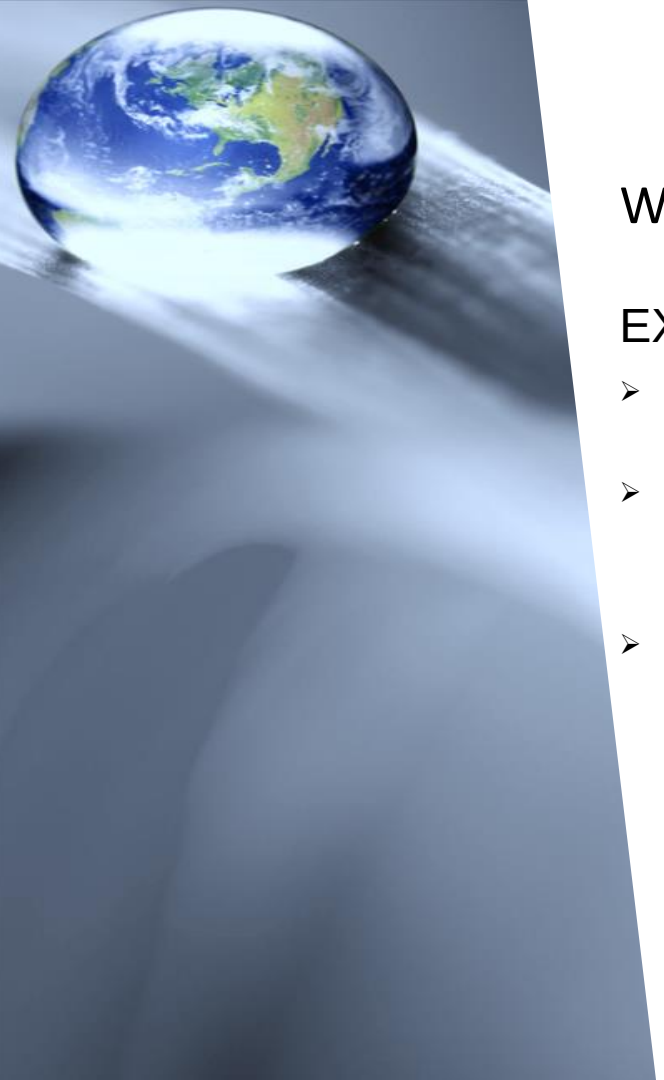
Identifying necessary steps and developing indicators to measure success.



What makes impact investing challenging?



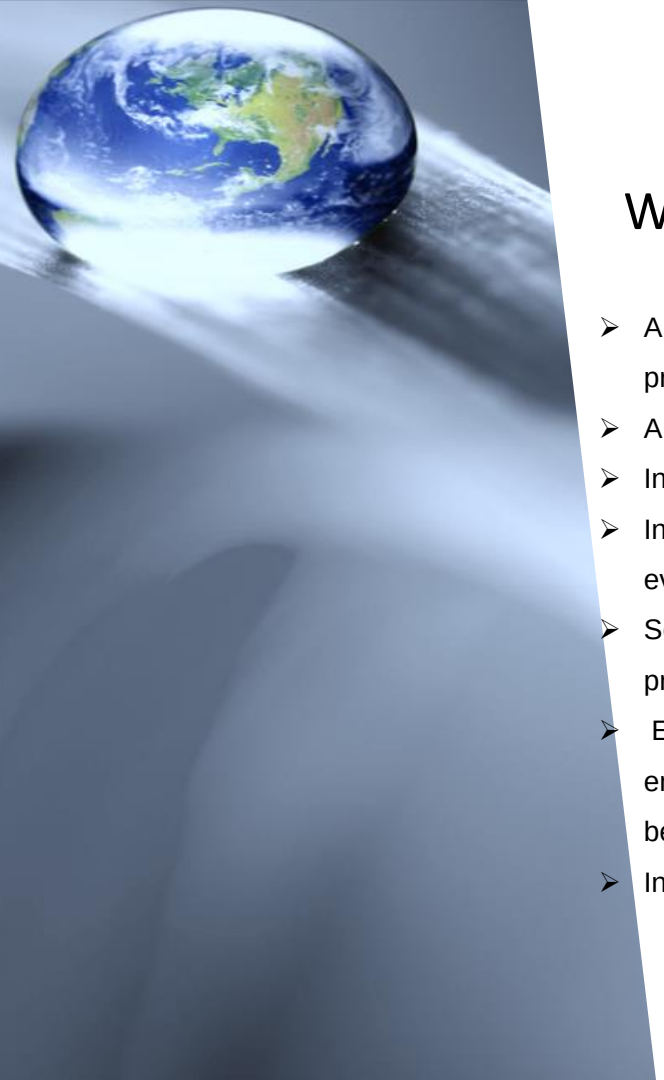
Impact investing ecosystem is underdeveloped which means that challenges faced by investors, intermediaries and entrepreneurs are compounded.



What are Social Stock Exchanges

EXAMPLE GIIVX

- GIIVX is a global online platform which aims to connect impact investors with impact investment opportunities (entrepreneurs) meeting their investment requirements.
- Given the low rates of return achievable on the market, investors are looking for additional benefits. A the same time, humanity faces enormous challenges that need urgent solutions on a global scale, as detailed within the Sustainable Development Goals of the UN.
- Impact Investing aims to produce a positive social and/or environmental impact along with a return or investment. To date, there is no global initiative offering an adequate link between interested investors and entrepreneurs, combined with a knowledge base on the industry and impact measurement tools.



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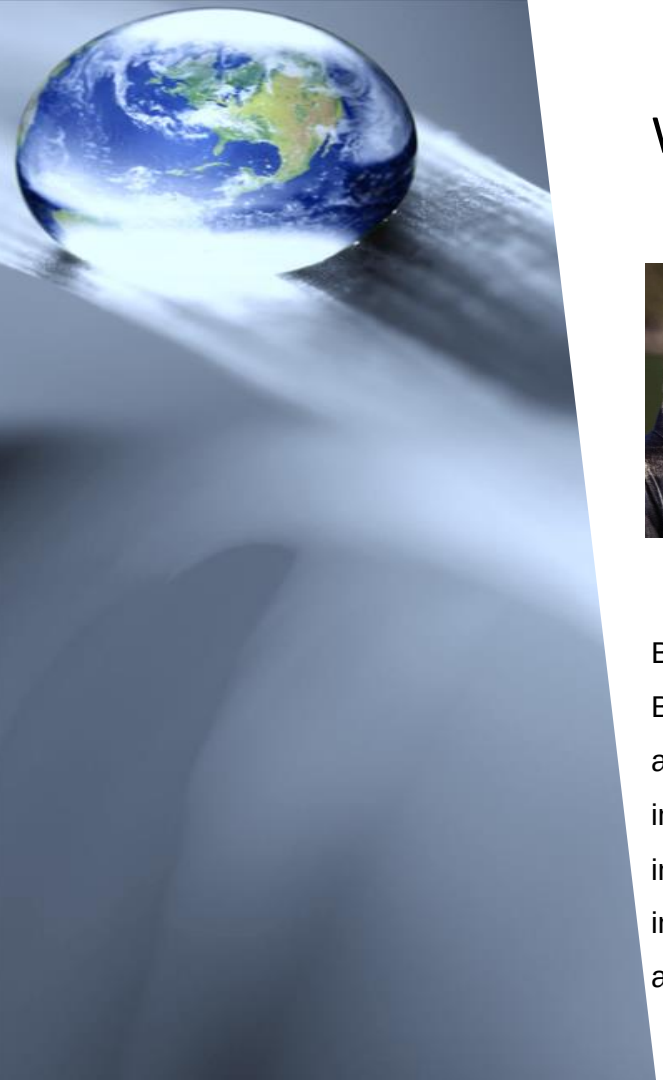

Who are we...

Karen Wendt is the editor of the Sustainable Finance Series with Springer Science and Business Media, a series dealing with new concepts in Economy, Investment, Finance, Strategy, Management, Leadership, Exponential Tech, Behavioral Finance allowing the economy and business to merge profit and purpose with the Paris Climate Agreement, Sustainable Development Goals and Choice Architecture by Application of Theories of Change.

Being an investment banker with more than 20 years experience Karen is the also the editor of Bestseller Responsible Investment Banking and an expert in the management of environmental and social risks, sustainable finance and positive impact investing. In 2003, she was instrumental in the development of the Equator Principles the risk management gold standard in Investment, which she implemented in two top tier financial institutions, putting preaching into practice and applying robust change management procedures. Karen is keynote speaker, advisor and leadership coach.

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