



BLUEPRINT RESEARCH & DESIGN, INC

[www.blueprintrd.com](http://www.blueprintrd.com)

SAN FRANCISCO  
720 MARKET STREET, SUITE 900  
SAN FRANCISCO, CA 94102  
T 415 677 9700  
F 415 677 9711

SEATTLE  
1904 THIRD AVENUE, SUITE 927  
SEATTLE, WA 98101  
T 206 324 4999  
F 206 324 4989

**The Global Social Investment Exchange  
Initial concept meeting  
Bellagio, Italy  
3 – 6 February, 2009**

**Summary Notes and Observations  
Lucy Bernholz**

**Meeting purpose**

Social investment platforms and social stock exchanges are under consideration or in active development/operation in several countries. This meeting was called to:

- Consider the range and scope of these developing platforms
- Identify common characteristics
- Pinpoint areas of shared need
- Consider whether there may be economies of scale, shared advocacy or marketing goals, or enhanced effectiveness obtained by working together
- Examine possibilities for a global federation of national/regional platforms

A concept paper was prepared by Tamzin Ractliffe, Founder of the GreaterGood South Africa Trust and the South Africa Social Investment Exchange (SASIX) and distributed to meeting participants prior to the gathering. This proposal was intended to serve as a frame for discussion and as a starting point into which the meeting's outcomes would be incorporated. Additional resource materials were also provided and are available online at [www.gsix.org/bellagio](http://www.gsix.org/bellagio). The meeting was organized and hosted by the GreaterGood South Africa Trust with the support of The Rockefeller Foundation and its Bellagio Conference Center.

**Opportunity**

The past decade has seen a great deal of innovation in building financial markets that value and emphasize social, environmental, and financial returns. This innovation is marked by great variety, but can be collectively captured as elements of emergent social capital markets. These social capital markets suffer from much higher transaction costs than financial markets, significant information bottlenecks, and a lack of intermediaries that meet a known, agreed-upon standard. In response, organizations are emerging around the globe that address various elements of these market-specific challenges.

Within that universe of emerging organizations are emergent social investment platforms – online portals that facilitate knowledge sharing and transactions between capital providers and social benefit enterprises – exist or are under development in many countries. At a minimum, such platforms exist or are under development in Brazil, Canada, Colombia, Denmark, Germany, India, Israel, Italy, Kenya, Singapore, South Africa, the U.K and through the United Nations.

There is great variation within these efforts. Variation ranges across services provided, capital sources sought, and businesses / enterprises<sup>1</sup> supported. Services provided range from opportunity identification, information, analysis and due diligence through full transaction facilitation and reporting.

Purely Philanthropic / Social / Environmental		Purely commercial / financial		
←-----→				
<b>Primary Investment objective</b>	Social / Environmental return only - no financial return expected	Social / Environmental Return with sub-optimal financial return - either capital only or capital plus a varying financial return (would include the Yunus model of no dividend given, no loss taken)	Full or close to full market financial return with social and environmental returns	Full market financial return; no expected / necessary social and environmental return
<b>Capital Sources</b>	Donations / Grants	Well below market capital or mix of below market capital and donations	Primarily market-rate (or thereabouts) capital including SRI investments	Market rate capital
<b>Enterprises Funded</b>	Traditional non profit	Social Enterprises / Social Businesses (for profit and not for profit)	Social Businesses; Socially Responsible Companies	Traditional listed / market rate businesses / companies
<b>Services</b>	Information; Due Diligence; Social impact assessments and reporting	++ Credit ratings; Risk analyses	++ Valuations; Financial Transactions	++ Valuations, Financial transactions
<b>Charge for products / services</b>	Beneficiaries do not pay but investor may / may not pay fees associated with advisory service	Subsidised rates or mixed rates based on demand for returns by investor (generally below market)	Primarily market-rate prices	Market rate prices
<b>Primary Enterprise Goal</b>	Social / Environmental mission	Social / Environmental Mission is primary goal but capital return expected i.e. no dividend given, no loss taken	Blended value: so profit driven but with equal emphasis on social / environmental impacts	Profit driven on economic value
<b>Investors</b>	Individual givers; Foundations / Development Agencies / Donor Advised funds; Government grants	"Double bottom line" investors; community development finance institutions; Foundation programme related investments / mission related investments; individual "giver investors"	Socially screened funds; Socially Responsible Investments; "New Commercial Investments" in social businesses (unlisted and potentially listed on Social Stock Exchanges)	Investment assets under management not committed to SRI

Plotted on a single matrix, some of the enterprises represented at the meeting are shown below (courtesy of Antony Bugg-Levine):

	<b>Grants</b>	<b>Social business</b>	<b>Market rate</b>
<b>Broker research</b>	SASIX; Charity Intelligence Canada	Intellectap / IDG MyC4; Investing 4 Good	IDG Italy SSE
<b>Listing</b>	SASIX	SASIX Financial	SASIX Financial London SSE
<b>Trade</b>			London SSE

There are additional dimensions of variety, some of the platforms focus on moving capital within a country, and others are specifically set up to move capital across national borders or hemispheres. Some focus on institutional investors, others are modeling a "retail exchange"

<sup>1</sup> Terminology was a critical challenge to this conversation. There are multiple terms with multiple meanings for almost every point in these matrices. A glossary and terminology sheet is under development.

structure wherein small individual investors are the primary clients for the services. Some of the platforms are quite clear on their market niche, others have evolved over time and shifted on one or more of the above spectrums.

The pre-conference concept proposal outlined a network of social exchanges that could more efficiently move capital, meet a set of high and comparable standards, demystify the opportunities to attract more investors and capital sources, and better connect developing world enterprises to markets and capital. It suggested the creation of a structure and inter-relationship similar to the World Federation of Exchanges (WFE) and its member Exchanges.

The opening session included presentations from Peter Clifford of the World Federation of Exchanges and Nicky Newton-King of the Johannesburg Stock Exchange. The presentations focused on the core missions of stock exchanges, their operating consistencies and variations, general breakdowns of costs across their operating structures, and the services provided to them by the World Federation of Exchanges.

The conversation included the presentation of an idea for a single global exchange, the existence of a single standard if there were to be multiple social exchanges, and a discussion of the role that a federation such as WFE can play for its member exchanges.

The WFE exists to develop and promote regulated exchanges and standards in markets in various ways. Membership in WFE is considered by some governments, national associations of asset managers and investors as criteria for preferential investment policy and taxation for these markets. The WFE's core role includes:

- Setting and promoting quality market standards and reliable statistics.
- Taking an advocacy role by working with policy makers, regulators and government organizations for fair, transparent and efficient markets.
- Establishing and/or strengthening networks by bringing together exchange experts and members to improve markets.
- Assisting newer, smaller exchanges to establish, develop and meet WFE standards.

Exchanges, on the other hand, bring:

- Data and research
- Listing requirements and opportunities
- Standardization
- Trading opportunities
- Networking – across companies and investors

The costs of building and managing exchanges, especially the costs associated with trading, are significant. Depending on the purposes sought it might be prudent to consider establishing social exchanges in partnership with existing exchanges.

This led to two parallel discussions – the purposes of exchanges and a federation of exchanges; and the potential advantages and disadvantages of partnering with existing stock exchanges in the creation of a social exchange that would enable trading in equities in social businesses.

In summary, several purposes were identified:

- growing the impact investment industry on both the buy and sell sides
- creating a new asset class
- raising substantial amounts of new capital
- providing exit strategies for investors
- lowering transaction costs and information gapes

- demystifying and lowering the risk of social investment
- making philanthropic capital more efficient and effective
- building capital intermediation to capture resources to solve social problems

The plusses and minuses of partnering with existing exchanges can be summarized as follows:

<b>Perceived Advantages of partnering with extant exchanges</b>	<b>Perceived Disadvantages of partnering with extant exchanges</b>
Lowered costs to develop trading platform	Social investors as “second-tier”
Faster time to launch	Muddying the message about social and environmental returns
Increased access to traditional investors	Listing and transaction costs may be too high
Credibility of major partner	Movement across trading platforms and segments, leaving social investments behind

There are different roles to be filled within the context of building an exchange. Peter Clifford summarized these as issuers, investors, and intermediaries. Currently, some organizations in the social capital markets serve as all of the above while others do only one or the other. The market has not yet developed to the point where it is well known who does what, nor can everyone clearly articulate the different incentives of these three different players.

Finally, the discussion focused on the many roles that a social capital marketplace needs to have filled, and the recognition that an exchange or trading platform is only one piece of a more complex puzzle or ecosystem. Other roles, some currently filled, others left wanting, include: brokers, standard setters and accreditation structures, ratings agencies, investment banks, research houses, government regulators, self-regulating bodies, and social enterprises.

Over the course of the meeting the tertiary innovation that building social exchanges can facilitate was also discussed. Two points were of particular interest: 1) the potential for new asset products that might be packaged off of a social exchange (e.g., mutual funds, bundled portfolios of debt or equity); and 2) indices for specific areas of impact, such as clean water, economic development, or poverty reduction.

There are a wide array of interests and selected places for intervention within the field of impact investing. The group did not reach consensus on a single point of intervention or on the spectrum of enterprises. Some will remain committed to improving grant funding and nonprofit activity, and the group recognized that this may be a key element of the pipeline to increasing the scale of social enterprises. It was nevertheless argued that such activity should meet minimum standards determined by a global body in terms of listing and reporting.

It was noted that individuals are often managing capital infusions across the spectrum from grant to market-rate return, and sought platforms that could serve the widest range of capital needs. The MyC4 platform, for example, is one example of how individuals may “slide” along this spectrum as well as the potential for building a single platform that allows capital to be packaged for a multitude of returns.

Other efforts are focused on very specific strata in the spectrum, be it market-rate investment plus social return, pure grants, or somewhere in between. One point of agreement, however, was the need to be consistent and clear in marketing these points along the spectrum. Other social business supporting efforts are underway. Some of these and their definitions, such as Muhammad Yunus’s work with social businesses (no dividend given, no loss taken), need to be attended to if simply to avoid confusing the market.

Two other broad themes were present throughout the discussion. The first firmly centered these innovations within the context of long-term shifts in financial markets as well as the current financial crisis. While there was no agreement on the degree to which social and environmental returns can or should be seen as mechanisms for either “saving” capitalism or “reinventing” it, there did seem to be some level of agreement that the social impact of these enterprises and investments might be an advantage in trying to launch new financial products at this particular time.

Second, the global nature of the conversation and the geographic diversity of the group brought with it a healthy recognition of cultural differences across both enterprise creators and wealth aggregators/investors at this point in time.

Both of these were seen as opportunities to imagine systems and tools not beholden to established traditions of philanthropy or wed to potentially flawed elements of existing financial exchanges. Optimistically, there was a sense that these two distinctions – a commitment to social and environmental impact and a legitimate cultural sensitivity to wealth and investing traditions from Asia, the Middle East and the global south - might yield both scalable systems and hasten the pace of development over previous financial innovations.

### **Core areas for future work**

Meeting participants identified several strategic issues that require further research or work to move forward in establishing a global federation of national/regional platforms. These include:

#### *Ecosystem mapping*

The variety of services and practices represented in the room is only a subset of the endeavors underway. Some attempt to comprehensively “map” the ecosystem of social capital markets, both within country and globally, is seen as a necessary first step. Such an ecosystem should include, at minimum, a listing of the known brokers, standard setters and accreditation structures, ratings agencies, investment banks, research houses, government regulators, self-regulating bodies, and social enterprises. Ideally, such a map would include the stages of development of these entities, the geographic scope of their work, and a sense of their service area on the spectrums of services, capital sources, and enterprises. (Spectrums I, II and III)

#### *Standards and Membership*

Unanimous agreement was reached on the need for high and comparative standards. However, that was the extent of unanimity. The difference between standards of listing, standards of reporting and standards for social and environmental impact were key issues that were understood to require additional work.

Frequent mention was made of the existence of some 240 measures and methodologies for reporting social return on investment. The possibilities and dangers of choosing a subset of these methodologies were discussed at length. This also gave rise to the identification of potential allies and partners in this work (see section on allies and partners).

One rigorously debated question centered on what listing standards should apply, and whether, in offering investors a range of primarily social / environmental impact investment opportunities, a Social Stock Exchange would have to vet all investment opportunities and only list those social enterprises (or other hybrid forms) that offer positive social returns. The example of how this might ultimately value *the intent to achieve social impact* over the actual delivery of social impact was articulated in the following scenario:

- A social enterprise develops a woven basket that can be made in refugee camps and increases the incomes of 50 of the displaced persons to \$3/day. Nike sees an opportunity and opens a shoe factory in the same camp and increases incomes of 100 displaced persons to \$5/day. If only social enterprises can be listed, only the less effective of these two investment opportunities will be presented to investors.

Though no conclusion was reached, it was generally agreed that social investment exchanges should have listing standards but that these should probably relate to transparency and the quality of the social impact reporting. It was argued that existing stock exchanges do not list only those investment opportunities it believes will provide a compelling financial return; nor do they de-list loss making companies for negative financial performance. They do require, however, that listed companies meet certain basic conditions - including standards around disclosure and reporting.

Similarly, it is conceivable that a quality vetting / listing standard is not required for a social exchange if reporting standards are good enough to allow investors to make informed quality judgments themselves. Whether this be left to the individual to determine for themselves which organizations offer compelling social returns, or whether it be a result of paid investment advice from social investment analysts is for the individual, no doubt, to decide.

#### *Regulatory structures*

There was agreement that regulatory structures that guide the movement of capital across national borders were a major factor in expanding the flow of capital to social enterprises. Understanding the full regulatory matrix, being a resource on navigating those structures, and potentially influencing them to facilitate social investment are short and long term issues for this group.

#### *Absorptive capacity*

One key barrier to expanding access to working capital for social enterprises was the absorptive capacity of small and medium size enterprises in developing countries, as well as the capacity of social enterprises in developed economies. Identifying, vetting, qualifying, and providing technical support to enterprises so that they can find and appropriately deploy available capital is a significant barrier to expanding this market. Many agencies and institutions provide technical support, although there is no universal set of quality controls or market for gleaning the quality of these efforts.

#### *Terminology*

Language is a barrier to money moving in the field. A common taxonomy or set of terminology that would hold across national regulatory strictures and norms is needed. While no single group may succeed in developing and distributing such a taxonomy, those working together need to be sure they are clear on the definitions that they are using, as well as remaining aware of terms that may be gaining meaning among a broader audience, such as Yunus's definition of social business.

### **Roles for a global body**

Over the course of the meeting the nature and structure of a global body for social investing was much debated.

Through the course of both plenary sessions and working groups, several different models for this body were identified (see next section). However, before depicting those potential models, the agreed upon roles for such a body (regardless of structure and operational decisions) are outlined here:

- Working to define and set standards of membership, listing and reporting
- Accreditation of social investment deals, brokers, and platforms i.e. a means of implementing standards and potentially extending to individuals and/or capacity building organisations who act as ambassadors or advocates for issuers
- Advocacy, awareness building, and marketing for social investing. Indeed, there was significant hope that this body would act as a coordinated advocacy and marketing effort for the world of impact investing, and that this would be one of the key ways in which members would be able to see the value of their membership.
- Brand building for social investing and social enterprises– opening up a global gateway to accredited issuers, intermediaries and exchanges and acting as a global markets / public relations voice for impact investing generally
- Credibility building for issuers, investors and intermediaries
- A gateway / database with multiple search options of vetted, accredited deals to enhance efforts to coordinate investors
  - A single clearinghouse of information for issuers, investors and intermediaries
  - Multiple ways this might relate to existing and nascent in-country efforts is at the crux of the structure/operational question
- Enabling environment and support for appropriate relationships with standards boards, investor networks, investment banks, other intermediaries and regulators

Seen in this way, the proposed global body has potential applicability in three primary areas: 1) setting the standards of membership and reporting and accrediting members in terms of governance and compliance; 2) establishing a single point of entry to an (online) database / gateway of impact investment opportunities emanating from accredited members around the globe; and 3) engaging in broader offline activities related to the development of the supportive infrastructure within the impact investing field (including brand building, advocacy, regulatory incentives, opportunity awareness, marketing and lobbying as well as support for the development of new member platforms or exchanges).

**Identified allies or partners:**

Throughout the meeting several other networks or institutions were identified that might be partners in achieving some or all of the goals of this group. This list should continue to be expanded and working relationships built. The (not exhaustive) working list of potential partner groups includes:

- Aspen Network of Development Entrepreneurs (ANDE) <http://snipurl.com/btytb> [www\_aspeninstitute\_org]
- Global Impact Investing Network (GIIN) <http://www.qk18ad7x79.web.aplus.net/>
- Global Impact Investing Standards Board (GIISB) [http://www.bcorporation.net/resources/bcorp/documents/GIIN-GIISB\\_Summary.pdf](http://www.bcorporation.net/resources/bcorp/documents/GIIN-GIISB_Summary.pdf).
- Global Reporting Initiative (GRI) <http://www.globalreporting.org>
- International Accounting Standards Board <http://www.iasb.org/>
- OECD <http://www.oecd.org/>
- New Philanthropy Capital's initial gathering of nonprofit analysts. Funded by Bertelsmann Foundation, meeting in London, May 2009.
- Transparency International <http://www.transparency.org>
- World Federation of Exchanges (WFE) <http://www.world-exchanges.org/>
- Other exchanges or platform development efforts not present at this meeting

## **Structures for a global body**

The proposed name for the body – Global Social Investment Exchange – was taken by some to mean a single global exchange. Others clearly prioritized a global federation or association of many exchanges or many impact investment platforms, especially if the vision of a continuum from philanthropic social investment to equity-based exchange traded impact investment opportunities was to be honored.

The concept moved in such a way as to invalidate the GSIX acronym. Terminology again reared its head, with much debate over the uses of “investment” (which is typically understood to mean a situation in which the investor at least anticipates getting back the financial principle and most often with a financial return on top) and “exchange” (which, when not referring to a trading structure in some way analogous to a financial exchange, risks being misleading).

Alternative working titles such as GFIP – global federation of investment platforms – or GFIII – Global Federation of Impact Investment Intermediaries – were proposed. Others, such as GSSEX (Global Social Stock Exchange) were rejected for obvious reasons.

While the naming and acronym discussion brought some levity to the group, the distinctions allude to important structural differences. Ultimately, a hierarchy of structures, ranging from a loose association to a global federation to an actual single exchange, was discussed.

The three different models - from loose affiliation to a top-down, fairly prescriptive body - might be described this way:

- 1) An umbrella body that supports platforms and exchanges at the level of international policy and advocacy – a **clearinghouse** and voice for separate platforms
- 2) A mirror exchange platform that draws from independent member sites around the world – An investor would come to central site to find deals and then click to local sites to do the deal (**Star Alliance** federated model)
- 3) A **single global platform**, a listing of all accredited offerings - very prescriptive and top down

### ***A global clearinghouse***

Given the variation in developmental stages and definitions of these platforms, this model envisions a loose association that tracks, informs, and connects different actors across regions. It might focus on facilitating networks and connections, opportunistically matching investors to brokers of deals or enterprises to technical support providers. It could monitor developments in global regulations and help nascent platforms connect with more mature efforts. It might develop alliances with and track discussions on standards, and begin to set in motion a process for setting shared reporting standards. Participation would be open to all kinds of intermediaries serving issuers or investors. An associated issue under debate here was whether in fact such a loose association would sacrifice credibility and standards for inclusivity and potentially jeopardize the reputation and potential for true impact investing globally.

### ***A global association/federation of accredited member social investing platforms***

This model formalizes the loose association into a membership federation of platforms that facilitate capital flow from investors to enterprises. Membership structures, criteria for accreditation of members and standards for investments and reporting, as well as guidelines for intermediaries in different stages and of different types would be needed. The federation would be supported by in-country exchanges and in turn actively facilitate the placement of cross-border transactions. The members would develop procedures and priorities for developing new exchanges. Standards for listing and social/environmental impact would be

agreed upon, and the federation would promote, monitor, and accredit the use and users of those standards. Deals might be cross listed on multiple in-country exchanges as well as hosted on global mirror exchange that pulled information from the country listings, made them available to accredited investors, and then drove those investors back to the country-platforms to conduct the transaction.

### ***A global exchange***

This model includes building a single exchange platform that draws deal listings from accredited member platforms and on which the actual deal transaction takes place. This would allow both the development of and strictest adherence to a single set of listing, reporting and (potentially) impact standards. The body would also actively seek to market its own platform as well as member platforms, advocate to international regulatory bodies, and monitor the use of its standards. This model takes the most active role in actually placing capital into social enterprises. While not decided by the group, this model potentially precluded transactions on the grant side of the continuum.

### ***Next Steps***

The group concluded that these wide-ranging and aspirational visions now require a sequencing of next steps. Tamzin Ractliffe will lead the effort, incorporating the input and advances from this meeting into a revised proposal for a coordinating body of social investment platforms. Operational questions remain. However, the group made great progress in addressing the framing and conceptual issues and identifying several common goals that will drive those operational choices in the future.

The group also affirmed that the timing is right for global awareness and possibly coordination of these platforms. Wide-spread agreement emerged around 1) the need and opportunity to increase the flow of capital to social enterprises, especially those in developing countries; 2) developing and deploying comparable, high standards for listing and reporting; and 3) actively engaging in the discussion on social impact measures and methods and bringing some coherence to this from the perspective of social exchanges.

It was suggested that specific achievements – moving capital from an investor across platforms, especially from north to south; advancing the discussion on standards to the point of pilot phase adoption; supporting the development of at least one emergent platform, and developing a more complete map of existing players in the environment – be set forth as collective goals.

A clear consensus existed around the need for a coordinating body, and each participant expressed what he or she was willing to do to help move that agenda forward. While there is no single road ahead, the opportunity to bring together the many emergent exchange models at this portentous moment is one well worth seizing.