

The background of the slide is a close-up photograph of green grass blades. The blades are covered with numerous small, clear water droplets, likely from rain or dew. The lighting is soft, creating a bokeh effect with out-of-focus green areas in the background.

IMPACT INVESTING: a preliminary analysis of emergent primary and secondary exchange platforms.

Concordia University

SSHRC-CURA on Responsible Investing

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Objectives

CURA Partnership: Community University Research Alliance

- Research Partnership
 - Responding to ***questions/needs of practitioners***
 - Research Question: How to generate liquidity and develop exit strategies for solidarity finance investing in collective enterprises
 - ***Co-construction of research question***
- Explore evolution of *Responsible Investment* today
 - Investors are seeking blended value, or triple bottom line returns, ESG standards.
 - Shift from negative screening to proactive investment : SROI
 - Increases potential supply of responsible investing to include institutional Investors, foundations, HNWI, outreach to individuals seeking “ethical” Investment opportunities, etc.
- Explore current ***exchange platforms*** for possible answers to research question

Introduction

Impact Investing: *investments that create positive social, environmental and economic impact, while generating financial return* (O'Donohoe, N. et al., 2010)

- Corresponds with social finance, solidarity finance, etc.
- Long history: cooperatives, credit unions and ethical and social banks.

In Quebec: CAP Finance (founding members)

Fonds de solidarité (FTQ)

Fondaction

Fiducie du Chantier de l'économie sociale

Réseau d'investissement social du Québec (RISQ).

Filaction

Réseau du crédit communautaire

Add to this the numerous institutions including hybrid public-civil society financial instruments at the local level; state funds (Investissement Québec- about to transform); Mouvement Desjardins, etc.

- Estimated market size in the current literature on “impact investing”: **US\$ 400 Billion to US\$1 Trillion over 10 years** (O'Donohoe, N. et al., 2010, Jackson et al., 2012).

Questions

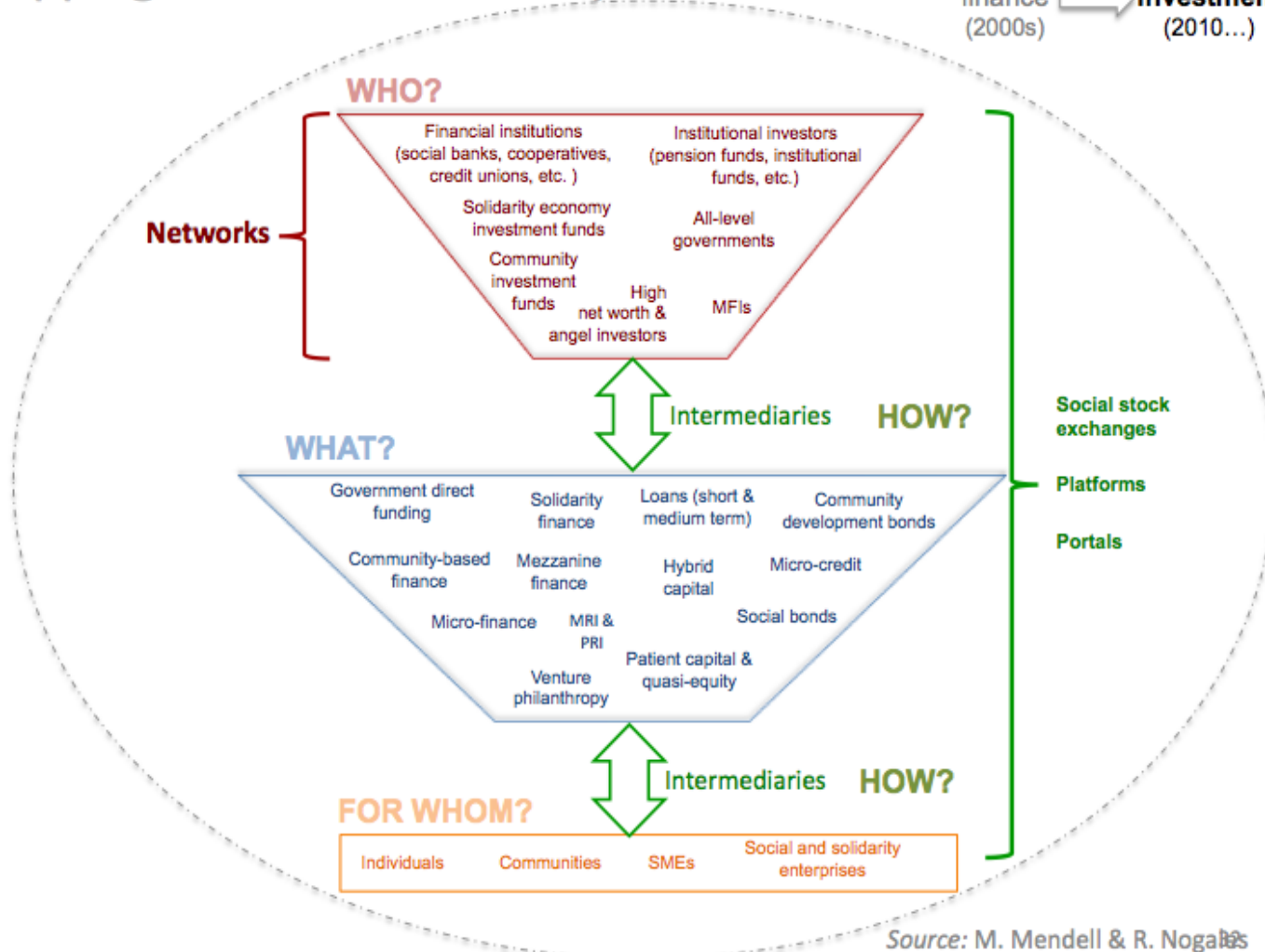
What institutions are included in this new impact investing space?

How are foundations and institutional investors participating? (enablers).

Identify new vehicles; tools of knowledge mobilization/information dissemination

Mapping Social and Solidarity Finance

Social finance (2000s) → Impact investment (2010...)



CURRENT BARRIERS INCLUDE

- Impact measurement
 - Metrics.
 - Definitions:
 - common vocabulary
 - standardization
 - perception
- Market coordination.
 - Fragmented.
- Regulation.
- Enabling policy measures.
- Absence of or insufficient intermediaries
 - largely supply driven.
- Ongoing need for financial innovation & new financial products (liquidity; exit strategies).

Our Research Question

Given:

- i. the current supply and demand in the impact investing market, and
- ii. the emergence of platforms to create a market for impact investing,

What is the current state and future direction of existing social exchange platforms?

Specifically,

- a. What steps are these platforms taking to bring coherence and coordination to this currently fragmented market?
- b. Are these platforms generating liquidity for this market?
 - It is maintained that the access to capital has not yet been met.
- c. Are these platforms providing equal opportunities for all enterprise forms to access capital?

METHODOLOGY

- Selection of exchange platforms.
- Analysis: primary and secondary sources.
- Interviews.

Sample: 5 emerging platforms.**



- Nexii, Mauritius



- The London Social Stock Exchange, UK



- Impact Investment Exchange Asia, Singapore



- The Social Venture Connection, Canada



- The Kenya Social Exchange, Kenya

We also include the Community Reinvestment Fund in Minnesota, which is not among the “emerging” platforms in our analysis because its secondary market provides important lessons.

METHODOLOGY

Data Sources: interviews (primary), website, documents, academic publications, other (secondary).

Analysis criteria:

- (i) facilitation of primary or secondary transactions or both;
- (ii) access for both for-profit and non-profit enterprises;
- (iii) diversity of investment vehicles offered by the platforms;
- (iv) selection processes and due-diligence,
- (v) target investors and investees,
- (vi) reporting mechanisms, and
- (vii) regulation.

Interviews:

- Challenges in light of the current state of the market.
- Mechanisms to develop the market.
- New opportunities for increasing liquidity and capital flows.

Summary of Findings

Types of transactions offered by type of enterprise



Primary	For-profit	X	X	X	X	-
	Non-profit	X	X	X	-	X
Secondary	For-profit	X	X	-	X	-
	Non-profit	-	X	-	-	-

Market Cap. Required

US\$	700K	100K	<25 M	850K	n/a
	revenue	Cap.	revenue	revenue	

Summary of Findings

Geographic reach: varied

- International: Nexii, IIX, London Social Stock Exchange.
- Local: the SVX, KSIX.

Sectors served: varied

- In principle, all sectors.
- Current opportunities skewed towards MFIs, housing and clean tech.

Due diligence and social impact monitoring methods

- 3d party ratings: GIIRS, BCorp.
- Internal screenings: e.g. London Social Stock Exchange – Social Prospectus.

Platforms and Social Enterprises

- High transaction costs.
 - Search and due-diligence.
- Access to information and know-how.
- Need for capacity building support.
- Low deal flow.
 - Information Asymmetry.
- Regulation.

Impact Investing Field

- Regulation.
- Inadequate investment readiness.
- Enabling policy.
- Lack of exit strategies.
- Other.

- Challenging models of enterprise (CICs, Benefit Corps., etc.)
 - *Governance*: role of share holder in new hybrid enterprises
 - Legal form: non-profit/profit.
 - Shares in what? Enterprise? Intermediary (MFIs)?.
 - Stakeholders – how to design a structure, etc.
- Need for capital continues to be identified as key challenge.
- Difficulty of building an integrated market.
 - Some question the issue of standardization and the “conflation” of diversity this implies.
 - How is this being dealt with? How can it be dealt with?
 - Legacy of SROI?.

CONCLUSIONS

- Innovation in social finance is challenging traditional models of investment and underlying hypotheses on risk and profitability.
- Important contribution of incipient exchange platforms.
- Significant variations in the stage of development and future direction.
- A majority serve primary transactions - clearinghouse channel.
- Challenges to development of secondary transaction spaces include:
 - i. traditional legal barriers (non-profits and collective enterprises).
 - But, current developments with BCorps, CCC, CICs., etc.

CONCLUSIONS

- Current investment opportunities are rather skewed towards more profitable, asset-backed investments, perceived low risk.
- Importance of continued innovation to develop new financial vehicles:
 - SEs at different stages of development, scale, sectors.
- Barriers persist: e.g. metrics, regulation, etc.
- Options for liquidity generation:
 - Bonds
 - Special purpose vehicles, new structures; e.g. SharedImpact.
 - E.g. Community Reinvestment Fund – USA, 1989.
 - Secondary market for CDFIs.
 - US\$ 1,409,595,380 – 150 CDFI institutions.

CONCLUSIONS

- Need for exit strategies remains.
- Importance of enabling environment and role of government.
 - Regulation: legislation (codification) fiscal incentives, etc.
 - Enabling Public Policy:
 - e.g. credit enhancement such as loan guarantees.

METRICS

- Work in progress.



Questions?

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