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The Rise of Social Stock Exchanges

A new, innovative platform helping more investors support social enterprises

By Bandini Chhichia

Markets and socialism have been strange bedfellows since the start of the industrial revolution, and until recently, most of us have considered them mutually exclusive states of affairs. That is about to change. 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).

Social businesses, in their many forms, have been around for a while, but the latest trend seems to be SSEs—trading platforms listing only social businesses. Using SSEs, investors can buy shares in a social business just as investors focused solely on profit would do in the traditional stock market. An investor would come to a SSE to find a social business with a mission according to his or her preference. This is great news for all players in the industry (including governments, multilateral financing institutions, community organizations, development agencies, and social entrepreneurs), and countries like Canada, the UK, Singapore, South Africa, Brazil, and Kenya have already opened their doors to their very own social stock exchanges.

Here are the bigger ones:

- UK: Social Stock Exchange opened in June 2013. The exchange does not yet facilitate share trading, but instead serves as a directory of companies that have passed a "social impact test"; it also acts as a research service for would-be social impact investors. The great news for social businesses is that it is never too late to get listed at an SSE and get much-needed visibility.

- Canada: Social Venture Connexion opened in September 2013. It holds itself up as a "trusted connector" whereby it provides social businesses with access to interested impact investors, service providers, high visibility, and a means to value their triple bottom line at affordable prices.
- Singapore: Impact Exchange opened in June 2013 and is the only public SSE. It aims to function similarly to the UK SSE by providing information about valued social businesses and impact investing funds. Interestingly, it also includes nonprofits in its list of issuers, which can issue debt securities such as bonds.
- South Africa: SASIX was the second global SSE. It opened in June 2006 in an attempt to provide vital finance to unknown social businesses. It works like a conventional social stock exchange and offers ethical investors a platform to buy shares in social projects according to two classifications: sector and province.

Each is very different. The UK SSE currently acts as an information provider to the general public, publishing standardized and comparable social impact data on its site. A prerequisite is that all companies (currently only 12) must be registered on the London Stock Exchange and pass a social impact test. Independent experts conduct the test and publish a SSE Impact Report covering these areas:

- Social or environmental mission of the social business
- Target beneficiaries
- How the business's products, services, and operations deliver that social impact
- How a company involves and consults with all its stakeholders
- The evidence of social impact, and how it is collected, measured, and reported

The Canadian SSE is probably the closest to a full-fledged stock exchange but is open only to institutional investors. Laudably, it is backed by the Government of Ontario, has objective valuation criteria to publish reports, and provides easy legal registration for social businesses. The Singapore SSE is similar to the Canadian one in terms of measurement criteria but is yet to qualify any companies for investment. Meanwhile, the Brazilian and South African SSEs are more akin to online matchmaking platforms than investment platforms. On South Africa's, for example, interested investors can browse and select social businesses based on project type, mission, and location.

Valuation and collective risk aversion (given that social businesses are often judged poorly based on their relatively lower financial returns) provided the necessary impetus for all of these SSEs as platforms that would serve a new social investment market with all its attendant actors and that would value social businesses appropriately.

Current Challenges

So given these positive developments across the globe, what are some of the challenges facing SSEs? The biggest issue is still accreditation at all levels— among investors, social businesses, and the intermediaries that act as vital brokers and valuation experts in the field. Social businesses in Singapore and South Africa, for example, must have a primary social purpose, whereas in the UK, social purpose could be a core (but not the primary) aim of any social business. In this respect, the Canadian valuation seems the most advanced and insightful, as it uses a widely understood metric—the B Corporation standard—to evaluate social and environmental impact. This could be a guiding principle for the other SSEs to follow suit. 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 platforms such as Kiva and Kickstarter work in the United States.

SSEs 2.0

Given the flurry of SSEs around the globe, how should the sector coherently develop so that it achieves its intended social mission while adding real value to the societies it serves? We need a number of measures to give meaning to the SSE concept at this juncture:

- *Education, training, and awareness*. This applies to all market players; we need to create a common understanding of metrics and instill the right horizon mentality for all investment decisions. This would allow social businesses to attract capital and set them apart as a special “asset class” like traditional for-profit investments.

- *Creating social businesses*. There are efforts underway to create and support social businesses, but we need more. Many still think that three years is “the make or break” line for any new business, and social businesses are especially vulnerable to failure due to lack of resources and uncontrollable environments. It is much easier to valuate a new tech start up than a company providing vaccines to reduce mortality rates in Tanzania!

- *Policy and regulation*. This provides the greatest opportunity for work; governments need to assist in creating social finance markets, and then support them with the right mix of policy

- and legislative tools. For example, there are still legal restrictions preventing fund managers from investing in social finance in many countries, there is minimal guidance for type B-Corporations, and there are minimal or no incentives (tax or otherwise) for investors to invest in social businesses. In its leadership of the G8, the UK's Social Impact Investment Taskforce includes seven countries, the EU, and related working groups. Other countries should follow suit and work closely with the Task Force to craft national solutions.

- *Research and development*. This is another area where small investments could reap huge benefits in the future. Investors—whether local governments, philanthropic organizations, or foundations—need to provide more seed funding to understand and gauge the necessary drivers for impact investment, and boost the organizational capacity of the social sector. This knowledge would provide the right framework within which investors can make more holistic decisions that include social businesses and SSEs.

Ultimately, social finance affects important decisions regarding allocation of creativity, capital, and entrepreneurship. It affects growth of new markets, business structures, and commodities within existing societies. It is interesting to note that SSEs were a response from unconventional actors, namely private sector fund managers that saw real value in creating a more holistic investment market. To allow this parallel economy to grow, it remains our collective responsibility to create positive ecosystems for SSEs so that they become not just another fad, but rather a normal way of living and thinking on par with traditional markets.

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