AN EXPLORATORY STUDY OF THE FACTORS AFFECTING THE DEVELOPMENT AND SUCCESS OF SOCIAL STOCK EXCHANGE PLATFORMS, USING ETHEX AND NEXII AS CASE STUDIES

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Abstract
The past two decades have seen significant innovation in financial markets with specific interest growing in the nascent sector of impact investment. Social stock exchange platforms emerged in response to the need for a meeting ground for investors seeking to earn a blended return and investees requiring funding for social impact projects. While the theoretical benefits of these platforms are clear, the evidence suggests that they are failing to realise these advantages in practice.

This research seeks to explore the factors affecting the development of social stock exchange platforms. In order to do that, this study uses two existing social stock exchange platforms – the Nexii and Ethex – as case studies. Alongside this analysis of factors affecting the current status and development of the platforms themselves, the dissertation also aims to contribute to the understanding of the overall ecosystem surrounding social stock exchanges.

This primary research on social stock exchanges constitutes an exploratory study, which draws on Grounded Theory principles to guide data collection, analysis and theory building. Within this framework, qualitative data was generated through 9 interviews with stakeholders and industry experts. Based on these findings drawn from this primary research and the existing literature, recommendations are made at the macroeconomic, sector, relationship and platform level that could facilitate the development of social stock exchange platforms.

However given the limited scope and timeframe of the research, and the insights that emerged from the interviews, this study also suggests potential avenues for further research.

Keywords:
Impact investment, social stock exchange platforms, blended return, social impact, Nexii, Ethex
Plagiarism Declaration

I declare that the research report “An exploratory study of the factors affecting the development and success of social stock exchange platforms, using Ethex and Nexii as case studies” is my original work.

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Acknowledgements

Many individuals contributed in a variety of ways to this study and I wish to extend my heartfelt thanks.

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1. Introduction

1.1. Research Area and Context

The past two decades have seen significant innovation in financial markets with specific interest growing in social finance or impact investing. Finding creative mechanisms to monetize solutions to social issues has received widespread attention. Progressively, institutional investors have been utilizing their influence to demand adherence to social, environmental and governance (ESG) standards (Hoepner & McMillan, 2009). Social stock exchanges represent one such financing mechanism and have been practically tested in a number of countries including South Africa and the United Kingdom. Social stock exchanges share some of the attributes of traditional stock exchanges in that they provide a trading platform where investors and organizations can meet. Their aim is to create a secondary market where financial instruments can be bought and sold freely and efficiently. Increasingly, however, the challenge of creating a secondary market for impact investments has become apparent (Taylor, Mendell, & Barbosa, 2013). What is more, functioning secondary markets typically rely on large retail investors for liquidity. Currently the size of the global equity market is valued at $36.6 trillion with approximately 30% held by retail investors with institutional investors holding the remaining portion of 70% (Evans, 2009). Therefore, the onus is on impact investment industry to attract this considerable retail capital and provide access to impact investments to ensure continued growth.

Conventional stock markets typically have a financial return as their primary objective. This represents a marked departure from what social stock exchanges espouse – namely that investors in this arena have multivariate return expectations. Investors may well seek financial returns, but this is generally balanced against the goal of achieving some form of social impact. In other words, social stock exchanges are a subset of traditional established financial markets with the main distinguishing factor being what motivates the participants to invest and get listed (Taylor et al., 2013).
1.2. Problem Statement

1.2.1. Main Problem

In theory social stock exchanges promise to create a sustainable meeting ground for investors seeking to earn a blended return and investees requiring funding for social impact projects. To date, however, they have failed to achieve this objective. This paper seeks to explore the factors that affect the development of social stock exchange platforms, by using the Ethex and Nexii as case studies.

1.2.2. Sub-Problems

In order to determine the factors affecting the development and success of social stock exchange platforms, the following sub-problems have been identified:

Sub-Problem 1:
Which are the objectives underlying the concept of a social stock exchange?

Sub-Problem 2:
What constitutes the ecosystem without which a social stock exchange cannot function effectively, and where within this system do the most significant strategic challenges lie? This sub-problem assumes that particular role players will also face particular challenges.

Sub-Problem 3:
Determine the extent to which social stock exchange platforms are currently able to achieve their goal given the challenges identified in sub-problem 2.
1.3. Purpose and significance of research

The current research suggests that these exchanges have the potential to not only provide extensive benefits to investors, but also to the organisations listed on these exchanges (Taylor et al., 2013). Social stock exchanges create an engagement platform for investors seeking to earn a blended return and organisations in search of finance for social impact projects. Ordinarily it can be both costly and time consuming for these parties to successfully engage. Proponents of social stock exchanges argue that social stock exchanges provide comprehensive due diligence and transparency on all transactions which could mitigate the high transaction costs making it less complicated and costly for interested parties to enter into transactions (Mendell & Nogales, 2009). In essence, investors could benefit from earning both a financial and social return, while simultaneously improving their reputation and the broader environment in which they operate.

In light of the apparent benefits of social stock exchanges it has not been formally documented to what extent they have been able to deliver on these promises, particularly with regards to the Ethex and Nexii. The field of impact investment and the ability to monetize social impact is still in its infancy. Impact in this context is defined as managing to earn a multivariate return for investors incorporating both a financial and social element. While the dearth of formal (peer reviewed) literature poses methodological challenges, it also offers the opportunity to add insight to the many gaps in this field and shed more light on the degree of attractiveness of social stock exchanges and their ability to deliver impact. From the literature in this field and the frequent media coverage on impact investment, it can be stated that a growing number of investors are concerned with earning both a financial and social return (J.P Morgan, 2013). Social stock exchange platforms attempt to address these needs and it is worthwhile researching their ability to do so in a viable and sustainable manner, especially in light of the challenges this industry is facing.
1.4. Research Assumptions

With regards to this dissertation the following assumptions have been made:

1.4.1. The selected sample of interviewees for this dissertation has the requisite knowledge, expertise and skill to take part in this study and positively contribute to the findings of this research.

1.4.2. At the outset it was further assumed that the interviewees would remain willing participants throughout the duration of this study.

1.4.3. The chosen sampled platforms (i.e. Ethex and Nexii) would not undertake any drastic strategic or operational changes during the duration of the study that could alter or thwart the data capturing and interviewing process.

1.4.4. The two chosen social stock exchanges adequately represent the potential of the social stock exchange structure as well as the typical challenges faced by such structures elsewhere.

1.5. Research Ethics

To certify the ethical rigour of this paper, the following control mechanisms have been implemented:

1.5.1. The formal ethics consent form and cover letter stipulated by the research faculty has been completed and submitted to the Ethics in Research Committee.

1.5.2. The qualitative nature of this dissertation has resulted in the involvement of human subjects during the interview stages. To minimize potential harm, informed consent has been received from all participants and where appropriate anonymity and confidentiality have been protected.
1.5.3. The interviews have avoided deceptive practices and have respected the right of participants to withdraw at any stage of the process.

1.5.4. A copy of the sample questionnaire has been attached to the final dissertation and submitted to the Ethics in Research Committee.

1.5.5. All participants in this study have been sent a sample questionnaire ahead of schedule in order to provide full disclosure as to the nature of the questions that were asked.

1.5.6. All responses were recorded for external and internal validation.
2. Literature review

2.1. Introduction
The objective of this literature review is to identify and discuss the prevalent academic literature that is pertinent to the research and to identify gaps in the literature from which propositions for research can be inferred and the identified sub-problems framed. The literature review is divided into four parts, namely: (1) an analysis of the evolution of impact investing; (2) a discussion of secondary markets for impact investments and the related challenges; (3) a discussion of social stock exchanges; (4) a conclusion.

2.2. The Evolution of Impact Investing
A rapidly growing supply of capital is seeking placement in impact investments across geographies, sectors, and asset classes, with a wide range of return expectations. (Global Impact Investing Network, 2013). This interest in impact investing has resulted in the emergence of a new industry, which finds itself operating on the largely unchartered spectrum between profit maximization and philanthropy. Impact investments are investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return. Despite the sluggish global economy, the impact investing industry has grown considerably in recent years with $9 billion expected to be committed in 2013 which is up from $8 billion in 2012 (J.P Morgan, 2013). In fact, a study conducted in 2010 estimated that upwards of $400 billion would be available to finance impact-oriented investments over the next decade (O'Donohoe, Leijonhufvud, Saltuk, Bugg-Levine, & Brandenburg, 2010). Other publications are predicting even higher exponential growth rates in this industry. A report by the forum for sustainable and responsible investment (USSIF) estimates that $1 in every $8 in the United States is now in sustainable responsible investment channels (USSIF, 2012). Collectively, this growth opens up considerable opportunity for undercapitalized social enterprises and development of social and environmental sustainability.

While impact investment has only entered into the mainstream vernacular in recent years after the Rockefeller Foundation coined the term in 2009, the concept is not a new one and has been apparent in practice for much longer. “Pioneers in microfinance, community
development finance, and clean energy—to name a few of the arenas already full of activity—have been hard at work for decades. And some leaders in what is broadly called social investing have long been experimenting with going beyond “negative screening” to investing in companies actively doing good.” (Monitor Institute, 2009, p.13)

Institutions like credit unions and cooperatives, have been actively involved in impact investing for over a century (Mendell & Nogales, 2011). Other institutions like the Dutch bank Triodos and the Italian ethics bank Banca Etica have consistently challenged accepted banking practice by seeking multivariate returns. More recently, microfinance emerged to provide access to finance to the previously unbanked and excluded. Microfinance first materialized in the early 1990s and by 2007 it became a formally recognised asset class, albeit not by all researchers and practitioners (Cappoolse, 2010; Cooke, 2007).

In South Africa, though it was not legislated, companies were expected to follow the code outlined in King I, taking into account the social impact they were having in the communities in which they were operating. “Post-1994, the term “social investment” gained currency when talking about philanthropy in South Africa, as Corporate Social Investment (CSI) became a must-do practice in the business sector. The term “social investment” implied ownership of South Africa’s problems and a commitment to invest in redressing the injustice of Apartheid and social inequality” (Hoffman & Notcutt, 2013, p.7).

The history presented by Mendell and Nogales (2011) notwithstanding, the impact investment community has recently witnessed some new trends such as the increased involvement of high net worth individuals, foundations and institutional investors. Moreover, regulations are being amended to allow these organizations to dedicate a larger proportion of their resources to impact investments (Social Finance Task Force, 2010). A further development has been the ability to create new financial instruments to supplement the debt instruments, which have dominated the landscape until recently. Quasi-equity, innovative equity and patient capital have been introduced as mechanisms to increase the liquidity and attractiveness of the market (Mendell & Nogales, 2011).

Undoubtedly, one such innovative financing mechanism has been the social impact bond (or pay for success bond), which was first launched in the UK in September 2010. Social impact
bonds (SIBs) are a method of operating social programs as the public sector partners with investors and foundations to fund projects for improved social outcomes. Finance is typically obtained upfront and if the initiative or project is successful the public sector returns the initial finance plus a return. Proponents of SIBs argue that they provide a way of addressing complex social issues for which funding would ordinarily be difficult to obtain (Keohane & Mulheirn, 2013). Critics, on the other hand, would note that SIBs merely displace funding for other programs rather than raising additional capital afresh. Furthermore, the administrative burden of entering into these contractual arrangements results in this method of operating social programs being expensive (Pratt, 2013).

A further mechanism, which has been in place for a number of years, is private equity and venture capital. Firms that engage in private equity overcome the issue of not having an active secondary market by taking an active ownership stake in the organisation. This aids the investee, as this provides a form of patient capital and also allows the investee to benefit from the expertise of the investor, who frequently takes on an active managerial role in the business. A recent trend has been the development of a secondary market for private equity investments. In private equity, the secondary market refers to the buying and selling of pre-existing investor commitments to private equity funds (Taylor et al., 2013). Holders of private equity investments sell both the investments and the remaining (as yet) unfunded commitments. Notwithstanding the ability to buy and sell these private equity investments, these secondary markets are highly illiquid owing to the long-term nature of the asset class. Generally there is no listed public market for private equity investments. Nevertheless, there is a maturing secondary market available, into which buyers and sellers can tap. In 2009, it was estimated that there were dozens of dedicated firms and institutional investors that engage in the purchase of private equity interests in the secondary market with upwards of $30 billion of capital available for such transactions (Taylor et al., 2013).

Regardless of the funding mechanisms that have been created, there is currently a global disequilibrium between the supply and the demand of impact investment capital. Evenett & Richter (2011) argue that this is largely due to supply-driven industry development that emphasizes meeting the needs of investors and not the requirements and limitations of investees. One outstanding example of a new investment vehicle, which has recently
managed to meet the combined needs of financial and institutional innovation, is the Social Economy Trust (Fiducie) in Canada which offers capital with a 15 year moratorium to social enterprises. Multiple stakeholders facilitate the supply and demand of capital and financial support is given to the businesses reducing the risk and overall transaction costs (Mendell & Nogales, 2009).

While financing mechanisms and innovations like SIBs and the Social Economy Trust mentioned above help build a sustainable model for investment they represent only a fraction of the total potential of the market and have not been successful in achieving scale (Barbosa-vargas, 2009). The current institutional and structural barriers help explain the challenges of creating a secondary market in this industry.

Proposition 1: The challenges faced by impact investors are institutional and structural in nature.

2.3. Secondary Markets for Impact Investments and Related Challenges

For many organizations, stock markets represent one of the most important sources from which to obtain capital. They allow companies to be publicly traded and raise additional finance to fund its growth, in exchange for an ownership stake in the company. A stock exchange offers investors liquidity by giving them the ability to quickly exit their positions (Harji & Jackson, 2012). This feature makes investing in equities especially attractive. As a general rule, the greater the number of investors that participate in a given marketplace, and the greater the centralization of that marketplace, the more liquid the market (Tingting & Dooley, 2010). Essentially, secondary markets weave together the investor's preference for liquidity and the ability to exit, with the investee’s preference to be able to use the capital for a prolonged period of time.

Carbon emission trading represents one early example of a functioning secondary market for impact investments on an environmental level. There are currently six carbon exchanges and the industry has grown since it formally came into being in 1990. In 2008 the global carbon trade amounted to $70 billion (Turney, 2008) and is highly liquid. Carbon emissions trading
relies on a simple mechanism of buying and selling carbon credits. Due to their measurability and the international legal framework that surrounds the carbon market it was possible for an efficient secondary market to develop (Calazans et al., 2010). While the impact these carbon exchanges have created is often strongly criticised, they are an example of how secondary markets can form over time as an industry and its financing mechanism matures. Currently, focus is being given to creating these secondary markets for complex social impact projects.

While not a social stock exchange, the Calvert foundation which was established in 1988 has created a community investment note which has its own liquidity and limited functionality of a secondary market. $180 million are currently invested across 200 social enterprises and non-profit organisations in 80 countries. These enterprises are addressing social issues in microfinance, women’s empowerment, affordable housing development, fair trade, small business development and agriculture. The repayment record stands at 100% with over 13000 investors invested in this fixed income product. It earns a return while creating measurable social impact. While not a fully-fledged secondary market, the note does allow early withdrawal and partial redemption. What makes Calvert noteworthy is that it has managed to attract large retail and institutional investors and thereby greatly enhanced its liquidity. (History of calvert, 2013).

Proposition 2: While there are isolated cases of liquid impact investments, the majority of platforms and funding mechanisms fail to create a functioning secondary market.

To attract greater capital to the impact investment industry a variety of challenges must be addressed. Among these is the need for reliable and generally accepted measurement tools. Currently there is no agreed upon measurement tool and firms are using differing frameworks and models (Evenett & Richter, 2011; Nicholls, 2013). This makes it difficult for investors to track their performance and benchmark themselves against its competitors or the industry. Furthermore, there is evidence that the reputation of social enterprises is tarnished and investors perceive them as glorified social service providers (Mendell & Nogales, 2009). This, too, reduces the attractiveness of the impact investment industry, especially to large
retail investors who could bring their large capital holdings to bear. In addition, Evenett and Richter (2011) note that one of the main stumbling blocks to large scale attraction of capital lies in the institutional voids, most notably the lack of legislative and regulatory frameworks. Presently non-profit organisations and cooperatives are precluded from issuing shares. This poses a challenge, as secondary markets rely on the issuing of shares to create a mature and coordinated marketplace where businesses can be capitalised and recapitalised to achieve scale and growth. Capitalisations are thus currently limited to short term and medium term debt. Given the diversity of the organisations involved in the impact investment industry the problem of how to create a secondary market has, as yet, not been solved satisfactorily. A report by the Monitor Group describes the impact investment industry as being in the “marketplace building phase” and that it has not yet moved to a stage where it can realise and capture the inherent value (Taylor et al., 2013, p.10). Some countries like the USA and UK are currently actively seeking creative solutions to this problem by inventing new forms of incorporation like community interest companies and benefit corporations, which would be legally entitled to issue shares. It is hoped that these corporations would make the impact investment industry more attractive to retail investors by providing long-term capital. Having said that, however, the legal barriers are merely one issue. The literature suggests that in order for the various transaction platforms to deliver on their objectives, intermediaries are needed to package these investment opportunities and bring them to market. Existing information asymmetries make this a very costly process and currently make it difficult for trading platforms to be self-sustainable (Taylor et al., 2013). Furthermore, practitioners have acknowledged that many larger impact investments on these platforms are the ones that are most profitable, which can result in the exclusion of small enterprises which stay undercapitalised.

The challenges of liquidity creation and credit enhancement are also directly linked to the role of enabling public policy (Barbosa-vargas, 2009). The Community Reinvestment Fund (CRF) in the USA is one example of how flexible and forward-looking public policy helped create a functioning secondary market for community and economic development. The CRF purchases debt instruments from community development financiers, which are then packaged into asset-backed securities, which institutional investors can purchase. In essence,
Proposition 3: Partnerships and collaboration with multiple stakeholders like government, research institutions, intermediaries and practitioners are needed to solve the current barriers and challenges in the impact investment community.

2.4. Social Stock Exchanges

“The defining challenge of the 21st century will be to transform the system governing markets so that they work for, rather than against sustainability” (Narberhaus, 2007, p.1). Social stock exchange platforms have emerged in response to this challenge. There are currently numerous examples in the world of social stock exchange platforms created to offer a market for both primary and secondary impact transactions. Arguably, the earliest example of such a platform may have been Traidcraft’s first public share issue in 1984. In 2003 the Bolsa de Valores Sociais (BVSA) in Brazil came into being and according to Mendell and Nogales (2009) this sparked the research currently undertaken by the Rockefeller Foundation on the viability of a global social stock exchange. The BVSA uses a crowd-funding model and presently has fourteen projects listed and has raised a little over $6m in grant funding since 2003 (Taylor et al., 2013). The platform forms part of the Sao Paulo Stock Exchange and functions as a clearing agency between organizations and donors. It has been criticized for being a grant-raising platform only, not displaying the true characteristics of a stock exchange.

In the UK the Ethical Exchange (Ethex) was created in 2004 by the Triodos Bank to manage ethical public offerings. It is an exempt, privately held social enterprise. Its exempt status allows it to approach retail investors, which gives it the potential to be more liquid. Investments are restricted to the UK. Its business model relies on two revenue streams – listing income and grants.
An online share purchase platform was created in South Africa in 2006 when the Sasix (now Nexii) was established, which is a hub for stakeholders to enable all intermediaries to participate via exchange portals, developing a number of tiers for diverse classes of investors. The early seeds for the Sasix were sown in 2004 when the Greater Good South Africa Group tried to counter the lack of information, tools and infrastructure by facilitating and connecting investors with those who could put investment to good use. It did this by compiling profiles of over 1500 non-profit organisations and social businesses and building a connecting infrastructure to bridge the divide. When the Sasix came into being it was designed to offer pre-screened and vigorously analyzed opportunities on an open-access platform (Hoffman & Notcutt, 2013).

Following requests from other countries the Global Social Investment Exchange (GSIX) was formed in order to encourage collaboration and counteract the competitiveness that had emerged in the sector. The intention was to be a non-profit, multi-stakeholder association of social investment exchanges, analysts, intermediaries and brokers (Hoffman & Notcutt, 2013). “It was envisioned that the GSIX would be a voice for all by supporting independent elements and advocating on behalf of the ecosystem.” (Hoffman & Notcutt, 2013, p.13). In May 2011 the GSIX became Nexii to signal the move from social investment to impact investment.

Together with the stock exchange of Mauritius, Nexii was working on the launch of the iX – the world’s first impact investing exchange board to be listed on public capital markets with full regulatory approval (Taylor et al., 2013). Mission Markets and Impact Partners started the Impact Investment Exchange Asia (IIX) in Singapore to give access to funding to social impact businesses across the Asian Pacific region (Taylor et al., 2013). In addition, the Finance Alliance for Sustainable Trade (FAST) has developed a platform, which allows small businesses to pinpoint potential sources of capital online. The Global Impact Investment Network (GIIN) has assisted in this regard by creating an online database. Lastly, the Kenya Social Investment Exchange (KSIX) situated in Nairobi was established in a partnership with GSIX to attract overseas backers into the regional East African impact investment market. All the abovementioned platforms are accessible by a variety of sectors that meet environmental
and social impact criteria. Among these are social transport, clean tech, ethical consumerism, affordable housing, renewable energy, education, urban regeneration, water and sanitation, public health and BOP serving businesses.

**Proposition 4:** The current social stock exchanges platforms fail to deliver on their promise of creating multivariate returns.

**Proposition 5:** The nature of the design of functioning secondary market in impact investment has not yet been determined.

### 2.5. Conclusion

In conclusion, the literature has presented a discussion on (1) the evolution of impact investing; (2) the creation of secondary markets for impact investments and related challenges; (3) social stock exchanges

The following propositions for research were unearthed during the literature review process and the veracity of these propositions will be addressed during the remainder of the dissertation.

**P1:** The challenges faced by impact investors are institutional and structural in nature.

**P2:** While there are isolated cases of liquid impact investments, the majority of platforms and funding mechanisms fail to create a functioning secondary market.

**P3:** Partnerships and collaboration with multiple stakeholders like government, research institutions, intermediaries and practitioners are needed to solve the current barriers and challenges in the impact investment community.

**P4:** The current social stock exchanges platforms fail to deliver on their promise of creating multivariate returns.

**P5:** The nature of the design of functioning secondary market in impact investment has not yet been determined.
3. Research methodology

3.1. Theoretical Framework and Design

The theoretical framework serves to anchor the target audience and informs what relationships can be established and allows for general constructs to be more focused, providing a better understanding of the data collected (Baxter & Jack, 2008). Although this framework was developed based on the literature review and the personal perceptions of the researcher, it continued to be developed as the research progressed and as new relationships emerged following the analysis of the data.

In order to determine whether social stock exchange platforms are delivering on their promise of creating an active meeting ground for investors seeking a blended return and investees requiring funding for social impact projects, the research approach will be inductive and the research strategy qualitative. Alongside the mixed method and quantitative approach, qualitative research is seen as the third major research approach (Johnson & Onwuegbuzie, 2007). Within this qualitative tradition, the Grounded Theory approach is frequently used in settings where there are relatively few stakeholders and the research inquiry invites theory-building.

This dissertation will begin with a definitional and contextual overview, as it will need to be unambiguously understood what the objectives of social stock exchanges are and what impact means in this framework. Qualitative data will be collected through semi-structured interviews with senior managers and employees at the Ethex in London and Nexii in South Africa. These interviews will enable the researcher to outline and understand the factors that affect the development of social stock exchange platforms. In addition, the interviewees are deemed to have the requisite credentials and experience to comment on the main research question and sub-problems.

Supplementary interviews have been conducted with a broad range of other stakeholders in the industry including experts, intermediaries and supporting service providers. These participants have been interviewed regarding their perceptions and evidence relating to the overall effectiveness of the exchanges. Through this Grounded Theory approach (Martin &
Turner, 1986) codes and families of codes (themes) emerged and these were further tested through an iterative approach by challenging these themes in subsequent interviews. A quote by Geoff Mulgan echoes the validity of this approach: “Few ideas emerge fully formed. Instead, innovators often try things out and then quickly adjust them in the light of experience. Tinkering seems to play a vital role in all kinds of innovation, involving trial and error, hunches, and experiments that only in retrospect look rational and planned.” (Mulgan, 2006, p.7). In his penultimate novella Nobel laureate Samuel Becket may have said it best: “Try again. Fail again. Fail better.”(Beckett, 1983).

3.2. Research Approach and Strategy
A qualitative research approach has been taken. Semi-structured interviews have been conducted which helped to define the areas to be explored, while allowing sufficient flexibility for the interviewer and interviewee to diverge in order to provide further detail or elaboration on comments or ideas. In light of the limited research and literature on the proposed research topic, the approach of conducting semi-structured interviews was deemed to be the most appropriate. The relative novelty of the industry poses a risk, because the researcher could omit certain areas of interest. The inductive research approach mitigates this risk, as it will elicit information that the interviewer may have deemed unimportant and the iterative nature of the process will ensure the rigour of the findings. Furthermore, the absence of a mature theoretical framework makes an inductive approach more desirable, as it allows the researcher to employ elaborative probes (Given, 2008a). While personal interviews are labour intensive, they can be the most effective way of collecting high quality data, particularly when the subject matter is very sensitive, if the questions are very complex or if the interview is likely to be lengthy (Hunn, Fox, & Mathers, 2000). Other primary sources of information will include information gathered from the websites of the exchanges including listing requirements, information guides and investor requirements.

3.3. Sample and Sampling Method
In qualitative research, there are two main reasons for the selection of a sample – convenience and representativeness (Potter, 1996). In this study the researcher compiled the sample list of interviewees for two reasons: (1) The field of social stock exchanges is
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relatively small, which limits the number of suitable interviewees. (2) Knowledgeable individuals within the researcher’s network suggested suitable participants and facilitated introductions. Lincoln and Guba (1985) confirm that the guiding principle of sampling in qualitative research is one of convenience. The researcher’s intention was to make use of a purposive snowballing technique (Biernacki & Waldorf, 1981) to have interviewees suggest further interview subjects and to expand on the interview list. The final interview list is provided in Table 1 below and includes a total of 9 interviewees. In order to obtain the highest possible quality of information the interview list is comprised of experienced subject matter experts. As access to senior individuals in some of the chosen organisations was a challenge, it was vitally important to expand the interview list throughout the study to ensure a comprehensive examination of social stock exchanges.

<table>
<thead>
<tr>
<th>Name</th>
<th>Organisation</th>
<th>Designation</th>
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<tbody>
<tr>
<td>Bridgit Evans</td>
<td>Greater Good South Africa</td>
<td>CEO</td>
</tr>
<tr>
<td>Jamie Hartzell</td>
<td>Ethex</td>
<td>CEO</td>
</tr>
<tr>
<td>Tamzin Ractliffe</td>
<td>Nexii/Sasix/Independent Expert</td>
<td>Founder</td>
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<td>Lucy Hoffman</td>
<td>Nexii</td>
<td>Head of Operations</td>
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<td>Jonathan Jenkins</td>
<td>Social Investment Business</td>
<td>CEO</td>
</tr>
<tr>
<td>Cyrille Langendorff</td>
<td>Credit Cooperatif/Nexii Board</td>
<td>Project Manager</td>
</tr>
<tr>
<td>Aunnie Patton</td>
<td>University of Oxford</td>
<td>Social Finance Fellow</td>
</tr>
<tr>
<td>Kelly Notcutt</td>
<td>Nexii</td>
<td>Head: Strategic Communications</td>
</tr>
<tr>
<td>Laura Bergh</td>
<td>Cambridge University</td>
<td>Sustainability Leadership Expert</td>
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The list of interviewees above was chosen based on a convenience sampling technique. At the time of writing this report the universe of social stock exchanges is restricted to less than ten recognised social stock exchanges. To speak to the senior leadership of these exchanges invariably limits the researcher to five or fewer individuals per exchange. Essentially, the list of interview subjects represent approximately 15%-20% of the senior leadership in the empirical world of social stock exchanges. The individuals listed in Table 1 above occupy senior roles at their respective exchanges and are regarded as authorities in the impact investment arena. When these individuals were asked to suggest additional interview subjects, the requirement for experienced and knowledgeable referrals was emphasised by the interviewer.
3.4. Data Collection

Data was collected by way of two primary procedures:

1. Physical interviews were conducted during times when the researcher was in the interviewees’ respective geographic area.
2. Skype Interviews were conducted with any interviewees not able to meet in person.

The interviewees from the United Kingdom and France fell into this category.

According to Yin (2009) a qualitative research approach represents an opportunity to use multiple sources of evidence. In this regard it is crucial to maintain a chain of evidence. Each conversation was recorded for future transcribing. Each respondent received telephonic or electronic communication prior to the interview, including a copy of the informed consent form (see Appendix 5). Questionnaires were sent ahead of schedule alerting interviewees to the fact that the interviews will be semi-structured and that additional questions may be asked. Therefore, interviewees were not permitted to respond in writing. Before beginning the formal interviews participants verbally agreed to having read the informed consent form, allowing the interviewer to use their views and comments in this research report and waiving the requirement for anonymity.

3.5. Data Analysis

Following the completion of the planned semi-structured interviews, interviews were selectively transcribed and coded. The researcher identified themes from these transcribed interviews through qualitative data analysis employing a Grounded Theory approach. The aim of becoming immersed in the transcribed data was to decompose the information into smaller units, thereby identifying codes and families of codes (themes). Triangulation was employed as a process of strengthening the findings obtained from the qualitative inquiry by cross-checking information using different sources including the interview subjects and findings from empirical research and formal literature. Moreover, as interviews were conducted over the course of several weeks, themes and hypotheses established in early interviews were tested through an iterative process in later interviews. A researcher who argues that his or her findings are derived from many different kinds of people across many
3.6. Limitations of the Study

This study is restricted to assessing the Nexii (formally Sasix) in South Africa and the Ethex in the United Kingdom. While the researcher did selectively draw from experiences gained in other markets, caution should be exercised in extrapolating the findings and recommendations to social stock exchanges in other countries such as Canada, France, Singapore and Brazil, as investor preferences and market conditions may differ. While the researcher set out to focus on the experiences in relation to two particular platforms, insights were offered about social stock exchanges in general.

Furthermore, the dissertation does not examine other emerging financing platforms like crowdsourcing, and is limited to the scope of the definition of social stock exchanges as set out in the dissertation. Lastly, the field of impact investment is in its infancy. Restraint must be exercised when commenting on whether one area of this field (i.e. social stock exchanges) is functioning when the overall sector is nascent and may need more time to mature.
3.7. Research Plan

Table 1: Research Schedule (6 September to 9 December 2013)

<table>
<thead>
<tr>
<th>Milestone / Submission date</th>
<th>September</th>
<th>October</th>
<th>November</th>
<th>December</th>
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<tr>
<td>Submit Research Proposal (6 Sep)</td>
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<td>Development of Literature Review (7-21 Sep)</td>
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<td>Develop Questionnaires (16-28 Sep)</td>
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<td>Conduct SASIX and ETHEX Interviews (7-11 Oct)</td>
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<td>Data Analysis (12-19 Oct)</td>
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<td>Conduct ‘Stakeholder’ Interviews (20 Oct)</td>
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<tr>
<td>Data Analysis Continues (20-31 Oct)</td>
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<td>Prepare Draft Dissertation (1 Nov – 15 Nov)</td>
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<tr>
<td>Submit Draft Dissertation (16 Nov)</td>
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<tr>
<td>Ancillary Work (17-25 Nov)</td>
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<td>Feedback from Supervisors (25 Nov)</td>
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<tr>
<td>Finalise Report (26 Nov – 8 Dec)</td>
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<tr>
<td>Submit Final Research Report (9 Dec)</td>
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3.8. Validity, Authenticity and Reliability

3.8.1. External Validity

Arguably there is limited external validity or generalizability with respect to this qualitative research study as the context dictated the application of the findings within the qualitative domain (Bryman & Bell, 2007). The findings of the study are therefore only generalizable to the study population, as represented by the sample. Hence the findings are inherently context specific (Golafshani, 2003).

3.8.2. Internal Validity

“Traditionally, validity in qualitative research involved determining the degree to which researchers’ claims about knowledge corresponded to the reality (or research participants’ construction of reality) being studied” (Cho & Trent, 2009). The findings of this research report speak directly to the research question and are grounded in the data gathered. Furthermore, the internal validity is strengthened by triangulation.
3.8.3. Authenticity

An important issue for qualitative research is that of authenticity (Given, 2008). In establishing authenticity, researchers seek reassurance that both the conduct and evaluation of research are genuine and credible not only in terms of participants’ lived experiences, but also with respect to the wider political and social implications of research. Authenticity involves shifting away from concerns about the reliability and validity of research to concerns about research that is worthwhile and giving thought to its impact on members of the culture or community being researched (Given, 2008). The potential social and community impact of research studies in impact investment should be borne in mind.

3.8.4. Reliability

The objective of research reliability is to increase the repeatability of the study (Neuendorf, 2002). Reliability is enhanced by making certain that the quality of the sampled responses are verified (Bryman & Bell, 2007). With this in mind, focus was given to the “credibility [and] trustworthiness” of the sample of the study (Golafshani, 2003, p. 601). The final interview list in table 1 includes respondents who have verifiable credentials supporting Burke’s (Burke, 1983) work.

Uniformity and consistency was ensured as far as semi-structured interviews permit. A similar research instrument was used for interviewees and the method of conducting the interviews across the interviewees was similar (Neuendorf, 2002). Moreover, the interviews and coding was conducted by the same researcher and the transcriptions were (selectively) completed by the same individual. This ensured consistency as proposed by Maxwell (1992).
4. Research Findings

4.1. Overview and Structure

The interviews which were conducted revealed that social stock exchanges operate in a complex environment and are influenced and shaped not only by an interplay of forces in the macro economy and the impact investment sector, but also by a variety of relationships with investors, investees and intermediaries. Interestingly, the research also established that the individuals driving the development of social stock exchanges have a significant bearing on the overall success of these platforms. In light of the fact that the interviews unearthed a variety of themes relating to one or more parts of the ecosystem described above, the challenge lay in how best to organize these themes into a coherent structure that would be able to guide the reader through the research findings.

In order to provide this structure the ‘Ecosystem of Social Stock Exchanges’ has been visually captured in Diagram 1 below. In essence, this model starts from the perspective of the broader, external economy and then gradually drills deeper into a more specific, internal view of what affects the development and management of social stock exchange platforms.

There are four primary levels to this structure:

1. The Macroeconomic Environment
2. The Impact Investment Industry
3. Relationships between investors, investees, intermediaries and platform builders.
4. The Social Stock Exchange Platform

More specifically, themes and findings related to each of the above primary levels will be examined with respect to whether they either support or obstruct the success of social stock exchange platforms. Each level has therefore been further subdivided into secondary levels comprised of the themes pertinent to the primary level. In presenting the research findings this selfsame structure will be followed. Throughout the discussion, findings and claims will be underscored by supporting quotes and testimonials from the interviewees. The recommendations for each of the primary levels will be disclosed separately in Chapter 5.
4.2. Consensus on the Goal of Social Stock Exchanges

Before discussing the specific findings and themes related to each level in the ecosystem, it is perhaps valuable to first establish the overarching objective of social stock exchanges as a separate, stand-alone theme.

The opinions amongst the interviewees on the goals of social stock exchanges were unanimous. Social stock exchanges attempt to “go beyond well-intentioned but unaccountable giving by adapting and reinventing the tools that exist in traditional markets and empower individuals or organisations to be agents of change” (Evans, personal communication, November 12, 2013). There was undivided agreement that “aid-based solutions are insufficient to integrate emerging markets into the world economy” (Jenkins, personal communication, November 29, 2013). What is more, participants in the social investment sphere implicitly take ownership of problems and show a commitment to redress social challenges. Lucy Hoffman the former head of operations at Nexii maintains that in South Africa there is a further cultural dimension in that “traditional ‘us’ vs. ‘them’ models of philanthropy are rejected, with a swell of interest to invest in the spirit of Ubuntu”
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(Hoffman, personal communication, October 18, 2013). Fundamentally, the “*purpose of social stock exchanges is to be a meeting ground for investors seeking a blended return and investees who require funding for suitable social impact projects*” (Ractliffe, personal communication, November 12, 2013).

The interviews conducted clearly demonstrate a common understanding, albeit on a high level, of the objectives of social stock exchange platforms. There is agreement that social stock exchanges aim to bring providers of capital into contact with users of capital. There is also an implicit assumption that value is added by these exchanges in order to attract investors and investees to the platforms. So while an overarching understanding of the objectives of social stock exchanges appears to be in place, this report will now turn to an examination of the factors that are preventing this common vision from being realized in practice.

4.3. Level 1: The Macroeconomic Environment

**Theme 1: The Global Recession** that started in 2007 had a profound impact on the impact investment industry and on the development of social stock exchange platforms.

Theme 2: Repeated mention was made of the **Impact Investment Industry as a Potential Asset Bubble**.

**4.3.1. The Global Recession**

The topic of the global economic recession was met with some degree of ambivalence amongst the interview subjects. Half the interview subjects agreed that the recession had a direct impact on the degree of liquidity in the market, especially for ethical investments and grant funding. Bridgit Evans from Greater Capital may have expressed this view most clearly when she said that “*the recession played havoc with CSI budgets*” (Evans, personal communication, November 12, 2013). In her opinion, the lack of liquidity locally was compounded by the fact that South Africa was “*losing its status as the golden child of democracy in the early 2000's and was no longer perceived as requiring aid and donor funding*” (Evans, personal communication, November 12, 2013). Arguably this view was
recently confirmed when the US withdrew $120m of charitable funding from South Africa. Pradeep Jethi from the Social Stock Exchange in the United Kingdom offers his own explanation: “South Africa is not a foreign direct investment friendly country which further hampers liquidity” (Jethi, personal communication, October 22, 2013).

Evans further contends: “Now that less cash is available in the system it is harder to collect or attract funds even with great credentials” (Evans, personal communication, November 12, 2013). Her view is borne out by the fact that a joint venture formed in 2007 between Greater Capital and Cadiz Asset Management struggled to attract donations, despite a rigorous due diligence process. Kelly Notcutt of Nexii lends her support to Evans, and further argues that the recession has not only affected grant and donor funding, but also funding available for impact investments. “International timing has been poor falling in with the global crisis. The environment for impact investment is there but there is little capital” (Notcutt, personal communication, November 1, 2013).

Evans is alone, however, in arguing that: “In times of plenty, social stock exchange platforms like the Sasix would have worked better” (Evans, personal communication, November 12, 2013). While other interviewees agree that the recession has caused liquidity problems, they do not go as far as to say that this was the sole problem without which these platforms would have functioned. They argue that liquidity is merely one of many challenges faced by the impact investment sector.

As mentioned in the introduction to this theme, the notion that the global recession has adversely affected liquidity in the impact investment industry was not universally shared. Jonathan Jenkins, CEO of the Social Investment Business Group, does not believe that “these investments will ever be monumentally liquid and that the perception of liquidity in more established markets is wrong” (Jenkins, personal communication, November 29, 2013). He goes on to argue that had the global financial crisis not occurred, the impact investment industry would not be at a more advanced stage of development today. In fact he makes the opposite claim, by stating that the “crisis has been monumentally helpful, as it has led to end users of capital questioning the true underlying value of their investments” (Jenkins, personal communication, November 29, 2013). Hoffman agrees that the global crisis has not been altogether negative. She argues that: “The crisis raised the conscience of how to account for
externalities and has enhanced the framework of how to account and measure social impact” (Hoffman, personal communication, October 18, 2013).

The global financial crisis has certainly affected the development of social stock exchange platforms. The effects have been both positive and negative. On the one hand, the crisis has educated investors and made them more aware of how their investments derive their value. On the other hand, there is general agreement that the crisis has made investors cautious and constrained the liquidity in the market despite the obvious hype in the sector. The extent to which liquidity is necessary to run successful platforms could not be agreed upon amongst the interviewees. While the majority believed that liquidity is critical, two of the interviewees challenged this notion by arguing that the impact investment industry is unlikely to ever be exceptionally liquid.

4.3.2. Impact Investments as a Potential Asset Bubble

Closely related to the global financial crisis is the notion that the impact investment industry may have the potential to form its own asset bubble. Recent history has certainly taught us that one can cause the other. Jenkins described the impact investment industry as “slower than advertised and there is a danger that overhyping the sector could kill off conversations for 10-15 years with mainstream, cynical capital. A bubble would be detrimental. We cannot afford scandals in ethical investing – otherwise people would shy away” (Jenkins, personal communication, November 29, 2013).

Cyrille Langendorff who sits on the Nexii advisory board echoes Jenkins’s sentiments and gives the micro-finance bubble as an example of how a relatively small sector can quickly run into trouble. “Money is being pushed into the sector and there is room for more, but we need to be careful to avoid a bubble” (Langendorff, personal communication, November 25, 2013).

The argument made by both interviewees is that hype, coupled with a lack of understanding and consensus on how a sector should be run is often, as history has shown, a precursor to asset bubbles. The data from the interviews could not confirm whether an asset bubble currently exists, but merely spoke of the potential danger of one. Having examined the factors
affecting the development of social stock exchange platforms on a broad macroeconomic level, the report will now turn to the sector-specific factors.

4.4. Level 2: The Impact Investment Industry

Theme 3: A number of **Infrastructural Deficiencies** became apparent which have obstructed the development of social stock exchanges.

Theme 4: The **Competitiveness and Fragmentation** in the sector is widespread and a clear stumbling block to the successful development of social stock exchanges.

Theme 5: **Social Impact Measurement** is still in a nascent stage and little consensus exists on how best to quantify social impact. Evidence suggests that this may have affected the attractiveness of the sector, especially for larger retail investors.

4.4.1. Infrastructural Deficiencies

Like any system, social stock exchange platforms need to be supported by appropriate infrastructure in order to function properly. Information needs to be gathered and presented on possible investment opportunities. Thereafter payments have to be made and cleared, and a suitable legal and regulatory framework has to support the transactions. Adjacent to this, communication channels have to be in place to educate, report and notify stakeholders. This is only a fraction of the activity that takes place in this environment and it serves to illustrate how immature infrastructure could compromise this system.

The lack of infrastructure in the impact investment sector was a sentiment echoed by all interviewees in the sample. An illustrative quote by Jamie Hartzell, the CEO of the Ethex, expresses this problem when he stated: “We need infrastructure. We’re going nowhere without infrastructure” (Hartzell, personal communication, November 25, 2013). Ironically, it was the idea that existing infrastructure could be adapted that sparked the idea for impact investments in the first place. In the mid 1990’s Tamzin Ractliffe understood that “if the decisions for financial capital are driven by analytical understandings of value allocation
and returns then why can’t one apply these to the social sector” (Ractliffe, personal communication, November 22, 2013). She goes on to say that “regrettably few investors invest in infrastructure. Infrastructure builders are uninvestible, despite the fact that it is a good idea” (Ractliffe, personal communication, November 22, 2013). So while the foundation for impact investing existed in traditional markets, the successful adaptation of this existing infrastructure has seen mixed results.

The Nexii has attempted to leverage off the infrastructure provided by the Stock Exchange of Mauritius (SEM) with some success. It has been able to take advantage of Mauritius’ status as a tax haven and the SEM’s ability to cater to multiple currencies. Furthermore, by creating an advisory board of experts Nexii has tried to tap into existing networks and expertise. Similarly, Greater Capital and Greater Good South Africa started as a direct result of the “lack of information, tools and infrastructure to facilitate and connect investors with those who could put investments to good use” (Langendorff, personal communication, November 25, 2013). There are a number of examples of how new infrastructure is being piloted or existing infrastructure adapted. According to Evans, the aim of these experiments is to “democratise the access to information, build market infrastructure and attract capital” (Evans, personal communication, November 12, 2013).

Structural issues like the lack of efficient information, intermediation and absorptive capacity were mentioned by the majority of the interviewees. The lack of formal infrastructure also frequently led to delays in funding pipelines, networks and regulatory approval. According to Jenkins “the market needs time to grow and build its ability to connect, build intermediation and aggregate information” (Jenkins, personal communication, November 29, 2013). Yet even if given time, Jethi contends that “creating the plumbing and pipes that will enable these investments to flow from retail investment all the way through to the needs on the ground is going to be a serious challenge. These stock exchanges need a significant amount of foundational work – infrastructure needs to be developed” (Jethi, personal communication, October 22, 2013).

The interviews clearly illustrate the critical need for infrastructure in the impact investment sector. Moreover, anecdotal evidence from the interviewees suggests that it is possible, to a limited extent, to leverage off existing infrastructure when creating social stock exchange
The sector is currently experimenting in a variety of ways, but it is too early to make a definitive pronouncement on which interventions are likely to be successful. Finally, the research findings have demonstrated that creating new infrastructure is very challenging, as investors are generally reluctant to fund infrastructure builders. The collective lack of consensus on what the infrastructure in the sector should look like and the fact that gaps and opportunities exist to meet the infrastructural demands, has led to an increased level of competition and fragmentation in the sector.

### 4.4.2. Competition and Fragmentation

The issue of competitiveness and industry fragmentation was voiced by all interview subjects as a severe stumbling block to the overall functioning of the sector. Ractliffe said: “If people are not doing things for money, they’re doing it for power, prestige or to win the next Nobel prize. The lure of a title can be a more powerful motivator than money” (Ractliffe, personal communication, November 22, 2013). She contends that it was the aim to collaborate from the outset. When a meeting of the 18 most influential and creative practitioners and thinkers in the industry was organised by the Rockefeller Foundation in Bellagio in 2009, its aim was to foster greater collaboration and common development. “But what happened? Six months later there were 18 separate initiatives” (Ractliffe, personal communication, November 22, 2013).

Hartzell likens the sector to a “kind of wild west run by entrepreneurs” (Hartzell, personal communication, November 25, 2013). He believes that impact investment “is neither a movement nor an industry – it is riddled with fault lines and collaboration relies on shared direction and I am not sure a shared direction currently exists” (Hartzell, personal communication, November 25, 2013). He argues that the current fragmentation in the sector stems from the fact that entrepreneurs require flexibility and the lack of agreement on the type of collaboration that is needed is resulting in fragmented initiatives competing with each other. “It takes an enlightened entrepreneur to understand what I do and understand what they do, and create more out of the parts. I would like to see the sector develop independently of government in a bottom-up, peoples-driven movement rather than a top-down, government-driven initiative. The industry is currently very fragmented and collaboration...
among groups and stakeholders is critical, but is prevented by competition” (Hartzell, personal communication, November 25, 2013).

Evans believes: “It would be a shame if people did not collaborate more, but currently people are very protective of their relationships. In South Africa the challenge is trust, both in terms of trusting a platform with money and trusting people with information. The traditional finance people interested in this sector are competitive and they see this as a new investment opportunity, not philanthropy. They guard their knowledge jealously” (Evans, personal communication, November 12, 2013). Ractliffe goes a step further by arguing that “impact investors don’t want platforms to happen. Exchanges threaten their business model. If you have an exchange with an average cost of capital of 3%-5%, why would you pay an impact investor 15%-20% for a bespoke fund? An exchange is much cheaper” (Ractliffe, personal communication, November 22, 2013). In essence, the incentive structure is not aligned in the sector with different parties motivated by different objectives. This fragments the sector even further.

But Hartzell also frames the issue of collaboration and competitiveness in a positive light. He contends that while these competitive forces can lead to fragmentation, they are also healthy for any sector to develop in a healthy way. “These are free market forces and I am a big believer in free markets” (Hartzell, personal communication, November 25, 2013). He agrees that there could be a greater degree of collaboration but the fact that the competitive forces are already so strong in this nascent industry implies that the market participants are taking this sector seriously.

The interviews conducted clearly demonstrate that a competitive sub-culture exists in the impact investment sector, and that this often obstructs collaboration. However the extent to which this enhances or damages the prospects of social stock exchanges is unclear amongst those interviewed.

4.4.3. Impact Measurement
The previous examination of the infrastructure has highlighted the fact that the impact investment sector is attempting to coexist alongside the traditional financial sector. To do so,
the sector has to demonstrate its ability to measure the social and financial impact of its social enterprises.

As was initially discussed in the literature review, there are currently a variety of impact measurement tools used in practice. None can satisfactorily claim to consistently measure social impact accurately. The lack of consensus was frequently cited as a stumbling block in the formal literature, but the interviewees in the sample group took a different view in this regard. Ractcliffe, for example, argued that International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Practice (GAAP) standards took many years to be developed and refined. Similarly, in light of the fact that the impact investment industry is still in its infancy, it is unrealistic to expect mature measurement standards. Jenkins echoes these sentiments: “One can’t force measurements. Also, I don’t think there’s a holy grail of one metric” (Jenkins, personal communication, November 29, 2013). Langendorff agrees: “I suspect it will end up being a mix between qualitative and quantitative metrics. What is important is that they are easy to understand” (Langendorff, personal communication, November 25, 2013).

The interviews show that the measurement challenge lies in the fact that some of the traditional market participants like institutional investors typically require more definitive metrics and certainly find them more attractive than vague blended return measures. In a sense there is an impasse between the investors who prefer measurable performance standards and the industry, which undoubtedly needs more time to mature. The interviewees did not suggest practical ways of achieving this, and it is unclear whether the development of the sector would be seriously hampered if this impasse were not resolved.

Upon reflection of the findings so far, it has become progressively clearer that the success of social stock exchange platforms may in large part hinge on the nature of the relationships of the role players in the industry. Therefore, the next section has been dedicated to an examination of these relationships, with the aim of identifying and understanding the factors that affect the development of social stock exchange platforms.
4.5. Level 3: Relationships

There are multiple role players in the social stock exchange arena. Each has the ability, in its own way, to positively or negatively contribute to the development of social stock exchange platforms. There are four parties involved in the creation of these platforms – investees, investors, intermediaries and platform builders.

4.5.1. Investees

Investees are individuals or social enterprises who list on social stock exchange platforms. They typically require finance on one or more projects and have traditionally relied on philanthropists, grant funding, angel investors, donations and various other sources to accumulate the necessary funding. For many investees social stock exchanges represent an opportunity to access capital more quickly and efficiently, yet the interviews revealed that the overall value proposition might not have reached maturity yet. Two themes emerged in this regard and they will be examined next.

Theme 6: Multiple factors determine **Investee Requirements and Motivators** to list on social stock exchanges.

Theme 7: **Investee readiness** was a frequently cited deterrent for investors and a recurring theme during the research phase.

4.5.1.1. Investee Requirements and Motivators

The process of listing on an exchange is relatively onerous and can be compared to the requirements of a conventional stock exchange. Due diligences and regulatory prerequisites need to be completed. Moreover, a fee has to be paid to the platform to finalise the listing. For many social enterprises the perceived value that is received by overcoming these hurdles is not sufficiently high to commit to the process. The overwhelming opinion shared by the interviewees is that investees are frequently young companies who lack the necessary financial wherewithal to afford a listing or do not want to subject themselves to the lengthy due diligence process. Also, once listed the investees frequently cite the rigorous reporting
requirements and high cost of advisory services as a deterrent. Furthermore, many social enterprises argue that it is not worth listing given the lack of committed investors on social stock exchange platforms. Langendorff puts this view into perspective when he said: “Why should I jump through all the regulatory hoops and pay a big pot of money just to find myself listed on an exchange with investors who show little interest in my business” (Langendorff, personal communication, November 25, 2013).

Hoffman adds: “Even a listing does not necessarily guarantee funding requirements will be met. Many platforms cannot cater for multiple currencies and in most instances we find that the investees who require the funding the most do not have Dollar or Euro denominated currencies” (Hoffman, personal communication, October 18, 2013). Jethi adds a further dimension to this issue of attracting investees: “All parties registered on an exchange must undergo strict third party validation and report regularly on their financial and social results. For many social enterprises this can be problematic as they have yet to fully prove their evidence of social impact and may be grappling with their identity and legal form” (Jethi, personal communication, October 22, 2013).

Some attempts have been made to overcome the cost of listing. The Nexii tried to set up a technical catalytics fund with the World Bank and Share Bank to finance the upfront costs. While this partnership never came to fruition, Hoffman speculates that the uptake may have been low, as she perceives the time delays and onerous reporting requirements to be the greater deterrents. On the other hand, Ractliffe argues that: “It is short-sighted not to get listed. The initial upfront costs are once-off and investees can take full advantage of future rounds of financing without paying the fee again” (Ractliffe, personal communication, November 22, 2013).

The interviews conducted clearly demonstrate that investees are reluctant to list on social stock exchange platforms. The implicit suggestion is that the perceived benefit of listing does not currently exist and the value proposition needs to be refined. Yet, even if social businesses can be attracted to exchange platforms, they will need a minimum amount of investee readiness.
4.5.1.2. Investee Readiness

The issue of investee readiness may have been most aptly captured by Jethi who contended that “social enterprises that are looking for capital are either not investment ready or do not know the process by which to go raise capital. Some of these people haven’t structured themselves, have advisors, or have a proper board in place. A lot of social enterprises are so far away – 2, 3 or 4 years away – from listing. Most of the pipeline is aspirational” (Jethi, personal communication, October 22, 2013). So while there may be a number of potentially attractive investment opportunities available, the immaturity of these investees may not only make it difficult for them to list but may also make them less attractive in the eyes of investors. By their very definition, social enterprises are set up differently than conventional corporates, so to expect them to abide by the same high regulatory standard may be unrealistic and counterproductive. The interviewees were divided on this point, with three interviewees agreeing that forcing social enterprises to adhere to the same prevailing standards as traditional businesses will help the sector to gain credibility with retail and institutional investors. The remaining interviewees argue the opposite. The essence of their argument is that the impact investment industry is slowly evolving over time and while leveraging off existing systems should be encouraged whenever possible, “a cookie cutter approach should be avoided where the sector is held to the exact same performance standards as traditional investments” (Hartzell, personal communication, November 25, 2013). These interviewees suggest that to overcome this challenge, early stage funders with a higher risk appetite should be mobilised to get investees to an investment ready status. In the intervening period “advocacy-related groundwork must continue until the sector matures” (Hartzell, personal communication, November 25, 2013).

From a social stock exchange development perspective, the research interviews clearly show that many investees are not yet investment ready and this is limiting the number of viable investment opportunities for investors. The extent to which listing requirements should be relaxed and whether this enhances or damages the prospects of social stock exchanges is unclear amongst those interviewed.
4.5.1. Investors

Investors can be formal institutional or retail investors, but may also refer to high net worth individuals or members of the general public wishing to be agents of change in a smaller capacity. Of the nine interviewees, six mentioned investors as a critical force in gathering momentum in the impact investment industry. The interviews, however, also revealed why investors are either cautious or uninterested in investing their funds in social enterprises listed on exchange platforms.

Theme 8: Multiple factors determine Investor Requirements and Motivators to list on social stock exchanges.

Theme 9: The Education of Investors with regards to the opportunities in the impact investment industry.

4.5.1.1. Investor Requirements and Motivators

The findings from the research interviews mirrored those that were discovered for the investees. Like investees, investors are encountering a number of challenges and stumbling blocks, which are preventing them from investing in their numbers in investment opportunities in the impact investment field, particularly on social stock exchanges. The most commonly cited reason is that the returns are not high enough. “Some social stock exchange platforms only offer a social dividend and pay no financial return at all” (Notcutt, personal communication, November 1, 2013). Jenkins feels that “there is no shortage of social enterprises seeking funding but only a select few meet the right criteria” (Jenkins, personal communication, November 29, 2013). “There is a general lack of evidence and a perception of a low success rate” (Evans, personal communication, November 12, 2013).

In addition: “Many investors are bound by their conventional mandates, which preclude them to invest in social enterprises that may require patient capital or are perceived as too early-stage. The range of products and the demand for them is a further challenge in that
investors cannot easily enter or exit their positions” (Hoffman, personal communication, October 22, 2013).

A further reason that was mentioned in the research interviews was the size of the investment. Ractliffe provides an example: “The Sasix sought investments in the region of $1m-$1.5m. This was generally too large for angel investors or high net worth individuals, but too small for large institutional investors” (Ractliffe, personal communication, November 22, 2013). She adds: “What made matters worse was that it often took a very long time – years sometimes – to collect funding for social enterprises. While the disadvantage to the social enterprise is obvious, this also had a detrimental affect on investor interest” (Ractliffe, personal communication, November 22, 2013).

The interviews also suggest that the willingness to invest is not backed up by actual financial commitment. Hartzell draws the analogy of a party invite: “When you initially send out the invitations everyone is keen, but on the evening of the event you’ll find that people haven’t pitched” (Hartzell, personal communication, November 29, 2013).

From a social stock exchange development perspective, the interviews conducted clearly demonstrate that investors are reluctant to list on social stock exchange platforms. The interviewees were unclear on whether investors should be revising their existing mandates and benchmarks or whether they are currently simply not receiving the requisite value from these listings. These findings do, however, provide an explanation for the constrained liquidity in the market other than the global financial crisis.

4.5.1.1. Education

Apart from the factors mentioned above, the issue of education was also identified as a major factor in limiting the development of social stock exchange platforms. “In light of the fact that this industry is only a few years old – I think the term impact investment was coined in 2009 – there are still misconceptions and prejudices noticeable in the market” (Evans, November 12, 2013). Jenkins echoes these sentiments: “There is a perception that impact investment is the same as philanthropy or charity. A significant amount of education needs to be done before this asset class can be taken seriously universally” (Jenkins, personal communication, November 29, 2013).
Ractliffe takes this a step further when she talks about a general ignorance of how the sector developed and the opportunity that it represents to investors. “Corporates are not using social investments as a way to differentiate themselves. This is short-sighted. Companies could be tapping into the true meaning and opportunity of social investments by using it for more than just a branding tool. It is the difference between compliance and commitment giving and only very few companies see the real benefit” (Ractliffe, personal communication, November 22, 2013). When asked about this underlying opportunity Ractliffe answers: “If companies can tell the individual stories behind their social investments, this could have wide-reaching positive effects on company culture, customer perception and ultimately the bottom line.” (Ractliffe, personal communication, November 22, 2013).

Hartzell looks at education in a different light by linking it back to the awareness that the global financial crisis has created: “Education is important but this has to be looked at in the context of regulation, the emphasis of which tends to assume that people don’t know best and are incapable of acting in their own best interest. And therefore the policy makers are regulating people away from the retail market and forcing them to deal with intermediaries in order to engage in any form of investments. The more you protect and legislate against, the less chance you have of people really understanding what they’re engaging in. The more smoke and mirrors are there between investee and investor with a range of intermediaries between. Ultimately the best protection there is against risk is for people to know what they’re doing” (Hartzell, personal communication, November 29, 2013).

There was unanimous agreement amongst the interviewees that insufficient funding was available to adequately manage communications and educate investors and investees. For example, Evans remarks: “Had the Sasix fallen under the umbrella of the Johannesburg Stock Exchange in 2006 it would have had to earmark R30m-R50m for education alone. These funds were unfortunately not available” (Evans, personal communication, November 12, 2013).

The interviews demonstrate that education is critical not only to inform the market of this new emerging industry, but also to dispel inaccurate pre-existing notions commonly held amongst traditional practitioners. The research also points to an interesting avenue for further
study: Are companies fully realising the opportunity and value which social investments present?

4.5.1. Intermediaries

Intermediaries refer to impartial service providers who assist in the listing process of social enterprises. As is the case in the mainstream finance world, their tasks include due diligences, legal work and facilitating investee readiness. They are generally seen as a bridge between the various role players in the impact investment sector and therefore directly affect the development of social stock exchange platforms.

Theme 10: Multiple factors determine **Intermediary Requirements and Motivators** to facilitate listing on social stock exchanges.

Theme 11: The **Independence of Intermediaries** was a universal topic of discussion for all interviewees.

4.5.1.1. Intermediary Requirements and Motivators

According to Evans: “Social stock exchange platforms recognised early on that intermediaries were required to give the industry greater credibility and make investors feel confident that the investment opportunities had been adequately vetted” (Evans, personal communication, November 12, 2013). She contends: “There is a serious lack of corporate services available to assist in the capital raising process” (Evans, personal communication, November 12, 2013). The natural choice was to look among traditional market service providers to see whether their expertise could be transferable to accrediting social investments. Both the Nexii and the Impact Exchange created a global network of AIRs (Authorised Impact Representatives) to ensure credibility. “To list you needed sign off by them” (Hoffman, personal communication, October 18, 2013). These AIRs were meant to standardise the due diligence and auditing process, but Hartzell argues that: “The consistency of appraisal is just not there. There is no standard or comparability” (Hartzell, personal communication, November 29, 2013).
Hartzell also criticises the AIRs for “being motivated by money alone. It is undesirable to have those people around you as they have little appreciation for the social innovations in the sector” (Hartzell, personal communication, November 29, 2013). Langendorff agrees: “Intermediaries are few and far between and those that are around overcharge and deter investees” (Langendorff, personal communication, November 29, 2013).

While AIRs may be widely criticised and their successes limited to date, there is a general acceptance amongst the interviewees that there is a serious need for their services. Ractliffe contends: “We need to drive the professionalization of AIRs and their value propositions. We currently have 19 AIRs around the world of which 7 are firms. Even if you have multiple platforms accredited intermediaries can serve to bridge the gap between the exchanges and keep collaboration alive in the sector. In addition, they can also address the currency issue by acting as de facto clearing houses” (Ractliffe, personal communication, November 12, 2013). Langendorff agrees with these sentiments and adds: “If you have to do all the leg work yourself it’s just not worth it. If we had a Bloomberg-like feed where analysis has already been done that would be of great value” (Langendorff, personal communication, November 29, 2013).

The general view amongst the interviewees was that there is undoubtedly the need for intermediaries in the sector, but that they are currently either not delivering enough value or are taking advantage of the sector.

4.5.1.2. **Independence**

The issue of independence was mentioned repeatedly in relation to the intermediaries. While a proponent of intermediaries, Tamzin Ractliffe admits to a potential conflict of interest. “The division of duty has been an issue. In many cases the intermediaries have also been the platform builders, which has led many people to say that these intermediaries cannot be both judge and jury. Lots of exchanges don’t accept that stating that the ‘AIR’ revenue stream is needed to sustain the social stock exchange platforms. This disagreement clearly illustrates how underfunded the sector is and it has also contributed to the fragmentation in the industry” (Ractliffe, personal communication, November 12, 2013). Langendorff echoes these views: “Platform builders are acting as intermediaries because they need the consulting revenue, as not enough listings are taking place. What the sector needs are
impartial social economy investment bankers” (Langendorf, personal communication, November 25, 2013).

The interviews highlighted that intermediaries are currently not all independent and that platform builders may be facing a conflict of interest if they wish to sustain their social stock exchange platforms. The report will now turn to a more thorough discussion of the stumbling blocks that may be impeding the development of these social stock exchange platforms.

4.6. Level 4: Vehicle (Platform)

The previous three levels touched on economic and industry factors that are affecting the development of social stock exchanges, as well as the individual parties involved and the relationships they form. The final level in the ecosystem of social stock exchanges examines the platform itself with the aim of determining the internal, platform-specific factors that are affecting the development of social stock exchanges.

Theme 12: The Value Proposition of social stock exchange platforms.

Theme 13: The Structure of Platforms

Theme 14: The Business Model of Platforms

4.6.1. Value Proposition

To platform builders like Jethi the value of social stock exchange platforms is clear. “Platforms offer price discovery in a market where information is usually hard to come by. They also offer clear entry and exit routes and provide a platform to launch investment schemes to the public” (Jethi, personal communication, October 22, 2013). Evans concurs: “Imagine if there was one place where you could get all the information – the value is definitely there” (Evans, personal communication, November 12, 2013). Hoffman agrees that this was the idea behind starting Sasix originally. “Exchanges attempt to offer pre-screened and rigorously analysed opportunities on an online, open-access platform. Moreover, these exchanges would also continuously monitor and evaluate the listed investments and report on any inconsistencies and deviations. In a market where geographic and educational
challenges are commonplace exchanges can perform a vital function” (Hoffman, personal communication, October 18, 2013). Notcutt mentions a further practical benefit for many investors: “Exchanges like Nexii offer trading in multiple currencies and offer significant tax benefits” (Notcutt, personal communication, October 18, 2013).

The interviewees enumerate the theoretical and potential benefits of social stock exchange platforms and contend that the value proposition is clear. From the discussion of the previous three levels in the ecosystem of social stock exchanges, it has become clear that these benefits have not been consistently achieved in practice. The report now turns to an examination of the internal factors that have contributed to impeding the development of social stock exchanges.

4.6.2. Structure of Platforms

“While the idea of doing social good while earning financial returns is great, it is not clear how best to structure platforms to achieve this goal” (Jenkins, personal communication, November 29, 2013). When discussing the structure of platforms the interviewees distinguish between the legal form of the exchange on the one hand and the operational structure on the other.

Hartzell is of the opinion that “there are significant size and legal form problems. It is often not possible to list like a conventional company or the social enterprises are unwilling to because of the challenges to the social mission and cost. For example, if a social enterprise chooses to list as a for-profit enterprise to keep the option of issuing shares open it may adversely affect its ability to receive other forms of finance” (Hartzell, personal communication, November 25, 2013). Hartzell is also adamant about the legal form of the exchanges themselves: “I don’t really understand why one would want to have something that isn’t a social enterprise providing infrastructure to social enterprises. It strikes me as a key risk actually” (Hartzell, personal communication, November 25, 2013). Jenkins believes that this explains the structure of the Ethex: “It is for this reason that the Ethex has chosen to register as an exempt social enterprise which gives it the advantage of being able to approach retail investors who are showing interest” (Jenkins, personal communication, November 29, 2013).
When it comes to the operational structure of the platforms the opinions amongst the interviewees vary. One is reminded of the competitiveness and fragmentation that exists in the sector which is further exacerbated by the multitude of approaches that exist in practice. Hoffman argues: “There is little consensus when it comes to how these platforms should actually be run” (Hoffman, personal communication, October 18, 2013). She goes on to explain the approach taken by various platforms in more detail: “Platforms like Nexii have chosen to leverage off the infrastructure of existing traditional stock exchanges. It attempts to address the need for stage-appropriate platforms through a tiered approach by developing private investment platforms for early stage enterprises, which acts as a prelude to a fully fledged exchange. Other platforms are more tailored and limited to users in a particular country like the Ethex, or members of a corporation as was the case with the Joint Venture Sasix formed with Cadiz in 2007” (Hoffman, personal communication, October 18, 2013).

Hartzell questions the overall approach taken by some of the exchanges. He contends that: “I am a big believer in free market forces determining the structure of these platforms. I believe exchanges need to work independently at least initially to achieve that. We have developed independently. It has been challenging but advantageous, as it has allowed us to build a coherent business model” (Hartzell, personal communication, November 25, 2013).

The interviews clearly demonstrate a lack of common understanding on how social stock exchange platforms should be structured. The market is currently experimenting with a variety of models and it appears that is too early to make a definitive pronouncement on which models will be effective. Whether or not this model should be financially self-sustaining is a topic this report turns to next.

4.6.3. Business Model of Platforms
Evans succinctly captures the dilemma faced by many platform builders: “It is a difficult animal. How do you get them to pay for themselves?” (Evans, personal communication, November 12, 2013). It was alluded to previously in the examination of the independence of intermediaries that platform are currently relying on consulting revenue to ensure the sustainability of their businesses. Notcutt points out that “due diligence costs are high which makes it more difficult for platforms to become self-sustaining” (Notcutt, personal communication, October 18, 2013). Evans adds “platforms have had to resort to little tricks
like adding a tip or layering in various fees” (Evans, personal communication, November 12, 2013). Hartzell provides insight into how the Ethex has managed to overcome this challenge. “We rely on grant money as well as trading revenue from our listings. The business can currently not yet stand on its own two feet” (Hartzell, personal communication, November 25, 2013).

The interviewees unanimously agreed, however, “platforms need to be bigger to achieve critical mass. The business model is viable as soon as a minimum amount of listings are registered on the platform” (Evans, personal communication, November 12, 2013).

According to Racliffie “discussions are currently happening with development finance institutions for a catalytics fund that puts up the money for listing costs upfront to solve the impasse between investors and investees. Costs can be recovered by these institutions upon successful capital raising” (Racliffie, personal communication, November 22, 2013).

The discussions with the interviewees related to the financial sustainability of platforms revealed that social stock exchange platforms are currently not viable business models. Moreover, due the lack of critical mass exchanges are trying to find innovative ways of supplementing their income. There is also a strong belief amongst the interviewees that it would be beneficial to the industry if these platforms are self-sustainable.
5. Research Analysis

5.1. The Analytical Story

This study was motivated by the fact that social stock exchanges are currently failing to deliver on their promise of creating a sustainable meeting ground for investors seeking to earn a blended return and investees needing funding for social impact projects. The aim of this report was to address this ‘theory-practice gap’ and understand the factors that are currently affecting the development of social stock exchange platforms. Figure 2 below attempts to illustrate the high level analytical story that has emerged from the qualitative research interviews. It serves to explain how the various themes are interrelated and provides a snapshot of the forces that are affecting the development of social stock exchange platforms.

Figure 2: Interrelationship of Themes

The qualitative data showed unambiguous agreement on the overall goal and potential value proposition of social stock exchange platforms. This goal has been captured in Figure 2 above and represents what the participants of the industry are working towards. Obstructing
the achievement of this goal is a variety of factors within the four levels of the ‘ecosystem of
social stock exchanges’– the macroeconomic environment, the sector, the relationships and
the platform itself. Broadly speaking, the diagram shows that the participants in the sector –
investees, investors, intermediaries and platform builders – need to collaborate with one
another in order to overcome the challenges present at the sector and platform level.

At the relationship level the interview findings have demonstrated that both investors and
investees are reluctant to participate, as the perceived value is too low. The data also shows a
lack of investee readiness and investor education, which has a direct impact on the
willingness of these parties to engage with one another. The inconsistent work done by
intermediaries and platform builders in the sector, as well as the fact that many are not seen to
be independent, also negatively affects the degree of collaboration in the sector.

What further exacerbates the problem of low collaboration is the degree of competitiveness
amongst the role players, which leads to fragmentation of the sector as a whole. At the sector
level the lack of collaboration and fragmentation directly affects the development of
infrastructure and impact measurement standards. There is a clear need for effective
infrastructure, but the data shows that there is disagreement on how best to leverage off
existing infrastructure and that the market is still in an experimental phase. Funding new
infrastructure has proved to be challenging, too, in light of the shortage of organisations
willing to invest in infrastructure development.

The challenge of effectively structuring the platforms, as well as the unsustainability of the
business model stem from the fact that critical mass and momentum is lacking in the sector.
Essentially, the platforms are hamstrung by a combination of the preceding factors of low
collaboration, fragmentation and infrastructure development, which has made it difficult to
create a sustainable business model in this environment.

It was shown that the overall macroeconomic environment affects the development of the
sector by affecting the liquidity in the market. Like any industry, the impact investment sector
is subject to the fluctuations in the economy and must find ways to weather these storms by
monitoring indicators, identifying trends and learning the lessons that crises can teach.
In summary, the interplay amongst the role players in the sector and their need to be convinced of the overall value proposition has a direct impact on the degree of collaboration in the sector which affects the development of infrastructure and the degree of fragmentation. This, in turn, creates a sub-optimal environment in which social stock exchanges are unable to thrive. What this research has also highlighted is the need to understand in which area interventions would be able to enhance the development of the sector. The complex interrelationships in the sector make it difficult to pinpoint which part of the ecosystem is the root cause of the problems.

5.2. Limitations of the Research Analysis

In addition to the limitations mentioned in Chapter 3.6, this analysis should remain tentative given the small sample size and the early stage of development in the sector. The broader industry is made up of a complex web of relationships that are only just beginning to form. There is an inherent danger in critiquing and evaluating existing relationships and initiatives when these may merely require time to mature. The results could be different in two or three years’ time. Lastly, as the interviewees consisted largely of platform builders and intermediaries, the findings may be biased against investors and investees. Perhaps with a greater balance of participants the findings may have changed.
6. Ramifications for Practice and Recommendations

6.1. Ramifications for Practice

In light of the research analysis presented in the previous chapter, one may ask what the practical implications are. Much like a doctor would diagnose a patient before prescribing treatment, the value of this research dissertation lies in the fact that it provides a detailed overview of the factors currently affecting the development of social stock exchanges. With this tool in hand, it is possible to understand the challenges at all levels in the ecosystem and potentially pinpoint areas where interventions and improvements can be made.

Catalysing the market would mean coordinating the timing, incentives and understanding of platforms amongst many parties. There are obstacles holding each of these parties back. For example, the research analysis revealed an impasse between investees who believe that the value of listing does not outweigh the cost, and investors who believe that investees do not meet their funding criteria or are unconvinced of the overall value proposition. It is a Catch-22 position where neither party is willing to commit its resources resulting in the sector developing slowly.

Perhaps most importantly, however, the research has demonstrated the inherent complexity in the system, which suggests that initiatives that address one specific factor may only be minimally effective, especially if their success depends on an interplay of multiple factors in the system. There is value in this knowledge, as it may allow the role players to start thinking about this sector in a more integrative way. By taking a more holistic view, the participants in the sector can understand what impact their ideas and initiatives will have on the remaining participants in the sector.

It is the author’s view that the greatest practical value can be derived from understanding how best to galvanise the market as a whole. The literature and interviewees suggest that liquidity may be the root cause that, if addressed, would catalyse this market and resolve many of the obstacles mentioned in this report.
The hypothetical argument goes as follows: A greater number of listings would create the requisite critical mass. This would make the sector more liquid, make platforms profitable and eliminate the need for platform builders to sustain their businesses with intermediary services and consulting income. As the successful track record and evidence builds, so would the sector participants, especially investors, realise the opportunity and become more interested to invest. Momentum would build, creating a virtuous cycle that would result in a greater degree of collaboration and a reduction in the current fragmentation. The severe lack of infrastructure would be addressed by the market participants as the sector grows and is able to dedicate greater resources to the overall development of the sector.

The recommendations that follow particular emphasis on testing this hypothesis. Thereafter in 6.3 additional recommendations will be made where the research has uncovered specific practical interventions that could add value. To ensure that the recommendations address all the findings in this report each level in the ecosystem will be briefly re-examined.

6.2. Recommendations to Improve Liquidity

To attract more liquidity into the sector two strategies can be followed. The first is to have development finance institutions (DFIs) finance the wholesale development of the sector through a catalytic fund. Financing a critical mass of listings would solve the impasse between the investor and investee, and it would allow evidence to be gathered, enabling the participants to monitor whether the other obstacles in the system would start to diminish.

If the comprehensive funding of the sector by DFIs is not possible at this stage, funding could be obtained on a smaller scale to test drive exploratory listings. This iterative approach would also generate evidence on success stories, which could convince investors of the overall value proposition.
6.3. Additional Recommendations

6.3.1. Macroeconomic Level
As alluded to in the research analysis, the external environment affects social stock exchange platforms, but like any industry it can only respond by becoming more resilient. A cautionary statement should be made regarding the risk of overhyping the industry.

6.3.2. Sector Level
The research revealed that platforms might initially benefit from working independently of government in a bottom-up, people’s driven movement rather than a top-down, government driven movement. While regulations, measurement standards and the legal framework are undoubtedly important, the current shortage of infrastructure and the fragmentation in the sector are the more pressing concerns. The findings demonstrated that the problems experienced at sector level stem from the lack of collaboration and competitiveness at relationship level. Therefore, interventions should focus on improving collaboration, as this would ultimately have a positive spill over effect on the infrastructure and the degree of fragmentation.

6.3.3. Relationship Level
Over the past decade various initiatives have been put in place to improve the level of collaboration in the industry. Meetings and conferences were held, accreditation bodies and exchanges were formed, and the need to share information and work together has been emphasized along the way. While some of these projects were successful, none have been able to advance the industry drastically and the market has been slow to mature. What is holding the participants back? What is driving the competitiveness and lack of collaboration in the sector? While the literature and research has attempted to answer these questions, the interventions above have only been marginally successful and the questions remains as to what should be done.

At investor level continued education needs to take place. Advocacy-related groundwork must continue with clear and strong communication on what value the sector holds to investors. There was evidence presented that shows that companies may not yet fully realise the inherent value, using impact and ethical investment mostly as a brand strategy. Education
initiatives should aim to practically show the benefits inherent in telling the personal stories of the people affected by the investments and see how these can lead to improved staff morale and profitability. Investors could also be shown alternative ways of participating in the sector. For example, the need for pro-bono legal and regulatory work is clear. Corporations could also assist in improving the existing measurement standards, which would be more likely to lead to their acceptance.

At investee level it is clear that creative ways need to be found to simplify the stringent listing requirements. The costs are also a deterrent and discount structures for early stage registration should be explored. With regards to investee readiness it will be important to mobilise funders for early stage development to facilitate the move to maturity.

Intermediaries have to be internationally accredited. Moreover, to avoid potential conflicts of interest they must remain completely independent. One interviewee spoke of the potential for social economy investment bankers who would be entirely impartial. On a more practical level, intermediaries could rally around a Bloomberg-like feed that shows existing analysis on social enterprises. This could be a revenue-generating platform where information is bought and sold. This would help democratise the access to information and improve collaboration in the sector.

6.3.4. Platform Level
The platforms are currently experiencing difficulties due to the low number of investors. As the business model relies on a minimum number of listings, social stock exchange platforms have had to resort to alternative revenue streams in order to remain in business. Due diligence work, which is normally completed by intermediaries, is one such income stream. Doing this work has reputational repercussions and has been damaging in the eyes of investors. Until such time as platforms are self-sustaining they should continue to pursue other sources of income but they should avoid work which may bring their credibility into question.

Social stock exchange platforms also need to develop a broader range of products to entice investors. From a structural perspective it is unclear what social stock exchanges should ideally look like. Platform builders should continue to experiment and prototype to refine their structure.
7. Research Conclusions

While the literature clearly discusses most of the challenges that social stock exchange platforms are facing on a broad level, it lacks a more detailed examination of these challenges and more importantly a framework for understanding how they are interrelated and linked to the overall development of social stock exchange platforms.

This research report aimed to address this gap by providing a holistic and detailed view of the individual factors that affect the development of social stock exchanges. To accomplish this, a qualitative research study was undertaken making use of semi-structured interviews with industry experts, platform builders, intermediaries and other stakeholders. The research focused on two existing platforms – Nexii and Ethex – as case studies.

In theory, establishing a public stock exchange creates an opportunity not only to connect social businesses with capital to achieve greater scale, but also to connect patient capital with sustainable solutions to global issues. The research has clearly demonstrated, however, that the current ecosystem is not structured and operated in a way to achieve this objective.

There are factors at the macroeconomic, sector, relationship and platform level that are inhibiting the development of the industry. At the macroeconomic level it was shown that the global crisis has impacted the liquidity in the sector. Confirming Proposition 2 that emerged from the literature review – P2: While there are isolated cases of liquid impact investments, the majority of platforms and funding mechanisms fail to create a functioning secondary market. At the sector level it was demonstrated that the lack of collaboration and competitiveness at the relationship level is affecting the ability of the sector to build suitable infrastructure and is resulting in the fragmentation of the industry as a whole. This echoes proposition 1 from the literature review: The challenges faced by impact investors are institutional and structural in nature.

When examining the individual relationships amongst investees, investors, intermediaries and platform builders it was discovered that the parties are surprisingly competitive and minimally collaborative. While this confirms Proposition 3 in the literature review, this
research has also demonstrated that each role player is facing individual hurdles to participating in the sector. Investees are unconvinced of the overall value proposition of social stock exchange platforms and frequently not investment ready. Investors, too, are unwilling to invest more aggressively in the sector due to a variety of factors that lower the perceived value of these platforms. Intermediaries, it is agreed, are needed for the development of the sector, but the research has shown that their work lacks consistency and comparability. Moreover, intermediaries are not all independent which can make the sector less attractive to investors.

Finally, at platform level it was demonstrated that the combination of the obstacles at sector and relationship level, make the overall environment unconducive to creating effective and self-sustaining exchanges. The lack of infrastructure and industry-wide fragmentation make it challenging to design effective supporting structures. Platforms are unable to be self-sufficient currently. The lack of liquidity and low number of listings results in platforms having to supplement their income with consulting revenue. Proposition 4 and Proposition 5 from the literature review were therefore confirmed by this report - P4: The current social stock exchanges platforms fail to deliver on their promise of creating multivariate returns and P5: The nature of the design of functioning secondary market in impact investment has not yet been determined. This research adds to the literature by offering a more detailed explanation of the drivers of these obstacles and proposes recommendations to address these challenges.

The complex interrelationships in the sector make it difficult to pinpoint which part of the ecosystem is the root cause of the problems. In Chapter 6 it was hypothesized that the slow development in the sector can be attributed to a lack of liquidity in the sector, which has a domino effect on the rest of the sector. Two practical recommendations were made on how this hypothesis could be tested. The chapter concluded by proposing a number of recommendations for each of the levels in the ecosystem. The research report will conclude by suggesting avenues for future research.
8. Future Research Directions

8.1. Overview
In light of the results presented in the research analysis, it has become clear that it would be beneficial to understand the root cause of the problems affecting the development of the sector. The literature suggests and the interviewees have hypothesized that the main stumbling block in the sector is the lack of liquidity in the sector. Chapter 6 described the potential positive chain reaction that could take place if the sector managed to reach a critical mass of listings.

This section will focus on suggesting avenues for future research that are geared towards testing this hypothesis. In addition, the research analysis revealed a number of specific areas in the ecosystem where further research could help shed light on how to move this sector forward. The avenues for future research are summarised in Appendix 4.

8.2. Potential Research on Liquidity Hypothesis
Although the overwhelming evidence, both in the literature and this research, suggests that liquidity is critical in the development of this industry, a small number of the interviewees argued that the sector is not likely to ever be particularly liquid and that it can thrive without it.

- A comparative analysis of the liquidity in the current social stock exchange platforms relative to their performance could test the assumption that liquidity is needed.
- The notion of a catalytic fund could be modeled and simulated in a quantitative study to test the assumptions underlying the business model of social stock exchanges.

8.3. Potential Other Research
Research questions and topics pertaining to other areas in the ecosystem of social stock exchanges have been proposed below:

- Is the apparent hype in the impact investment industry enhancing the development of the sector?
- Is the lack of a current recognized social impact measurement standard obstructing the development of the sector?
Does the competitive sub-culture enhance or obstruct the development in the sector?

Are companies fully realizing the value and benefits of social impact investment?

A study reflecting the effectiveness of education and communication in the sector.

Value-mapping the value proposition to investees could help shed light on which interventions would be most effective.

Value-mapping the value proposition to investors could help shed light on which interventions would be most effective.

What is the value of following an iterative process to improving the structure of social stock exchange platforms?

A comparative analysis of the current social stock exchange platforms in order to highlight best-practice in the various levels in the ecosystem.
9. References


CRF. (2012).


## Appendix 1 – Glossary of Terms

<table>
<thead>
<tr>
<th>Glossary Term</th>
<th>Glossary Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIR</td>
<td>Authorised Impact Representatives</td>
</tr>
<tr>
<td>Blended Return</td>
<td>Originating from return on investment (ROI), this term describes the integrated and aggregated social and financial returns of a business operation.</td>
</tr>
<tr>
<td>BOP</td>
<td>Bottom of the Pyramid</td>
</tr>
<tr>
<td>Crowdsourcing</td>
<td>The practice of obtaining needed services, ideas, or content by soliciting contributions from a large group of people, and especially from an online community, rather than from traditional employees or suppliers</td>
</tr>
<tr>
<td>ESG</td>
<td>Acronym referring to environmental, social and governance.</td>
</tr>
<tr>
<td>ETHEX</td>
<td>A social stock exchange platform in the United Kingdom</td>
</tr>
<tr>
<td>GSIX</td>
<td>Global Social Investment Index is a social stock exchange platform that was the precursor to Nexii.</td>
</tr>
<tr>
<td>Nexii</td>
<td>A social stock exchange platform that came into being in May 2011.</td>
</tr>
<tr>
<td>Social Dividend</td>
<td>A social (not financial) return that is earned via the social impact an investment produces.</td>
</tr>
<tr>
<td>Social Enterprise</td>
<td>An organization that applies commercial strategies to maximize improvements in human and environmental well-being, rather than maximising profits for external shareholders.</td>
</tr>
<tr>
<td><strong>Social Entrepreneurship</strong></td>
<td>The process of pursuing suitable solutions to social problems by adopting a mission to create and sustain social value.</td>
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<tr>
<td>---------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Social Impact</strong></td>
<td>Refers to how an organization's actions affect the surrounding community.</td>
</tr>
<tr>
<td><strong>Social Impact Bond</strong></td>
<td>Also known as a <em>Pay for Success Bond</em> or a <em>Social Benefit Bond</em>, is a contract with the public sector in which a commitment is made to pay for improved social outcomes that result in public sector savings.</td>
</tr>
<tr>
<td><strong>Social Return on Investment (SROI)</strong></td>
<td>A framework based on social generally accepted accounting principles (SGAAP) that can be used to help manage and understand the social, economic and environmental outcomes created by activities or organisations.</td>
</tr>
<tr>
<td><strong>Social Stock Exchange</strong></td>
<td>Social stock exchanges create an engagement platform between investors seeking to earn a blended return and organisations seeking finance for social impact projects.</td>
</tr>
<tr>
<td><strong>Triple Bottom Line</strong></td>
<td>Triple bottom line accounting expands the traditional reporting framework to take into account social and environmental performance in addition to financial performance.</td>
</tr>
<tr>
<td><strong>Venture Philanthropy</strong></td>
<td>Takes concepts and techniques from venture capital finance and business management and applies them to achieving philanthropic goals.</td>
</tr>
</tbody>
</table>
Appendix 2A – Pre-Interview Sample Questions

The following list of sample questions was sent through to each of the interviewees in advance of the scheduled interview. The aim was to manage expectations and hopefully pique their interest to have them agree to be interviewed:

- Broadly speaking there appears to be immaturity in each of the various market participants involved – investors, investees and the platform itself. I would like to get your perspective on the challenges each of these parties currently face?
- Is the impact investment market slower than advertised?
- Social stock exchanges as self-sustaining businesses?
- I would like to explore the competitive forces and the apparent fragmentation in the industry. What form of collaboration is needed? Perhaps this is also related to the issue of ‘trust’ as a stumbling block, especially in South Africa?
- I find the issue of timing intriguing. Are we at the right place, but just at the wrong time?
- Regulatory challenges and the need for a global standard.
Appendix 2B - Final Questionnaire Checklist

This questionnaire was used as a checklist for the interviewer when interacting with the participants.

<table>
<thead>
<tr>
<th>Participant Name:</th>
<th>Date of Interview:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interview Start &amp; End Times:</td>
<td>Notes taken by:</td>
</tr>
<tr>
<td>Position Title</td>
<td></td>
</tr>
</tbody>
</table>

**Introduction**

- Welcome
- State name and position of participant.
- Explanation of the Research Study in broad terms without bias.
- Explanation of the interview process – how much time is allotted, the note taking and the opportunity for the participant to ask questions.
- Informed consent is obtained.

**Interview Questions**

**Personal and Rapport Building Questions**

1. What attracted you to impact investment?
2. What work does your current role entail?

**Research Specific Questions**

1. What in your mind is currently working well in the arena of social stock exchanges?
2. What are the challenges faced by social stock exchanges?
3. How do the operations support this strategy?
a. How many organisations are currently listed on your exchange?

b. Which investors do you target?

c. How much money is invested at the Ethex/Nexii?

d. What investment vehicles do you offer investors?

e. How do investors invest with you?

f. Does the platform allow primary and secondary transactions?

g. How do investors transact? Online? Brokerage accounts?

h. What type of return do investors earn? (Financial/Social/Blended)

i. What are the investee and investor rights?

j. What are the regulatory requirements? Which regulations and public policies are you subject to?

k. How do you decide to allow an organization to list?

l. What is the listing process?

m. What are the reporting requirements?

n. How do you ensure transparency and good governance?

o. What is the due diligence process?

p. What are the implemented policies?

q. What are the auditing requirements?

r. How are the transaction costs structured?

s. What is the management/administration fee?

t. How is the exchange administered and managed?
   i. How many employees?
   ii. What are their roles?

4. Turning to the performance of the exchange:

   a. What has the track record been of the exchange in terms of creating a blended return/impact?
   
   b. How can investors track the performance?
   
   c. How is impact measured?
   
   d. Is the Ethex/Sasix achieving its objectives?
   
   e. How is the Ethex/Sasix funded?
   
   f. Is the aim to be self-sustaining (if it isn’t already)?
General open-ended Questions

1. How do you foresee the impact investing industry developing?
2. How do you foresee social stock exchanges evolving/developing?
3. In your opinion, should social stock exchanges be self-sustainable?
4. By which mechanisms (if any) are you trying to influence the evolution of the market?
5. Are there new opportunities for increasing liquidity and capital flows into this industry?
6. How do you see the current economic environment impacting on the industry?
7. Do you see new opportunities for increasing liquidity and capital flows?

Closing Questions

1. Do you have any questions related to the research?
2. Are there any additional comments you would like to make regarding what we discussed?
3. Can you suggest any further individuals whom I could interview? Would you be willing to send an introductory e-mail to facilitate an interview?
Appendix 3A - Definition of Themes

Theme 1: The **Global Recession** that started in 2007 had a profound impact on the impact investment industry and on the development of social stock exchange platforms.

Theme 2: Repeated mention was made of the **Impact Investment Industry as a Potential Asset Bubble**.

Theme 3: A number of **Infrastructural Deficiencies** became apparent which have obstructed the development of social stock exchanges.

Theme 4: The **Competitiveness and Fragmentation** in the sector is widespread and a clear stumbling block to the successful development of social stock exchanges.

Theme 5: **Social Impact Measurement** is still in a nascent stage and little consensus exists on how best to quantify social impact. Evidence suggests that this may have affected the attractiveness of the sector, especially for larger retail investors.

Theme 6: Multiple factors determine **Investee Requirements and Motivators** to list on social stock exchanges.

Theme 7: **Investee Readiness** was a frequently cited deterrent for investors and a recurring theme during the research phase.

Theme 8: Multiple factors determine **Investor Requirements and Motivators** to list on social stock exchanges.

Theme 9: The **Education of investors** with regards to the opportunities in the impact investment industry.

Theme 10: Multiple factors determine **Intermediary Requirements and Motivators** to facilitate listing on social stock exchanges.

Theme 11: The **Independence of Intermediaries** was a universal topic of discussion for all interviewees.
Theme 12: The **Value Proposition** of social stock exchange platforms refers to the extent to which participants believe that exchanges meet their needs.

Theme 13: The **Structure of Platforms** refers to both the operational and legal structure of the platforms.

Theme 14: The **Business Model of Platforms** refers to the financial self-sustainability of social stock exchanges and their ability to exist without being subsidized.
### Appendix 3B - Code List and Family of Codes (Themes)

<table>
<thead>
<tr>
<th>Themes</th>
<th>Codes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Recession</td>
<td>Recession, economic crisis, funding shrinkage</td>
</tr>
<tr>
<td>Impact Investment Industry as a Potential Asset Bubble</td>
<td>Hype, bubble, danger</td>
</tr>
<tr>
<td>Infrastructural Deficiencies</td>
<td>Lack of infrastructure, experimentation, growth, foundation work, leverage, time, need</td>
</tr>
<tr>
<td>Competitiveness and Fragmentation</td>
<td>Sector run by entrepreneurs, profit motive, shared direction, collaboration, protective of relationships</td>
</tr>
<tr>
<td>Social Impact Measurement</td>
<td>Global standard, measurement of impact, immaturity, quantitative, qualitative</td>
</tr>
<tr>
<td>Investee Requirements and Motivators</td>
<td>Due diligence, cost, affordability, commitment, attractiveness, value</td>
</tr>
<tr>
<td>Investee readiness</td>
<td>Investment ready, immaturity, help investors</td>
</tr>
<tr>
<td>Investor Requirements and Motivators</td>
<td>Listing challenges, shortage, proof of concept, delays</td>
</tr>
<tr>
<td>Education of Investors</td>
<td>Ignorance, opportunity, awareness, cost</td>
</tr>
<tr>
<td>Intermediary Requirements and Motivators</td>
<td>Lack of services, standardization, consistency</td>
</tr>
<tr>
<td>Independence of Intermediaries</td>
<td>Objectivity, impartial, conflict of interest</td>
</tr>
<tr>
<td>Value Proposition of Platforms</td>
<td>Benefits, access, value</td>
</tr>
<tr>
<td>Structure of Platforms</td>
<td>Operational, legal, uncertainty, lack of commitment</td>
</tr>
<tr>
<td>Business Model of Platforms</td>
<td>Financial sustainability, subsidization, critical mass, profitability</td>
</tr>
</tbody>
</table>
Appendix 3C – List of Quotes supporting each Theme

Goal of Social Stock Exchange Platforms

“Go beyond well-intentioned but unaccountable giving by adapting and reinventing the tools that exist in traditional markets and empower individuals or organisations to be agents of change” (Evans, personal communication, November 12, 2013)

“Aid-based solutions are insufficient to integrate emerging markets into the world economy” (Jenkins, personal communication, November 29, 2013)

“Traditional ‘us’ vs. ‘them’ models of philanthropy are rejected, with a swell of interest to invest in the spirit of Ubuntu” (Hoffman, personal communication, October 18, 2013)

“Purpose of social stock exchanges is to be a meeting ground for investors seeking a blended return and investees who require funding for suitable social impact projects” (Ractliffe, personal communication, November 12, 2013).

Theme 1: Global Recession

“The recession played havoc with CSI budgets” (Evans, personal communication, November 12, 2013).

“Losing its status as the golden child of democracy in the early 2000s and was no longer perceived as requiring aid and donor funding” (Evans, personal communication, November 12, 2013).

“South Africa is not an foreign direct investment friendly country which further hampers liquidity” (Jethi, personal communication, October 22, 2013).

“Now that less cash is available in the system it is harder to collect or attract funds even with great credentials” (Evans, personal communication, November 12, 2013).

“International timing has been poor falling in with the global crisis. The environment for impact investment is there but there is little capital” (Notcutt, personal communication, November 1, 2013).

“In times of plenty social stock exchange platforms like the Sasix would have worked better” (Evans, personal communication, November 12, 2013).

“These investments will ever be monumentally liquid and that the perception of liquidity in more established markets is wrong” (Jenkins, personal communication, November 29, 2013).

“Crisis has been monumentally helpful, as it has led to end users of capital questioning the true underlying value of their investments” (Jenkins, personal communication, November 29, 2013).

“The crisis raised the conscience of how to account for externalities and has enhanced the framework of how to account and measure social impact” (Hoffman, personal communication, October 18, 2013).

“The Sasix raise a lot of money but not enough” (Evans, personal communication, November 12, 2013).
Theme 2: Impact Investment Industry as a Potential Asset Bubble

“The market is slower than advertised and there is a danger that overhyping the sector could kill off conversations for 10-15 years with mainstream, cynical capital. A bubble would be detrimental. We cannot afford scandals in ethical investing – otherwise people would shy away” (Jenkins, personal communication, November 29, 2013).

“Money is being pushed into the sector and there is room for more, but we need to be careful to avoid a bubble” (Langendorff, personal communication, November 25, 2013).

Theme 3: Infrastructural Deficiencies

“We need infrastructure. We’re going nowhere without infrastructure” (Hartzell, personal communication, November 25, 2013)

“If the decisions for financial capital are driven by analytical understandings of value allocation and returns then why can’t one apply these to the social sector” (Ractliffe, personal communication, November 22, 2013).

“Regrettably few investors invest in infrastructure. Infrastructure builders are uninvestible, despite the fact that it is a good idea” (Ractliffe, personal communication, November 22, 2013).

“Lack of information, tools and infrastructure to facilitate and connect investors with those who could put investments to good use” (Langendorff, personal communication, November 25, 2013).

“Democratise the access to information, build market infrastructure and attract capital” (Evans, personal communication, November 12, 2013).

“The market needs time to grow and build its ability to connect, build intermediation and aggregate information” (Jenkins, personal communication, November 29, 2013).

“Creating the plumbing and pipes that will enable these investments to flow from retail investment all the way through to the needs on the ground is going to be a serious challenge. These stock exchanges need a significant amount of foundational work – infrastructure needs to be developed” (Jethi, personal communication, October 22, 2013).

Theme 4: Competitiveness and Fragmentation

“If people are not doing things for money, they’re doing it for power, prestige or to win the next Nobel prize. The lure of a title can be a more powerful motivator than money” (Ractliffe, personal communication, November 22, 2013).

“Kind of wild west run by entrepreneurs” (Hartzell, personal communication, November 25, 2013)

“It is neither a movement nor an industry – it is riddled with fault lines and collaboration relies on shared direction and I am not sure a shared direction currently exists” (Hartzell, personal communication, November 25, 2013).

“It takes an enlightened entrepreneur to understand what I do and understand what they do, and create more out of the parts. I would like to see the sector develop independently of government in a bottom-up, peoples-driven movement rather than a top-down, government-driven initiative. The industry is currently very
fragmented and collaboration among groups and stakeholders is critical, but is prevented by competition” (Hartzell, personal communication, November 25, 2013).

“It would be a shame if people did not collaborate more, but currently people are very protective of their relationships. In South Africa the challenge is trust, both in terms of trusting a platform with money and trusting people with information. The traditional finance people interested in this sector are competitive and they see this as a new investment opportunity not philanthropy. They guard their knowledge jealously” (Evans, personal communication, November 12, 2013).

“Impact investors don’t want platforms to happen. Exchanges threaten their business model. If you have an exchange with an average cost of capital of 3%-5% why would you pay an impact investor 15%-20% for a bespoke fund? An exchange is much cheaper” (Ractliffe, personal communication, November 22, 2013).

“These are free market forces and I am a big believer in free markets” (Hartzell, personal communication, November 25, 2013).

“The Nexii board is a cosmetic board, not an acting board. There were hardly any meetings” (Langendorff, personal communication, November 25, 2013).

“The people leading these platforms are strong characters who want control. They have difficulty recognising the need for delegation, collaboration and letting go” (Langendorff, personal communication, November 25, 2013).

“I don’t think we need both the Ethex and the Social Stock Exchange in the UK. Ethex has more momentum but less funding. It’s an issue of the survival of the fittest, which can make it look unattractive from the outside” (Jenkins, personal communication, November 29, 2013).

“I think there will be fewer stock exchange platforms in 5 years but they will be stronger with a degree of critical mass behind them” (Jenkins, personal communication, November 29, 2013).

“Response to fragmented players on both the investor sides (foundations, social venture funds, individuals, public grant makers, corporations, social investment funds) and investee sides (non-profits, social businesses and companies seeking a financial or blended return)” (Hoffman, personal communication, October 18, 2013).

**Theme 5: Social Impact Measurement**

“One can’t force measurements. Also, I don’t think there’s a holy grail of one metric” (Jenkins, personal communication, November 29, 2013).

“I suspect it will end up being a mix between qualitative and quantitative metrics. What is important is that they are easy to understand” (Langendorff, personal communication, November 25, 2013).

**Theme 6: Investee Requirements and Motivators**

“Why should I jump through all the regulatory hoops and pay a big pot of money just to find myself listed on an exchange with investors who show little interest in my business” (Langendorff, personal communication, November 25, 2013).
“Even a listing does not necessarily guarantee funding requirements will be met. Many platforms cannot cater for multiple currencies and in most instances we find that the investees who require the funding the most do not have Dollar or Euro denominated currencies” (Hoffman, personal communication, October 18, 2013).

“All parties registered on an exchange must undergo strict third party validation and report regularly on their financial and social results. For many social enterprises this can be problematic as they have yet to fully prove their evidence of social impact and may be grappling with their identity and legal form” (Jethi, personal communication, October 22, 2013).

“It is short-sighted not to get listed. The initial upfront costs are once-off and investees can take full advantage of future rounds of financing without paying the fee again” (Ractliffe, personal communication, November 22, 2013).

Theme 7: Investee Readiness

“Social enterprises that are looking for capital are either not investment ready or do not know the process by which to go raise capital. Some of these people haven’t structured themselves, have advisors, or have a proper board in place. A lot of social enterprises are so far away – 2, 3 or 4 years away – from listing. Most of the pipeline is aspirational” (Jethi, personal communication, October 22, 2013).

“A cookie cutter approach should be avoided where the sector is held to the exact same performance standards as traditional investments” (Hartzell, personal communication, November 25, 2013).

“Advocacy-related groundwork must continue until the sector matures” (Hartzell, personal communication, November 25, 2013).

“Immaturity amongst investees is definitely true. Projects are either not known, or not enough, or lacking management” (Langendorff, personal communication, November 25, 2013).

Theme 8: Investor Requirements and Motivators

“Some social stock exchange platforms only offer a social dividend and pay no financial return at all” (Notcutt, personal communication, November 1, 2013).

“There is no shortage of social enterprises seeking funding but only a select few meet the right criteria” (Jenkins, personal communication, November 29, 2013).

“There is a general lack of evidence and a perception of a low success rate” (Evans, personal communication, November 12, 2013).

“Many investors are bound by their conventional mandates, which preclude them to invest in social enterprises that may require patient capital or are perceived as too early-stage. The range of products and the demand for them is a further challenge in that investors cannot easily enter or exit their positions” (Hoffman, personal communication, October 22, 2013).

“The Sasix sought investments in the region of $1m-$1.5m. This was generally too large for angel investors or high net worth individuals, but too small for large institutional investors” (Ractliffe, personal communication, November 22, 2013).
“What made matters worse was that it often took a very long time – years sometimes – to collect funding for social enterprises. While the disadvantage to the social enterprise is obvious, this also had a detrimental effect on investor interest” (Ractliffe, personal communication, November 22, 2013).

“When you initially send out the invitations everyone is keen, but on the evening of the event you’ll find that people haven’t pitched” (Hartzell, personal communication, November 25, 2013).

“Impact investors are acting like venture capitalists wanting maximum return” (Ractliffe, personal communication, November 22, 2013).

“Investors want their cake and eat it” (Hartzell, personal communication, November 25, 2013).

“May be a great first look through as an investor before checking more closely” (Evans, personal communication, November 12, 2013).

**Theme 9: Education of Investors**

“In light of the fact that this industry is only a few years old – I think the term impact investment was coined in 2009 – there are still misconceptions and prejudices noticeable in the market” (Evans, November 12, 2013).

“There is a perception that impact investment is the same as philanthropy or charity. A significant amount of education needs to be done before this asset class can be taken seriously universally” (Jenkins, personal communication, November 29, 2013).

“Corporates are not using social investments as a way to differentiate themselves. This is short-sighted. Companies could be tapping into the true meaning and opportunity of social investments by using it for more than just a branding tool. It is the difference between compliance and commitment giving and only very few companies see the real benefit” (Ractliffe, personal communication, November 22, 2013).

“If companies can tell the individual stories behind their social investments, this could have wide-reaching positive effects on company culture, customer perception and ultimately the bottom line.” (Ractliffe, personal communication, November 22, 2013).

“Meaning is crucial to sustainable giving” (Ractliffe, personal communication, November 22, 2013).

“Education is important but this has to be looked at in the context of regulation, the emphasis of which tends to assume that people don’t know best and are incapable of acting in their own best interest. And therefore the policy makers are regulating people away from the retail market and forcing them to deal with intermediaries in order to engage in any form of investments. The more you protect and legislate against, the less chance you have of people really understanding what they’re engaging in. The more smoke and mirrors are there between investee and investor with a range of intermediaries between. Ultimately the best protection there is against risk is for people to know what they’re doing” (Hartzell, personal communication, November 29, 2013).

“Had the Sasix fallen under the umbrella of the Johannesburg Stock Exchange in 2006 it would have had to earmark R30m-R50m for education alone. These funds were unfortunately not available” (Evans, personal communication, November 12, 2013).
“There are no retail access points to impact investments even though $20bn are willing to be pledged. One gets shunted into SIR funds. Speaks to lack of know-how keeping it at institutional level” (Ractliffe, personal communication, November 22, 2013).

“How mature are financial institutions in the UK towards funding infrastructure of this sector? Probably not very” (Hartzell, personal communication, November 25, 2013).

“How can we rely on financial institutions who are currently not meeting the need, to meet the need?” (Hartzell, personal communication, November 25, 2013).

“Projects need to be made known” (Langendorff, personal communication, November 25, 2013).

“One has to educate extensively that financial returns exist. You can’t rush people in money matters” (Hoffman, personal communication, October 18, 2013).

“General perception that it is philanthropy” (Evans, personal communication, November 12, 2013).

**Theme 10: Intermediary Requirements and Motivators**

“Social stock exchange platforms recognised early on that intermediaries were required to give the industry greater credibility and make investors feel confident that the investment opportunities had been adequately vetted” (Evans, personal communication, November 12, 2013)

“There is a serious lack of corporate services available to assist in the capital raising process” (Evans, personal communication, November 12, 2013).

“To list you needed sign off by them” (Hoffman, personal communication, October 18, 2013).

“The consistency of appraisal is just not there. There is no standard or comparability” (Hartzell, personal communication, November 29, 2013).

“Intermediaries are often motivated by money alone. It is undesirable to have those people around you as they have little appreciation for the social innovations in the sector” (Hartzell, personal communication, November 29, 2013).

“Intermediaries are few and far between and those that are around overcharge and deter investees” (Langendorff, personal communication, November 29, 2013).

“We need to drive the professionalization of AIRs and their value propositions. We currently have 19 AIRs around the world of which 7 are firms. Even if you have multiple platforms accredited intermediaries can serve to bridge the gap between the exchanges and keep collaboration alive in the sector. In addition, they can also address the currency issue by acting as de facto clearing houses” (Ractliffe, personal communication, November 12, 2013)

“If you have to do all the leg work yourself it’s just not worth it. If we had a Bloomberg-like feed where analysis has already been done that would be of great value” (Langendorff, personal communication, November 29, 2013).
“Accrediting AIRs was a challenge” (Ractliffe, personal communication, November 12, 2013).

Theme 11: Independence of Intermediaries

“The division of duty has been an issue. In many cases the intermediaries have also been the platform builders, which has led many people to say that these intermediaries cannot be both judge and jury. Lots of exchanges don’t accept that stating that the ‘AIR’ revenue stream is needed to sustain the social stock exchange platforms. This disagreement clearly illustrates how underfunded the sector is and it has also contributed to the fragmentation in the industry” (Ractliffe, personal communication, November 12, 2013).

“Platform builders are acting as intermediaries because they need the consulting revenue, as not enough listings are taking place. What the sector needs are impartial social economy investment bankers” (Langendorff, personal communication, November 25, 2013).

Theme 12: Value Proposition of Platforms

“Platforms offer price discovery in a market where information is usually hard to come by. They also offer clear entry and exit routes and provide a platform to launch investment schemes to the public.” (Jethi, personal communication, October 22, 2013).

“Imagine if there was one place where you could get all the information – the value is definitely there” (Evans, personal communication, November 12, 2013).

“Exchanges attempt to offer pre-screened and rigorously analysed opportunities on an online, open-access platform. Moreover, these exchanges would also continuously monitor and evaluate the listed investments and report on any inconsistencies and deviations. In a market where geographic and educational challenges are commonplace exchanges can perform a vital function” (Hoffman, personal communication, October 18, 2013).

“Exchanges like Nexii offer trading in multiple currencies and offer significant tax benefits” (Notcutt, personal communication, October 18, 2013).

Theme 13: Structure of Platforms

“While the idea of doing social good while earning financial returns is great, it is not clear how best to structure platforms to achieve this goal” (Jenkins, personal communication, November 29, 2013).

“There are significant size and legal form problems. It is often not possible to list like a conventional company or the social enterprises are unwilling to because of the challenges to the social mission and cost. For example, if a social enterprise chooses to list as a for-profit enterprise to keep the option of issuing shares open it may adversely affect its ability to receive other forms of finance” (Hartzell, personal communication, November 25, 2013).

“I don’t really understand why one would want to have something that isn’t a social enterprise providing infrastructure to social enterprises. It strikes me as a key risk actually” (Hartzell, personal communication, November 25, 2013).

“It is for this reason that the Ethex has chosen to register as an exempt social enterprise which gives it the advantage of being able to approach retail investors who are showing interest” (Jenkins, personal communication, November 29, 2013).

“There is little consensus when it comes to how these platforms should actually be run” (Hoffman, personal communication, October 18, 2013).
“We need to have lanes for Ferraris and lanes for Datsuns and everything in between” (Ractliffe, personal communication, November 22, 2013).

“Platforms like Nexii have chosen to leverage off the infrastructure of existing traditional stock exchanges. It attempts to address the need for stage-appropriate platforms through a tiered approach by developing private investment platforms for early stage enterprises, which acts as a prelude to a fully fledged exchange. Other platforms are more tailored and limited to users in a particular country like the Ethex, or members of a corporation as was the case with the Joint Venture Sasix formed with Cadiz in 2007” (Hoffman, personal communication, October 18, 2013).

“I am a big believer in free market forces determining the structure of these platforms. I believe exchanges need to work independently at least initially to achieve that. We have developed independently. It has been challenging but advantageous, as it has allowed us to build a coherent business model” (Hartzell, personal communication, November 25, 2013).

“The Sasix was the earliest form of crowd-sourcing” (Ractliffe, personal communication, November 12, 2013).

“There needs to be funding for test-driving” (Ractliffe, personal communication, November 22, 2013).

“The Social Stock Exchange in the UK is not an exchange. It is a platform that features listed businesses and does due diligence and accreditation work” (Hartzell, personal communication, November 25, 2013).

“It would be best to have one platform only with regional subsidiaries. There are not enough projects and investors to support many stock exchange platforms” (Langendorff, personal communication, November 25, 2013).

“There is wide disagreement on what an exchange should be. A portal, a stand-alone entity or something completely different?” (Evans, personal communication, November 12, 2013).

“Intention of Sasix was to be a non-profit, multi-stakeholder association of social investment exchanges and enterprise analysts, brokers, impact investors and financial intermediaries” (Hoffman, personal communication, October 18, 2013).

**Theme 14: Business Model of Platforms**

“It is a difficult animal. How do you get them to pay for themselves?” (Evans, personal communication, November 12, 2013).

“Due diligence costs are high which makes it more difficult for platforms to become self-sustaining” (Notcutt, personal communication, October 18, 2013).

“Platforms have had to resort to little tricks like adding a tip or layering in various fees” (Evans, personal communication, November 12, 2013).

“We rely on grant money as well as trading revenue from our listings. The business can currently not yet stand on its own two feet” (Hartzell, personal communication, November 25, 2013).

“Platforms need to be bigger to achieve critical mass. The business model is viable as soon as a minimum amount of listings are registered on the platform” (Evans, personal communication, November 12, 2013).
“Discussions are currently happening with development finance institutions for a catalytic fund that puts up the money for listing costs upfront to solve the impasse between investors and investees. Costs can be recovered by these institutions upon successful capital raising” (Ractliffe, personal communication, November 22, 2013).

“Sasix did not have sufficient resources to dedicate to marketing” (Ractliffe, personal communication, November 22, 2013).

“The reality is that platforms are still learning and trying to solve problem of performing” (Langendorff, personal communication, November 25, 2013).

“Listings are missing, liquidity is not missing. How do you convince people?” (Langendorff, personal communication, November 25, 2013).
## Appendix 4 – Summary Table of Analytical Story and Future Research Avenues

**Goal**
Active and self-sustainable meeting ground for investors seeking a blended return and investees requiring funding for suitable social impact projects.

<table>
<thead>
<tr>
<th>No.</th>
<th>Theme</th>
<th>Level</th>
<th>Summary Findings</th>
<th>Suggested Future Research</th>
</tr>
</thead>
<tbody>
<tr>
<td>T1</td>
<td>Global Recession</td>
<td>1</td>
<td>Both positive and negative effects, Investors understand their investments better. Less Liquidity</td>
<td>Investigate the importance of liquidity in the impact investment sector.</td>
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<tr>
<td>T2</td>
<td>Asset Bubble</td>
<td>1</td>
<td>Potential for bubble evident</td>
<td>Is hype positive or dangerous?</td>
</tr>
<tr>
<td>T3</td>
<td>Infrastructure</td>
<td>2</td>
<td>Critical need for infrastructure, Possible to leverage off existing infrastructure but lack of consensus on how to achieve this. Infrastructure funding is problematic</td>
<td></td>
</tr>
<tr>
<td>T4</td>
<td>Competitiveness + Fragmentation</td>
<td>2</td>
<td>Competitive subculture exists which obstructs collaboration</td>
<td>Does competitive sub-culture enhance or obstruct development of social stock exchanges?</td>
</tr>
<tr>
<td>T5</td>
<td>Social Impact Measurement</td>
<td>2</td>
<td>Need for a more recognized measurement system. Impasse between investors who require more measurable evidence and the sector which may need more time to develop a high</td>
<td>Is the lack of measurement tools obstructing the development of the sector?</td>
</tr>
<tr>
<td>Table</td>
<td>Description</td>
<td>Rating</td>
<td>Details</td>
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<tr>
<td>T6</td>
<td>Investee Requirements + Motivators</td>
<td>3</td>
<td>Investees reluctant to list as perceived value is too low.</td>
<td>A detailed analysis of where the value resides – value mapping.</td>
</tr>
<tr>
<td>T7</td>
<td>Investee Readiness</td>
<td>3</td>
<td>Many investees are not investment ready, which affects attractiveness to investors and the development of the sector.</td>
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</tr>
<tr>
<td>T8</td>
<td>Investor Requirements + Motivators</td>
<td>3</td>
<td>Investors reluctant to invest as perceived value too low. This affects critical mass and liquidity.</td>
<td>A detailed analysis of where the value resides – value mapping.</td>
</tr>
<tr>
<td>T9</td>
<td>Education of Investors</td>
<td>3</td>
<td>Need to advertise, inform and market the sector but also need to dispel existing inaccurate preconceived notions.</td>
<td>Are companies fully tapping into the value that social investments represent?</td>
</tr>
<tr>
<td>T10</td>
<td>Intermediary Requirements + Motivators</td>
<td>3</td>
<td>Intermediaries are needed but are either not delivering or taking advantage of investees and investors.</td>
<td></td>
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<tr>
<td>T11</td>
<td>Independence of Intermediaries</td>
<td>3</td>
<td>Not all intermediaries are independent. Conflict of interest exists.</td>
<td>Determine in how far this conflict of interest is deterring investors. Is the independence of intermediaries important?</td>
</tr>
<tr>
<td>T12</td>
<td>Value Proposition of Platforms</td>
<td>4</td>
<td>Goal and theoretical value proposition is clearly understood</td>
<td></td>
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<td>but not achieved in reality.</td>
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<td>Structure of Platforms</td>
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<td>Business Model of Platforms</td>
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Appendix 5 – Informed Consent Form For Participants

Informed Consent Form

The University of Cape Town
Graduate School of Business
Address: 8 Portswood Road, V&A Waterfront, Cape Town
Title of Project: ETHEX and SASIX: Analysing The Current State of Social Stock Exchanges

TEAR OFF AND KEEP THIS FORM FOR YOURSELF

Dear Participant

You have been invited to take part in the research project described below. If you have any questions, please feel free to call Max Urban or Lea Esterhuizen, the people mainly responsible for this study.

The purpose of this study is to analyse the current state of social stock exchanges, particularly of the Ethex and Nexii. Interview questions will explore your attitude and opinion toward a number of themes including (but not limited to) liquidity, regulation, perceived benefits, products, transaction costs, measurement and overall effectiveness in meeting its stated objectives. Responses to these items will be collected through oral interviews from qualitative questionnaires. If you wish to maintain your anonymity please indicate this by marking the field at the bottom of this form.

If you decide to take part in this study, your participation will involve one initial oral interview and potentially one follow-up interview. This research project terminates on 9 December. Initial interviews will be conducted in the first half of October 2013 with a potential follow up interview scheduled between mid October and 30 November 2013.
The possible risks or discomforts of the study are minimal. Questions directed at you will not be of a personal nature and will pertain only to the area of research identified above.

Although there are no direct benefits of the study, your answers will help increase the knowledge regarding the landscape from which social stock exchanges operate.

The decision to participate in this research project is up to you. You do not have to participate and you can refuse to answer any question. You may also decline to be contacted for a follow up interview.

Participation in this study is not expected to be harmful or injurious to you. However, if this study causes you any injury, you should write or call Max Urban (+27824490938) or Lea Esterhuizen (+27799161061)) at the Graduate School of Business in Cape Town.

Full Name and Signature of Participant:
I wish to remain anonymous (mark with x) ☐