

Social stock exchanges – do we need them?

January 12 2015, by Danielle Logue

Public interest in the development of global impact investing received a significant boost last year, due to an international campaign to divest in fossil fuels by superannuation, pension, and [university endowment](#) funds.

This emerging market (estimated to be worth [\\$650 billion by 2020](#)) aims to connect social enterprises with so-called "impact" investors. An important aspect has been the creation of social stock exchanges.

While securities exchanges have been facilitating financial market transactions for centuries, the first social stock exchanges were officially launched only recently. So what are they? Are they working? And do we need them?

We explore these questions as part of our ongoing [research](#), interviews and [analysis](#), and recent [business media attention](#) on this market innovation.

What is a social stock exchange?

These sorts of exchanges operate just like investment and financial markets - to help to connect supply and demand. "Impact" investors need information on where to invest, consistent measures of return (in this case, additionally to the standard return on investment (ROI) there is another measure, the social return on investment (SROI)), opportunities to build portfolios, and options to exit. On the demand side, social enterprises need to raise capital and market their activities. Broadly, such an exchange enables private capital to be mobilised for public good.

Do they actually work?

Social stock exchanges which have recently emerged globally operate in different ways in their attempt to grow impact investing markets. Here are some examples:

United Kingdom (Social Stock Exchange): the Social Stock Exchange was officially launched in London in 2013; it showcases publicly listed impact enterprises that trade on the London Stock Exchange. It is designed to connect the general public (not only accredited investors) with impact investments, and has a common social impact framework applied to all issuers. It is not yet a transactional platform, instead profiling impact investments. By 2014 it had 12 enterprises listed.

Canada (Social Venture Connexion): Launched in 2013, the SVX is registered as a restricted dealer with the Ontario Securities Commission and aims to address social finance market failures by providing social ventures with a low cost method of gaining access to investors. SVX approves membership (for organisations on the supply and demand side) on several criteria, including assessing impact using B Corporation standards, a recognised social and environmental performance measure. It has already exceeded its initial objectives in terms of capital raised and enterprises listed.

Singapore (Impact Investment Exchange): Also launched in 2013, the IIX trades out of Mauritius. It sets out to support listing, trading, clearing, and settlement of securities issued by social enterprises across Africa and Asia. It is the only public social stock exchange at this time, and in generating social enterprise issuers, it also runs programs to assist social enterprises to become "investor ready".

As [Forbes reports](#), other exchanges are emerging in [Brazil](#), and also in [Kenya](#).

Does Australia need a social stock exchange?

The [World Economic Forum suggests](#) that social stock exchanges have the potential to offer value to retail and institutional investors by providing access to liquid securities of impact enterprises.

As we have learnt from [previous studies](#) on the rapid diffusion of stock exchanges during the 1980s and 1990s, exchanges were adopted out of diverse motivations and showed great variation in subsequent performance. University of Alberta Professor Michael Lounsbury and his colleagues' study [demonstrated](#) that policy makers need to selectively adopt policy innovations that suit local contexts.

What are the challenges?

In Australia, we have a nascent but growing market for impact investing, in particular when divestment activities in fossil fuels (and consequent investments in renewable energy) are included in this market growth. But reflective of global trends, we suffer from barriers such as lack of awareness and access to investment opportunities.

Indeed, it seems that in the Australian market we do not have an economic problem. We have supply of impact investment funds and demand from social enterprises, but we do not have the social and market infrastructure to connect the two more easily and efficiently.

There is no doubt that more capacity building is needed on the demand side, and education is needed on the supply side of the market. An exchange might also provide the opportunity to better mobilise private capital in addressing [foreign aid objectives](#) around poverty alleviation in our region, if impact investment deals are not restricted to Australia.

As our research progresses on this topic, we may find that rather than inventing a new version of a social [stock exchange](#), we would do well to borrow infrastructure or connect to existing platforms, enabling synergies in operational models as the global market grows.

[Increasing numbers of Australian companies](#) taking on B Corporation certification also demonstrate progress in (voluntarily) adopting impact measurement tools and impact disclosure.

Yet we also need to recognise [criticisms](#) of such exchange platforms, as well as unintended consequences - for instance, limitations to calculating social returns on investments, "crowding-out" effects and mission drift in the not-for-profit and social enterprise sector ([the social economy](#)) .

We also need to ensure that mobilising private capital does not lead governments to shirk their responsibilities in dealing with those social and environmental problems that will not be addressed through market mechanisms.

The social stock exchanges established so far are building gradually. Yet incremental change can be transformative in providing one mechanism to mobilise more capital for organisations that seek to address many of the current social and environmental problems in our society.

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