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# Creating the Nexus for Impact Investing: A Case Study

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September 2013







**Compiled by:**  
Lucy Hoffman  
Kelly Notcutt

**Contributors:**  
Melissa Butler  
Sudip Chatterjee  
Lucy Bernholtz  
Jack Breslauer  
Philippe Dardier  
John de Wit  
Gabrielle Habberton  
Luis Hernandez  
Nick Glicher  
Pradeep Jethi

Gillian Kettenah  
Cyrille Langendorff  
Sari Miller  
Willem Nolens  
Justine Raschio  
Tamzin Ractliffe  
Beth Richardson  
Shamin Sookia  
Elize Stroebel  
Tim Wood

**Design by:**  
Jade Freedman

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Thank you



**Nexii's vision is of an inclusive, sustainable and ethical capital markets system that promotes prosperity for all and pays as much attention to issues of people and the planet as it does to issues of financial profit.**

# 1994

End of Apartheid

# 1997

Ractliffe establishes  
FundingSA

# 2006

GreaterGood establishes  
SASIX

# 2004

GreaterGood South Africa  
established

# 1999

Funding Site  
established

# 2007

Funding SA becomes GreaterCapital  
GreaterCapital establishes a Joint  
Venture with Cadiz Asset Management  
to form SASIX Financial

# 2008

GreaterGood starts GSIX Initiative  
Global Financial Crisis

# 2011

Nexii formally incorporates in South  
Africa and establishes cooperation  
agreement with SEM  
Nexii secures Regulatory approval for  
the Impact Exchange in partnership  
with the SEM  
Nexii secures GDA with USAID

# 2010

GSIX changes its name to  
Nexii  
Nexii articulates its intentions  
at the CGI

# 2009

GSIX Bellagio Meeting catalyses  
multiple social stock exchange  
initiatives across the globe  
GreaterGood/GSIX conducts  
Social Stock Exchange  
Feasibility Study  
'Impact Investing' emerges

# 2012

Nexii and Alternativa (AM France) execute Joint  
Venture Agreement for private placement platform  
Nexii partners with GIIRS  
Nexii wins Thomson Reuters Foundation Innovation  
Award with White & Case

# 2013

Impact Exchange transferred to IIX Asia  
AIRs transferred to Impact Trust  
Impact Capital Platform transferred to European  
NewCo in partnership with Alternativa (AM France)

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# Nexii: A South African story

**“Poverty is not natural. It is man-made. Overcoming poverty is not a gesture of charity. It is an act of justice. It is the protection of a fundamental human right, the right to dignity and a decent life” - Nelson Mandela, South African, Nobel Prize-winner. World leader.**

Nexii's story is deeply connected to its South African heritage. Nexii is the result of a team of South Africans trying to create a social investment model beyond that of traditional philanthropy: one that would bring as much rigour and intention to the allocation of social investment capital as could be found in the “pure” financial capital markets. Its origins date back to the early days following the first democratic elections in 1994, when there was great fervour around the potential for, and commitment to, transformation in South Africa. Both corporate South Africa and the general public were excited about the potential to build a new democratic, equitable society, and committed to finding the ways to engage in social and economic transformation. Rejecting traditional models of “us versus them” philanthropy, there was a swell of interest in investing in local communities in the spirit of Ubuntu –. For Nexii and its predecessors, the term “social investment” carried significant importance as it framed Nexii's work from the outset and implied that investing in social transformation went beyond well-intentioned, but largely unaccountable giving.

At the time, Nexii's founder, Tamzin Ractliffe, recognized the desire on behalf of all South Africans – businesses and individuals alike – to invest in their communities and contribute to the powerful transformation of the country. At the same time, however, she noted the lack of available information, tools and infrastructure to facilitate engagement or foster widespread connections between those who had something to invest and those who could put such investments to good use. Understanding that these tools already existed in the traditional financial markets, she used her experience of venture capital to develop them for application in the social investment world and so established the GreaterCapital / GreaterGood South Africa Group (“the Group”)<sup>1</sup>, laying the foundations for the ultimate development of Nexii and the Impact Exchange.

**What guided the Group from inception, and what was core to understanding the requirements of the system within which Nexii would operate, was the idea that social investment should hold both sides, investor and investee (giver and receiver), accountable.**

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<sup>1</sup> “The Group” includes GreaterGood South Africa and GreaterCapital. **GreaterGood South Africa** is a public benefit organisation connecting givers to good causes and activating the public to give responsibly. **GreaterCapital** is the consulting arm of the GreaterGood group, a social enterprise providing research, strategic advice and investment opportunities to corporate, non-profit and development agency clients.





Over the past 16 years, Ractliffe and her team have continuously iterated a model to support innovative and effective ways to finance social and environmental interventions. As with any pioneering effort, the model has been refined over time, based on lessons learned and feedback received from engaging with thousands of stakeholders.

Nexii has achieved monumental breakthroughs and been met with serious challenges. This case study provides an overview of Nexii's motives, its history, progress, successes and challenges. It starts with a detailed description of how Nexii came to be, providing insight into Nexii's predecessors and into trends developing in the social finance industry at the time of Nexii's conception. It then provides an overview of the efforts that Nexii has pursued since its formal establishment in 2011 and of the internal and external barriers that have stood in the way of Nexii's vision and mission. Finally, it describes the steps Nexii has taken to transfer ownership and leadership of its initiatives to parties who share our vision and have the capacity and desire to drive it forward. These transfers will integrate efforts and leverage industry resources, whilst preserving the value Nexii has created over the past several years.

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# 01

## Back to the future

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**“One of the sayings in our country is Ubuntu - the essence of being human. Ubuntu speaks particularly about the fact that you can’t exist as a human being in isolation. It speaks about our interconnectedness. You can’t be human all by yourself, and when you have this quality - Ubuntu - you are known for your generosity. We think of ourselves far too frequently as just individuals, separated from one another, whereas you are connected and what you do affects the whole world. When you do well, it spreads out; it is for the whole of humanity” - Desmond Tutu, South African, Nobel Prize winner.**

The world continues to be plagued by poverty, inequality and the loss of biodiversity. These issues are exacerbated by natural and manmade disasters like tsunamis, droughts, war and climate change. Aside from government intervention, solutions to these social and environmental problems have traditionally been funded by philanthropy and development aid. Etymologically, 'philanthropy' means "loving people"<sup>2</sup>, though it is now perhaps better understood to be the "act of giving for humanitarian purposes"<sup>3</sup>. Typically, philanthropy has been limited to foundations and high net worth individuals that have accumulated enough wealth to then redistribute it through grants to projects that have humanitarian aims. Philanthropy is voluntary and often an unreliable source of consistent funding. Typically, it has relied on the generosity and personal interest on behalf of the giver, rather than a reciprocal relationship between grantor and grantee.

'Philanthropy' is not a word that has much positive resonance for many Africans. It speaks of affluence beyond the average person's reality and is largely viewed as the terrain of the exceptionally wealthy. That the majority of South Africans do not relate to the term philanthropy may be best evidenced by the fact that there is no direct translation for the word in many of the official South African languages.

There is in South Africa, as in Africa more broadly, a deeply rooted tradition of giving and mutual helping. It is perhaps these terms that are best able to describe the philanthropic activities of the large majority of the populace. Indeed, 'giving' resonates much more strongly within South African society on a broad level, covering every day acts of kindness as well as planned giving by ordinary people within and between communities.

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<sup>2</sup> "Philanthropy" Merriam-Webster, 2013, accessed on 11 September 2013, <http://www.merriam-webster.com/dictionary/philanthropy>

<sup>3</sup> *ibid.*

The King Committee on Corporate Governance published its first report in 1994, King I, espousing corporate social responsibility and good governance practices in South Africa<sup>4</sup>. 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.

**In the South African context, a grant was considered a "social investment" even without financial return because the investment was intended exclusively for social or environmental impact.**

That these terms are more accurate ways of understanding philanthropy in South Africa is well evidenced in the monograph. This study made a significant distinction between 'philanthropy community', being "relations of 'help' among and between" communities and 'philanthropy community', being "the conventional philanthropic orthodoxy of 'vertical' resource transfers from rich to poor". The difference between philanthropic 'giving' behaviour, on the one hand, and social investment, on the other, largely fits into these two categories in South Africa.

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<sup>4</sup> "King Report on Corporate Governance for South Africa 2002" King Committee on Corporate Governance, 2002, accessed on 24 September 2013, [http://www.mervynking.co.za/downloads/CD\\_King2.pdf](http://www.mervynking.co.za/downloads/CD_King2.pdf)

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# 02

# Philanthropy in Transformation and Transforming Philanthropy

**“I think people respond to the fact that our projects are carefully screened and accountable. Investors know that their money is going to be well-spent and produce measurable results that they can see for themselves” - Tamzin Ractliffe in GGSA Annual Report 2008.**

Following the end of apartheid, there was an urgent effort by multiple parties to address the massive socio-economic inequalities in South African society. The government played a key role in mobilizing private and public resources to fund this transformation, instituting such programs as Broad Based Black Economic Empowerment (BBBEE). The private sector started to understand its role in uplifting South African communities by developing CSI programmes. Meanwhile, Non-Governmental Organisations (NGOs) and social service providers multiplied to respond to the need for social and economic transformation within and among South African communities.

Despite aligned intentions of government, private sector and social service providers, there was little infrastructure to connect the various groups. More specifically, there was a critical lack of information or channels through which to disperse information between those who wanted to source social investment opportunities and the organisations that were looking for funding. On the one hand, CSI managers wanted to know: (1) who was out there?; (2) who was worth giving to?; and (3) what impact were they having? On the other hand, NGOs wanted to know: (1) who funds what?; (2) how do we access funding?; and (3) what do we need to measure? The general public just wanted to know how they could help.



## GreaterCapital / GreaterGood South Africa

In late 1997, Ractliffe started to address the lack of intermediation by establishing an advisory consulting business called FundingSA. This subsequently became GreaterCapital, the social investment advisory business that formed a core component of the GreaterGood Group. Responding to the lack of information available for the corporate sector to comply with CSI requirements, GreaterCapital consulted to the corporate sector on ways to allocate the millions of rand that they were required to spend to strengthen civil society in South Africa. Simultaneously, FundingSA created a database of information for NGOs on how and who to approach for funding and launched the **Funding Site**, a service for non-profit organisations seeking CSI funding. Both of these activities responded to the need of corporates and NGOs to better understand the social investment market.

In 2004, GreaterGood South Africa, a non-profit public benefit organisation, was launched to extend the information and start building the connecting infrastructure to individuals. GreaterGood opened the filing cabinets of information to the public so that all registered NGOs that GreaterCapital encountered in the course of its advisory work could be given broader visibility in the public domain. The platform started with 100 featured NGOs, and now profiles over 1,500 organisations. Further, it addressed the demand from the general public to have a role in South Africa's transformation, providing individuals the opportunity to get involved in a variety of ways. Its mission was to grow connections between communities and people and to facilitate and encourage giving activities of all kinds.

### The Original Vision

**GreaterGood South Africa has a vision of a vibrant culture of 'giving' infusing all sectors of South African society, ensuring a nation of strong, interconnected communities caring for themselves, for each other, and for the places in which they live. GreaterGood works to support and encourage the accountable development of welfare and charitable organisations, so that 'giving' becomes truly effective and results in an improved quality of life for all South African citizens.<sup>5</sup>**

<sup>5</sup>"Organisations that promote volunteering and giving: GreaterGood South Africa" AIDSbuzz, (no date), accessed on 17 September 2013, [http://www.aidsbuzz.org/index.php?option=com\\_content&view=article&id=230&Itemid=43#greatergood](http://www.aidsbuzz.org/index.php?option=com_content&view=article&id=230&Itemid=43#greatergood)

Ahead of its time, GreaterGood used technology to build the framework within which social networking and social investment could begin. Often dubbed "the Facebook of giving", the initial **GreaterGood platform** provided access to information in an online form, although outreach activities and volunteer campaigns facilitated growing networks and connections offline as well. This platform helped develop the kind of infrastructure necessary to bring coherence to 'giving' activities. Consequently, GreaterGood has served to overcome the dislocation between the privileged and the disenfranchised all over South Africa by encouraging new ways of thinking about social change and development. Along with GlobalGiving, GreaterGood was a pioneering effort that paved the path for other online giving platforms to follow.

At its heart, GreaterGood promotes the message that "everyone has something to give" and facilitates giving of all kinds and in turn, ways for people to connect with their community – time, money, skills, previously loved goods, to name a few. GreaterGood also promotes the promise that even givers can "experience the gift" of giving by having line of sight to the impact of their contribution. This helped to change mindsets and reinforce the idea that giving is not just about money and that 'investing' in social development can deliver real 'returns'.

## Understanding the giver's journey

In response to what was perceived as a maturing of the giver from haphazard and relatively sentiment-driven charitable giver to a considered citizen grantmaker, GreaterGood developed the concept of the Giver's Journey. The concept mapped out the various stages of the donor experience from their initial introduction to GreaterGood and SASIX, to their experience of their grant's return on investment.

In the first stage, "Awareness & Understanding", the donor is introduced to the wide variety of causes available on the platform in which they can invest. In phase two, "Connecting", the donor explores the optimal way in which they can give, whether through money, goods, time, skills or loyalty points. In the third stage, "First Give & Bond", the donor sets up their online giving profile and decides how they would like to distribute their available resources. In phase four, "Mature Giving", the donor becomes a citizen grantmaker through regular giving to carefully selected social profit organisations. In the last stage, "Stewardship", donors receive feedback on how their investment created an impact through reports compiled by the relevant social profit organisations.



Figure 1: The Giver's Journey<sup>6</sup>

<sup>6</sup> "GreaterGood South Africa Annual Report 2008" GreaterGood South Africa, accessed on 17 September 2013, [http://www.myggsa.co.za/downloads/GGSA\\_Annual%20Report2008.pdf](http://www.myggsa.co.za/downloads/GGSA_Annual%20Report2008.pdf)

## South African Social Investment Exchange

Given a greater appreciation of the evolution of giving behavior, GreaterGood established in 2006 the South African Social Investment Exchange (SASIX) to respond to the growing public consensus that social investments should be researched, monitored and evaluated with the same rigour as traditional financial investments. SASIX used the same tools that GreaterCapital was using for corporates to provide the same quality of information to the retail market. Offering pre-screened and rigorously analysed opportunities for social investment in specific community-based social development projects, it also fulfilled a monitoring and evaluation function to report on impact throughout. All of the investments were featured on an online, open-access platform together with an online “giving foundation” through which individuals could manage their personal giving portfolios.

**This platform was revolutionary in that it empowered the individual to be an agent of change and give with intentionality, a prelude to present-day crowdfunding models.**

Up until this point, such informed giving was only enjoyed by corporates and high net worth individuals through their formalised CSI or charitable foundation endeavours. As was explained at the time, “We regard each person as a potential philanthropist, a citizen grantmaker who can play a significant role in benefiting our society through their thoughtful, long term investment in the development sector.”<sup>7</sup>

SASIX was a significant development in the furthering of philanthropic giving in South Africa; however, Ractliffe recognized that more had to be done to address the pressing challenges in the country. Importantly was the recognition that non-profit organisations could use financial tools beyond a simple grant if they could be made more accessible.

## SASIX Financial

In the period following the 1994 democratic elections, a significant amount of money was channeled into social development through CSI. A Human Sciences Research Council survey<sup>8</sup> on giving in 2005 reported that CSI activity committed an estimated R5 billion per annum (R6.9 billion in 2011/2012<sup>9</sup>), whilst regular citizens gave roughly R12 billion each year from their own pockets. However, despite this active programme of redress and transformation, things did not seem to be getting substantially better for the very poor in South Africa. Major challenges, such as

access to quality healthcare, education and food security, showed few signs of being adequately addressed.

It became increasingly accepted that giving alone, while noble and very much needed, was not enough to lift people out of poverty and address South Africa’s or, more broadly, Africa’s historic imbalances. The growing consensus that Africa needed ‘more trade than aid’ was also driving a new investment agenda, one focused not only on creating new wealth, but on creating wealth in ways that maximised social transformation and economic empowerment.

In response to this, SASIX began to explore ways in which it could mobilize impact capital beyond philanthropic giving. SASIX started utilizing the tools it had developed for social and environmental impact performance assessment and measurement in the “for profit” financial investment world. In 2007, GreaterCapital established a joint venture with Cadiz Asset Management to form SASIX Financial, expanding the tools, systems, and pipeline of SASIX to include financial investment opportunities in unlisted social businesses—now known as ‘impact investments.’ Almost R1 billion in assets under management was committed to the Cadiz joint venture in its first years and it became a clear example of impact investing in South Africa, demonstrating demand on behalf of investors and investees. Moreover, it showcased the potential for “real” impact to be achieved even whilst market returns were realized. Cadiz was awarded the Principal Officers Association Imbasa Yegolide Award and the 2009 and 2010 Social Responsible Investment Manager of the Year award for its work to further socially responsible investing<sup>10</sup>.

While the joint venture with Cadiz was invaluable in setting a standard for and understanding of the potential of the impact investing market, Nexii’s founders identified early on that there were critical areas that needed to be addressed further if the potential of impact investment was to be achieved more broadly. Firstly, SASIX Financial was an exclusive relationship with Cadiz and thus only reached those pension funds and institutional investors that Cadiz had mandates for. Secondly, it did not address the retail market, where there was a growing interest on behalf of individuals to invest a part of their savings in impact opportunities. Thirdly, for impact investing to develop at scale, investors would need exit opportunities and liquidity which meant that both the pie of capital had to grow and the infrastructure through which it could move had to be provided. Finally, the range of financial products available for impact investments through the joint venture was limited primarily to debt which didn’t enable investors to share risk with the growing number of social entrepreneurs.

7 “The Giver’s Journey” GreaterGood. 2005.

8 “State of Social Giving” Human Sciences Research Council, South Africa, 2005.

9 “The CSI Handbook” Trialogue, 15<sup>th</sup> Edition, 2012.

10 “Our recent awards” Cadiz, 2013, accessed on 17 September 2013, <http://www.cadiz.co.za/cadiz-asset-management/institutional-investments/our-recent-awards/>

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# 03

## Emergence of Impact Investing

**“The defining challenge of the 21st century will be to transform the system governing markets so that they work for, rather than against, sustainability” – One Planet Business: Creating Value Within Planetary Limits (2007).**

While SASIX Financial was pursued in South Africa, the traditional capital markets were nearing collapse. The financial crisis that began in 2007 (and from which the world has still not recovered), underscored a global realization that business and markets could no longer operate in isolation from society or the environment. For example, it was eminently clear that the profits that the big banks were enjoying were inextricably linked to the livelihoods of the new homeowners who could no longer afford their mortgage payments. Questions around the “true” cost of doing business and how private sector actors should be held accountable for the social and environmental consequences of their profit-making, were raised again with events like the BP oil spill in the Gulf of Mexico in 2010. In response, investors started questioning how to include “externalities” like environmental disasters into the valuation of big businesses.

In this time of transformation, there emerged a movement towards more socially and environmentally responsible reporting. On a broad scale, many called for companies to practise integrated reporting, the type that would take into consideration the long term effects that companies were having on the environment and communities in which they operated. Some companies took it upon themselves to start reporting on various social or environmental metrics to be considered eligible for Socially Responsible Investing (SRI), a practice which honoured businesses that evidenced commitment to minimizing environmental impacts while implementing a visible obligation to social and governance agendas.

**There also emerged a group of businesses that went a step beyond this “do no harm” ethos, whose primary purpose was the intentional pursuit of social and environmental benefits in addition to financial returns.**

Their emergence was coupled with the growing interests of a group of investors who wanted to find a way to invest in social and environmental solutions beyond the traditional philanthropic model. “Impact Investing” emerged as a way to invest in companies that had both financial and social returns, proactively addressing social or environmental problems using a market-based model. Social businesses considered themselves purpose with a profit while investors typically saw these as profit with a purpose.

From its onset, the potential of the impact investment market was deemed to be enormous, and it consequently commanded serious attention from policymakers and asset managers alike. From initial estimates of market size at US\$300 million in 2009, the Monitor Institute<sup>11</sup> suggested that impact investing had the potential to grow to at least 1% of total managed assets – resulting in a capital flow of at least US\$500 billion to US\$1 trillion over the following five to ten years. Within

<sup>11</sup> “Investing for Social & Environmental Impact: Catalyzing an Emerging Industry” The Monitor Institute, May 2009.

the retail market, a study by Hope Consulting<sup>12</sup> in 2010 found that there was approximately US\$120 billion of retail market opportunity for impact investing in the US alone, half of which is for smaller investments (less than US\$25,000) by retail and high net worth individual investors. A recent survey of impact investors performed by J.P. Morgan and the Global Impact Investing Network (GIIN)<sup>13</sup> indicated that respondents had committed US\$8 billion to impact investments in 2012, and plan to invest US\$9 billion in 2013.

**While the projected size of the impact investing market has remained optimistic, there have been structural issues since the onset.**

These remain barriers to its further scale and maturation. In its 2009 report, the Monitor Institute<sup>14</sup> cited the lack of efficient intermediation, the lack of enabling infrastructure and the lack of sufficient absorptive capacity for capital as three of the biggest challenges in the emerging impact investment space.

Eager to build on lessons already learned from SASIX Financial and develop and democratize the impact investing market, Nexii’s founders started to explore ways to address these constraints. They questioned whether it was possible to go beyond fixed-term debt agreements as the means of exiting an investment, or whether it was possible to encourage equity or other higher-risk capital investments in social businesses to support their growth phases. They started to investigate exchange models and how to bring the experience they had validating and performing due diligence on social investments to the financial markets. Most importantly, they researched how to engage the global universe of asset managers and financial intermediaries and so build a new social finance system.

<sup>12</sup> “Money for Good” Hope Consulting, 2010

<sup>13</sup> “Perspectives on Progress: The Impact Investor Survey” J.P. Morgan & GIIN, January 2013.

<sup>14</sup> “Investing for Social & Environmental Impact: Catalyzing an Emerging Industry” The Monitor Institute, May 2009.

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# 04

## GSIX: Making Global Connections

**“Different people had different ideas of what an exchange should be, whether it should be a portal, whether it should be stand-alone entity. What struck me was that for a very nascent marketplace of infrastructure, competitive pressures and behaviours were already clearly present. That prevented some of the conversations from being as collaborative and as open as they could have been”**  
**- Jonathan Jenkins, Social Investment Business.**

SASIX started to receive international acknowledgment as the field of impact investing was emerging. In 2008, Ractliffe was elected an **Ashoka Fellow** for her work with GreaterGood and SASIX. In November of that year, Ractliffe was the keynote speaker at the **Social Enterprise Summit** where she presented the first conceptual plan for creating global marketplace infrastructure to connect social investors to social investment opportunities. Innovators and educators globally were interested in learning more about the model that SASIX had developed.

The Global Social Investment Exchange (GSIX) initiative, led by Ractliffe under the auspices of GreaterGood South Africa, emerged out of the experience of the SASIX initiative coupled with numerous requests for support around its replication in other developing countries. Of note, the **Kenya Social Investment Exchange (KSIX)** was the first platform to reach out to SASIX to replicate the model, launching its platform in 2012. GSIX was intended to be a non-profit, multi-stakeholder association of social investment exchanges and enterprise analysts, brokers, impact investors and financial intermediaries.

GSIX responded to the fact that the social capital landscape contained inchoate and fragmented sets of players on both the investor and enterprise sides of the equation. Investors comprised foundations, social venture funds, individuals, family offices, public grant makers, corporations, social investment funds or any mix of these. Enterprises included everything from purely charitable non-profits to social businesses with non-distributed financial returns to businesses seeking both market-rate financial returns and social/environmental impact. Similarly, the types of transactions that investors used to support enterprises ran from grants to loans to debt guarantees and equity investments.

Various models had developed over the years, focused on single points on the landscape; for example, facilitating grants or allowing loans to be made. These specialised systems were necessary and useful, but none of them was in a position to organise on behalf of the movement as a whole or to help newcomers—both enterprises and investors—find their best position. GSIX was envisioned to provide that voice for the whole, supporting independent elements to thrive while also advocating on behalf of the ecosystem.

## Convening in Bellagio

In February 2009, Ractliffe arranged a GSIX meeting in Bellagio, Italy, hosted by the GreaterGood South Africa Trust, with the support of The Rockefeller Foundation and its Bellagio Conference Center. The GSIX Bellagio conference was designed to bring together thought leaders from finance, philanthropy, policy, research and non-profit/social enterprises. The meeting was convened to provide insight into the GSIX initiative. Further, given the number of social investment platforms that were under consideration or in development in several countries, the meeting was also called to:

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

In attendance were representatives from the **Rockefeller Foundation, Investing for Good**, Canadian Social Investment Exchange Initiative (now “**SVX**”), Social Stock Exchange of Asia (now “**IIX Asia**”), **UnLtd, MyC4, KSiX**, London **Social Stock Exchange** initiative. Keynotes were presented by the **World Federation of Exchanges (WFE)** and the **Johannesburg Stock Exchange (JSE)**. Over four days, the attendees shared visions from their own endeavors and provided input on the design of the GSIX initiative.

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

## Implementing Lessons from Bellagio

The GSIX meeting at Bellagio identified five key areas that required additional work. Lucy Bernholz, Founder and President of Blueprint Research & Design, expanded upon these areas in her **summary report** on the Bellagio meeting:

- » Ecosystem mapping: As a first step, the group acknowledged that it was important to understand all of the players operating in social capital markets in order to identify areas of collaboration and gaps in the infrastructure. It was agreed that: “such an ecosystem should include, at minimum, a listing of the known brokers, standard setters and accreditation structures, ratings agencies, investment banks, research houses, government regulators, self-regulating bodies, and social enterprises.”
- » Standards and Membership: At the time, there were 240 identified systems of impact measurement. While everyone recognized the need for standardization of listing and reporting requirements, there was no agreement on how to go about doing it. This was an area seen as requiring much work.
- » Regulatory Structures: It was identified early on that understanding various regulatory frameworks would be critical to the short and long term success of the social capital markets.
- » Absorptive Capacity: It was acknowledged that the target enterprises issuing in the social capital markets would likely require technical assistance to be able to appropriately absorb and utilize this new mechanism for funding.
- » Terminology: Language was a recurring topic of discussion during the conference. It was agreed that better, universal definitions needed to be established.

It was concluded from Bellagio discussions that a global membership body would be an appropriate actor to further advance efforts. Bernholz described the focus of the global body in her report, “Specifically, the global body would focus on setting the listing and reporting standards for the exchanges, establishing an online gateway of impact investments featured on the member exchanges, and engaging in education and advocacy efforts.”

The issues identified for future work led to the proposed activities of GSIX and ultimately, Nexii. GSIX would serve a similar role to that of the World Federation of Exchanges. It would dictate standards to guide the various exchanges, as well as promote social stock exchanges via education and advocacy. It would support new exchanges in their development, particularly in understanding regulatory barriers and the ecosystem of players in the impact investing markets. In setting standards, GSIX would work with many of the existing standards bodies and respond to how the market organically pushed specific standards over time. GSIX would stay abreast of and absorb new best practices as they arose.

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# 05

# Creating the Nexus for Impact Investing

**“We are always looking for organizations and projects that are cutting edge, where we can help the social sector move forward and become more sustainable. For me, this project is it” - Nick Glicher, Thomson Reuters Foundation.**

## **Feasibility of a Social Stock Exchange**

In late 2009, GSIX, still under the banner of GreaterGood South Africa, pursued a further exploration and analysis of some of the questions raised at Bellagio regarding the development of a Social Stock Exchange (SSE). This **feasibility study** was funded by the Business Trust and supported by the Johannesburg Stock Exchange. Specifically, the study was pursued in order to understand how an SSE might operate, who it should serve, and whether it would be commercially viable. Between November 2009 and September 2010, the team engaged and mapped more than 1,100 representatives internationally from all stakeholder groups in the impact investment ecosystem, including businesses, intermediaries, impact investors and other key players from government and support institutions.

The feasibility study drew a number of conclusions. Firstly, it concluded that impact investing offered a market-friendly and sustainable solution to many social and environmental problems, but that its continued development was hampered by an immature capital market that could not provide the information, liquidity and support services that social businesses needed. The report noted that establishing an

impact investment exchange would resolve these inefficiencies, and stimulate the sector nationwide, while establishing South Africa as a global leader in the field.

Surveys and discussions carried out by the research team revealed a strong appetite for such an exchange among enterprises, intermediaries and investors alike. As was noted in Bellagio, stakeholders identified a need for consistent certification and reporting standards, as well as sturdy education and advocacy efforts to establish a robust consciousness of the meaning and value of impact investing nationwide.

Finally, the report determined that such an exchange could be financially viable, but only over a medium- to long-term timeframe (7-10 years). Initial seed funding would be required to launch the exchange and support its sustainability.

## **The Emergence of Nexii**

In absence of another party filling that gap, Nexii emerged as an independent entity to materialize the potential identified in the study. GSIX changed its name to Nexii in recognition of the progression from social investment to impact investing. Nexii – Nexus for Impact Investing - embodied its vision of establishing a meeting place for investors, social businesses and

intermediaries. To expand its scope beyond South Africa and to be independent from any particular intermediary, Nexii separated from the GreaterGood Group.

In September 2010, Nexii attended the Clinton Global Initiative (CGI) conference in New York City where it articulated its “commitment to action” as follows:

“Nexii is committed to supporting impact investing by improving the flow of investment capital to sustainable opportunities. Nexii will accomplish this by building marketplace platforms and impact investment exchange boards where investors, social enterprises, and financial intermediaries can communicate and transact effectively and efficiently. Nexii will ensure compatibility and comparability across and between individual country marketplaces, and will facilitate global information sharing through a truly integrated, global “meta” platform that connects communities to capital and capital to change. With work underway in South Africa, France, and the United States, Nexii seeks to expand its research and development over the next two years to other countries that have an appetite for impact investing, including several in Latin America, Africa, East Asia, and Europe.”<sup>14</sup>

Out of this commitment to moving the vision forward, Nexii’s founders formally established Nexii in May 2011. In the Memorandum of Incorporation, Nexii described its purpose:

In November of 2011, Nexii secured a Global Development Alliance (GDA) with the United States Agency for International Development (USAID). Like USAID, Nexii recognised there had to be an increased focus on stimulating private sector engagement and investment in development to increase African trade competitiveness, and integrate Africa into the global economy. Nexii responded to the growing awareness that aid-based solutions are insufficient to address the scale of the challenges and that engaging the private sector and deploying significant capital in sustainable, financially viable but high impact investment initiatives is critical to reaching the massive response required.

## Global Momentum

In the meantime, other social stock exchange initiatives were gaining momentum globally. In June 2010, Mark Campanale, Director of the London **Social Stock Exchange** initiative (SSE) was profiled in . Articulating the benefits of a social stock exchange, Campanale highlighted three benefits of a public

exchange for impact investments: Price Discovery, Entry and Exit Route, and a Platform to Launch Investment Schemes for the Public<sup>15</sup>. He concluded his article, “Most importantly, the SSE will be a place where social mission can be built irrevocably into the DNA of both the marketplace itself and the corporates that trade there.”

In Canada, Bellagio participant Adam Spence was working to develop and test the feasibility of a Canadian social stock exchange named the **Social Venture Exchange (SVX)**. The work was conducted in partnership with the Toronto Stock Exchange, Social Innovation Generation at MaRS (SiG@MaRS), and Ontario’s ministry of Research and Innovation. SVX was envisioned to be a local online platform with venture, fund and service provider listings, as well as a resource centre to encourage effective impact investments. In an article written by Spence on the SVX, Spence described the undertaking as “an ambitious and exciting project that requires a significant amount of foundational work.”<sup>16</sup>

Similarly, in Asia, Durreen Shahnaz, also an attendee at the Bellagio meeting in 2009, was working to establish the **Impact Investment Exchange (IIX)**, a social stock exchange based in Singapore. In an article on Shahnaz that was featured in Prestige Magazine in March 2010<sup>17</sup>, Shahnaz described the envisioned purpose of the IIX in impact capital markets, “The IIX plans to operate as a trading platform for social enterprises to raise growth capital. All entities that list on the exchange will undergo third party validation and report regularly on their financial and social results.” Shahnaz went on to describe the value of the IIX for investors, “In essence, an investor will enable social good while seeking to maximize financial returns.”<sup>18</sup>

Back in Africa, the first catalyst for the GSIX initiative, the **Kenya Social Investment Exchange (KSIX)** was launched in 2011 to profile investment opportunities in social businesses in Kenya. According to KSIX’s website<sup>19</sup>, it is envisioned that the platform will broker deals between social enterprises and investors interested in social, environmental and financial returns.

<sup>15</sup> Alliance, Volume 15 Number 2, June 2010 [www.alliancemagazine.org](http://www.alliancemagazine.org), page 25

<sup>16</sup> “Social Venture Exchange (SVX): Driving good investments for a better world” MaRS, 25 August 2010, accessed on 11 September 2013, <http://www.marsdd.com/2010/08/25/social-venture-exchange-svx-driving-good-investments-for-a-better-world/>

<sup>17</sup> “Power To Impact – Prestige Interview with Durreen Shahnaz” Asia IIX, 2010, accessed on 11 September 2013, <http://www.asiaix.com/power-to-impact-prestige-interview-with-durreen-shahnaz/>

<sup>18</sup> Ibid.

<sup>19</sup> “Objectives” KSIX, 2012, accessed on 13 September 2013, <http://ksix.co.ke/contShow.php?page=lo45797c00f6722d418b51087ade3375&subPage=fbc743c8b490da-855578d692679e5945>

<sup>14</sup> “Commitments: Building financial infrastructure for Global Impact Capital, 2010” Clinton Global Initiative, 2013, accessed on 11 September 2013, <http://get.cgilink.org/w/c/693179>

# 06

## The World's First Social Stock Exchange: The Impact Exchange

**“The iX specifically plays a crucial role in democratizing access to investment information, market infrastructure and capital for both impact investors and social businesses or impact investment funds – a monumental stepping stone toward achieving scale in the impact investment sector” - Sunil Benimadhu, CEO of Stock Exchange of Mauritius.**

From the onset, Nexii recognised the need for and was focused on creating stage appropriate platforms for social businesses through a tiered approach: developing private investment platforms for earlier stage enterprises that would serve as a prelude to a fully regulated, recognised investment exchange board that would list public securities for impact investments – considered to be the achievement for impact investing to come of age. Nexii pursued both the private and public platforms simultaneously. For more information on the private investment platforms, see Chapter 7.

**Establishing a public stock exchange created 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.**

It had the potential to increase access to opportunities for capital allocation by investors, and so exponentially increase the flow of capital to social businesses, both of which were

highlighted at Bellagio and in the Feasibility Study as primary areas of need in the social capital markets. Furthermore, a public social stock exchange that valued financial transparency and trust, as well as honest and thorough impact credentials, performance measurement and reporting, would go a long way to promote impact investment as a credible practice in mainstream financial marketplaces.

From the beginning, Nexii sought to leverage the benefits of existing market infrastructure by partnering with an already established stock exchange. For the first exchange partner, Nexii had three main criteria:

1. It was a member of the World Federation of Exchanges.
2. It provided opportunity for international investment across the globe.
3. It was based in Africa.

As a result, Nexii started discussions with the Stock Exchange of Mauritius (SEM) in January 2011. The SEM was recognised as one of the leading exchanges in Africa and a fully-fledged

member of the World Federation of Exchanges. The SEM was an ideal partner for the establishment of an African social stock exchange that would speak to the global developing markets given its geography, investor friendly environment, and experience working with younger or smaller companies wishing to raise capital through their Development & Enterprise Market. Importantly, it also provided the ability to list, trade and settle in multiple currencies, including US dollars, euros, British pounds, and Mauritian rupee,<sup>20</sup> thus opening it up as a listing destination for impact businesses from all corners of the globe.

**The Stock Exchange of Mauritius is a globally-recognised capital marketplace incorporated in July, 1989. It operates two markets: the Official Market, and the Development & Enterprise Market (DEM). The DEM caters for Small and Medium-sized Enterprises (SMEs) and newly established companies. There are currently 42 companies listed on the Official Market, to the value of US\$6.3 billion, and 47 companies listed on the DEM, to the value of US\$1.5 billion. The SEM can trade and settle equity and debt products in US dollars, euros, British pounds, and Mauritian rupee, and is connected live to global vendors, such as Thompson Reuters, Interactive Data, Financial Times, Bloomberg, Factset and Inet Bridge. The SEM has received a multiplicity of awards; most recently, it was honoured with the “Most Innovative African Stock Exchange of the Year Award” for the second consecutive year at the Africa investor (Ai) annual Index Series Awards.**

Nexii and the SEM had a shared vision. The SEM started as a private company responsible for the operation and promotion of an efficient and regulated securities market in Mauritius. Since, it has driven a multi-pronged internationalisation strategy of steadily moving from a domestic-equity-focused Exchange to a multi-product-internationally-focused Exchange. It has positioned itself as a gateway of investment into Africa and Asia. As Nexii was looking for a more efficient way to facilitate the flow of capital into social and environmental projects in the international markets, there was significant overlap in the SEM and Nexii's missions.

20 It has since added the ability to list, trade and settle in South African Rand.

In March 2011, Nexii and the SEM signed a Joint Venture Agreement to: identify and promote impact investing opportunities; to radically improve, organize and grow the impact capital market in Africa by facilitating connectivity, aggregating information and building intermediation infrastructure in support of impact investing; establish a regulated exchange board dedicated to impact under the regulatory auspices of the SEM; and finally, to market the iX globally to build the client base of issuers, intermediaries and investors.

To ensure that Nexii was moving in step with best practices in the sector, it established the Nexii Advisory Board, a group of leading professionals and experts in the social finance space. In consultation with the Advisory Board, Nexii determined the impact criteria necessary for a company to be listed on the iX. In consultation with the Nexii Advisory Board, a group of leading professionals and experts in the social finance space, Nexii determined the impact criteria necessary for a company to be considered a “high impact business.”

**Abigail Noble – Schwab Foundation/ World Economic Forum**  
**Arthur Wood – Total Impact Advisors**  
**Carlo Chege – East African Social Enterprise Network**  
**Cyrille Langendorff – Credit Cooperatif**  
**David Bonbright – Keystone Accountability**  
**Geoff Burnand – Investing for Good**  
**Harold Rosen – Grassroots Business Fund**  
**Jeremy Nicholls – Social Return on Investment (SROI) Network**  
**Lucy Bernholz – Blueprint R&D**  
**Morgan Simon – Toniic**  
**Rachel Thompson – APCO**  
**Rodrigo Villar – New Ventures Mexico**  
**Steve Wright – Grameen Foundation US**



Figure 2: eligibility criteria for social businesses to list on Nexii Platforms and the Impact Exchange

As a critical part of the iX Rules, Nexii and the SEM developed the concept of Authorised Impact Representatives (AIRs). The AIRs were to serve as independent advisors as well as annual impact auditors to the board, ensuring a standardized level of quality and mission among the social businesses that applied to be or were listed on the board. The role of the AIR was a direct result of lessons learned from SASIX – where the team perceived a conflict of interest as SASIX was the “judge, jury, and executioner.” Consistent with exchange models where applicant companies are due diligenced and advised by independent corporate finance firms, Nexii and the SEM were keen to ensure the independence of impact advisors. An in-depth history and description of AIRs is provided in Chapter 8.

With the SEM, Nexii drafted the rules to the Impact Exchange (iX) Board. Like the DEM board, the iX would be an independent board on the SEM dedicated to companies that met certain

criteria. The iX Rules were informed by discussions at Bellagio, the feasibility study, the Advisory Board and additional conversations with stakeholders.

In the proposed rules, Nexii's ongoing role in the management of the Impact Exchange would be to validate that all companies listed on the Board met the criteria and regularly reported to investors on their impact results. In addition, Nexii would be responsible for recruiting, accrediting, and supporting AIRs.

Nexii and the SEM submitted the iX Rules to the Financial Services Commission (FSC) in Mauritius for regulatory approval.

**In May 2011, the FSC approved the iX Rules, making the iX the world's first regulated public exchange board dedicated to impact investments and social businesses.**



## 06 The World's First Social Stock Exchange: The Impact Exchange



Ractliffe announced the opening of the iX at the CGI annual meeting in September of that same year.

Since receiving regulatory approval, Nexii has actively pursued accrediting the first AIRs and securing the first listings. As agreed with the SEM, the iX would not be officially launched until a critical mass of companies had completed and successfully completed the applications process. To launch the iX, Nexii embarked on a massive effort to educate intermediaries, social businesses, and investors on the value propositions of a board dedicated to impact investments, the requirements for listing on the iX, and on Nexii's partner, the Stock Exchange of Mauritius.

Because of Nexii's extensive experience in a variety of regions through its work under GreaterGood, SASIX and GSIX, it had developed a global database and pipeline of impact intermediaries and social businesses. Nexii's team traveled extensively to meet with the various stakeholders and foster the adoption of the iX. They met with

intermediaries and social businesses around the world, including: East Africa, Southern Africa, Europe, the United States and Asia. They set up workshops and attended conferences. For those they could not meet in person, they hosted webinars, wrote media pieces, and met virtually via tele- or Skype conference. For more information on Nexii's education and advocacy efforts, see Chapter 9.

Realizing that many social businesses would not have access to the legal advice required to prepare for listing on the iX, Nexii approached White & Case through TrustLaw Connect. White & Case provided Nexii with pro-bono legal support, and advised the company in drafting a range of documents and guidelines that social businesses could use when applying to list on the iX. The suite of documents developed would make the platform more accessible for social businesses. In 2012, Nexii and White & Case were awarded the 2012 Trust Law Innovation Award for their work to catalyse the impact investing market.

# 07

## A Tiered Approach: Private Placement Platforms

**“The value of Nexii is a clear proposition of a platform that is helping impact investors and social entrepreneurs to get in touch, to speak to each other and to understand each other” - Cyrille Langendorff, Crédit Coopératif.**

As Nexii was developing and launching the iX, it simultaneously approached global partners to develop organized markets for private investments that recognized the same standards as the iX. Known as the Impact Capital (iC) platform, this meeting place would cater to the needs of businesses wanting to remain private, and also smaller or younger businesses.

### **AM France / Alternativa**

In late 2009, Nexii initiated conversations with **AM France** after being introduced by Cyrille Langendorff, who had long been interested in replicating SASIX in France. Based in Paris, AM France operates a trading platform, **Alternativa**, to facilitate the meeting place for SMEs seeking capital and private investors eager to finance the growth of these businesses. Alternativa is a publically accessible market for private securities designed specifically for SMEs and for their shareholders, encouraging long-term investment in SMEs in the growth phase whilst providing the potential for liquidity for investors.

With an innovative bid-auction system in operation, Alternativa protects listed SMEs from speculative investors whilst giving investors greater visibility into their investments. Legally, Alternativa is a Multilateral Trading Facility (MTF) with eligibility in the EU via the normal passporting features. Operated by a

registered Broker Dealer (AM France), it is regulated by the French Markets Authority (AMF) and the ACP (The Prudential Authority for France) and is the only independent equity MTF outside of Euronext and other public exchanges in the Eurozone. Alternativa was the recipient of “Paris Innovation” as one of the most innovative financial companies. It has also been awarded the statute of socially responsible company by the Prefecture of Paris.

After extensive discussions and design analysis, a Shareholder’s Agreement was finalized in January 2013 confirming the expressed commitment of Nexii and AM France to pursue the development of the iC platform in Europe. Under the agreement, a new European-based company (NewCo) will be established contingent upon completion of the proof of concept or “Beta Phase”, achieved through the successful first listings on the platform. The Beta Phase will commence in October 2013 under the leadership of an appointed European based managing director. The Shareholder’s Agreement stipulates that all parties will work together to:

- » Improve, organise and grow the impact capital market by facilitating connectivity, aggregating information and building inter-mediation infrastructure in support of impact investing;

- » To set and maintain the standards for listing and reporting on the iC Europe that are comparable and consistent with global impact standards;
- » To build a network of accredited intermediaries to support the listing of impact businesses and the investment advisory requirements of impact investors;
- » To identify, provide and promote Impact Investment opportunities to investors;
- » To provide a private placement platform for qualified impact investments and solidarity labelled entities under the regulatory auspices of the European Union;
- » To market the iC Europe globally to build the client base of issuers, intermediaries and investors.

To ensure comparability between private and public markets, the rules and requirements for listing on the iC directly mirror those guiding the iX. Like the iX, the iC requires third party assurance that the AIRS provide. It is envisioned that any company that decides to raise capital via the iC would look down the line to potentially listing on the iX, providing exit opportunities for their current investors.

The iC could provide a unique value proposition compared to other endeavors in Europe. The platform would be the first initiative of its kind focused on providing social businesses and funds with a capital-raising and trading platform that utilised regulated regional market infrastructure and growing international intermediary networks.

Importantly, the platform will provide an online meeting place for private investors and impact investment opportunities, where registered investors, including retail investors, could access information on the social business's business model, financial plan, impact profile, and details of the securities issued. Such a platform would provide visibility for social businesses, and transparency and trust for investors, both of which were essential for the impact capital markets to grow.

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## Strate

With an understanding of the potential of using AM France's multilateral trading facility structure, Nexii was keen to understand what the potential was for replicating it in South Africa. As such, Nexii approached **Strate**, South Africa's Central Securities Depository (CSD) in early 2011. CSDs are financial organisations that hold and settle securities so that they can be transferred easily between investors. They are also able to market and distribute securities through their networks of investors.

Strate did not think that Alternativa's model could be replicated in South Africa due to regulatory constraints, but was interested in working with Nexii to develop another way to market and support the trade of impact investment securities. They started pulling together a partnership model. As envisioned in the model, the securities would be issued via Strate and featured on Nexii's online information portal. Investors could invest in the security by contracting their broker and facilitating the investment through Strate. In this way, impact investments and social businesses could seek to raise unlisted rand denominated debt or equity from interested investors whilst investors could make use of Strate's regulated electronic dematerialised post-trade reporting, clearing and settlement system with registered International Securities Identification Numbers (ISINs) and options for liquidity in the market. This project became known as iC Rand.

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## Euroclear

With a better understanding of how Nexii might be able to work with CSDs and mindful of the massive barrier for developing world social businesses raising capital in their currencies, Nexii approached **Euroclear** because of their scale and ability to trade and settle securities in over 52 different currencies.

In October 2011, Nexii started working with Euroclear to explore ways to issue securities via their global platform of over 2,000 financial institution clients. Euroclear was the pre-eminent provider of post-trade services, making it easier for investors and issuers to trade and settle domestic and cross-border securities transactions, safekeep their investments and manage the risks and exposures arising from their transactions. When Nexii approached them, Euroclear held assets for clients valued at more than €22 trillion. The total value of securities transactions settled by the Euroclear group was over €580 trillion per annum. Importantly, Euroclear was authorised and licensed to manage all forms of US securities offering a seamless service to US issuers and funds.

As envisioned with Strate, Nexii would provide the marketing behind the issuance, and coordinate communications between the issuer, the issuing agent, and the investors. Euroclear would be responsible for coordinating the trading and settling among investors.

In December 2012, Nexii drafted first terms for a partnership agreement with Euroclear. Because of legal and regulatory considerations precluded Euroclear from signing a partnership agreement at the time. With the pursuit of a new European-based company now underway, this potential will be explored further in the future.

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# 08

## Professionalising the Intermediary: Authorised Impact Representatives

**“Increasing the amount of money and the social and environmental value of impact investing will require unlocking capital by developing efficient intermediation and by developing infrastructure to facilitate transactions”- Monitor Institute<sup>1</sup>.**

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To ensure credible, regulated and accountable marketplaces, Nexii established a global network of intermediaries, dubbed Authorised Impact Representatives (“AIRs”). Nexii accredited these intermediaries to assist companies listing on the iX or iC. AIRs also importantly provide independent, ongoing verification services to ensure the impact-purpose of a listed company. All businesses or funds seeking to list on the iX or iC are required to engage an AIR.

By encouraging similar practices and standards across other platforms and intermediaries in the impact capital markets, AIRs could progress the move towards standardizing ways in which to analyse and perform diligence on impact investments, which would provide comparability and consistency globally. AIRs, therefore, addressed the issue raised in Bellagio on promoting a common terminology and moving towards agreed standards among the different marketplaces that were emerging. AIRs started out as intermediaries exclusively designed to participate in Nexii’s marketplaces, but Nexii has since sought other applications for AIRs in the broader impact capital markets.

The decision to accredit AIRs was largely driven by Nexii’s understanding, again achieved through its experience of managing SASIX, that there needed to be independent assurance of social businesses that applied to list on Nexii’s investment platforms. Nexii could not solely define what constituted impact or maintain the objectivity of oversight if it had also the reputational responsibility of selection in the first instance. Instead, Nexii determined to rely on the belief that the market would help AIRs define what qualifies as truly impactful investment opportunities and how to performance assess them. To allow for free market forces to dictate where capital flowed, Nexii encouraged a free flow of validated information. To facilitate the impact market through this flow of information, the role of an intermediary was critical.

In the traditional capital markets, financial analysts and rating agencies provide investors with valuable information that guides their investment decisions. While investors will likely conduct their own due diligence, intermediaries help source and filter deal flow. For companies seeking capital, financial intermediaries can act as proxies for the market and as trusted

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<sup>1</sup> “Investing for Social & Environmental Impact: Catalyzing an Emerging Industry” The Monitor Institute, May 2009.

advisors by providing strategic insight on capital raising and business development. Further, financial intermediaries use a number of valuation techniques that are understood and trusted by the market.

**If the impact capital markets were to put impact on a par with financial returns, Nexii saw the need to professionalize the role of the ‘impact intermediary’.**

Just like financial analysts, AIRs would serve to promote consistent methods of impact measurement, provide independent due diligence, source and filter impact investments, and provide guidance and technical assistance to those companies dedicated to impact that seek to attract investors.

Nexii also understood that AIRs could help organisations build their internal impact monitoring and evaluation systems and more effectively demonstrate impact. If impact is to be evaluated with the same vigor as financial results, impact-oriented companies were going to need to develop the organisational capacity to meet the reporting demands of investors. As “experts,” AIRs would help companies develop that capacity.

Lastly, because AIRs would intimately understand the landscape of impact investment opportunities, they could help source and filter deal flow based on impact profile. In the absence of intermediaries, capital is dispersed through funds of funds that finally put in the hard work of finding and performing due diligence on impact opportunities. This method of capital allocation is indirect, inefficient and costly.

**By professionalizing a network of AIRs to work with organisations to monitor their impact, Nexii could encourage a more organised and coherent view of the impact investment opportunities available and how to properly diligence them.**

Further, because an AIR could act on the behalf of a number of different investors, information would be democratized. With more information comes greater understanding of the market, potentially reducing perceived risk and encouraging greater and more efficient investment in the space.

Nexii has marketed the role of an AIR to firms globally. In addition, Nexii created an online video, **What it Means to be an AIR**, which described in detail the role AIRs play in the impact investment ecosystem.

## AIR Accreditation

To become an AIR, firms have to apply for and go through a process of accreditation. This process of AIR accreditation was externally supported through engagement of Nexii’s Advisory Board and its marketplace partners in the final review of each applicant. The application collected information on the experience of both the firm and the individuals applying for accreditation, ensuring that these representatives had the knowledge and skillset to advise social businesses in defining, measuring and evaluating their impact.

To date, Nexii has accredited seven firms and 19 individuals as AIRs with an activity footprint covering the Americas, Europe, Africa and India. Nexii’s vision has been to create a global network of accredited intermediaries to encourage local participation and knowledge.

The following companies are registered AIRs:

- » Open Capital Advisors
- » Relativ Impact
- » Dalberg Consulting
- » D. Capital
- » Investing for Good / The Good Analyst
- » M-CRIL
- » Social Impact Partners

As part of establishing the global network of AIRs, Nexii developed an online portal, **the AIRport**. This portal is an interactive platform that has both a public and password protected platform. On the public side, social businesses and potential clients can see profiles of the accredited AIRs that detail their areas of expertise, geography, and team members. On the password protected side, AIRs can update their profiles, access the AIR library of resources, go through the online AIR Induction video, and familiarize themselves with their role.

## Other Applications

From the start, Nexii appreciated that the role of an AIR has far reaching applicability and was not limited to the iX or iC. Maintaining Nexii’s vision of being the Nexus for Impact Investing, it believed that AIRs could be the unifying element within the impact and social capital markets. While there would continue to be disagreement about the best way to measure and evaluate impact, Nexii believed that there could certainly be agreed upon professional standards for those advising or evaluating social businesses. Having a group of recognized professionals that acted between and amongst the various platforms would create a more cohesive and collaborative view of the global impact capital markets. As such, Nexii has approached several groups to encourage their recognition of AIRs. Such parties included SSE in London, Ethex and IIX.

# 09

## Building the field

**“Creating the plumbing and the 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” – Elizabeth Littlefield, Overseas Private Investment Corporation.**

To support its platforms and the industry broadly, Nexii dedicated a number of its activities to education, advocacy and product development.

### Education

Nexii's education efforts were focused through its online programs and media. To further general understanding of, and education in, impact investment, Nexii featured regular weekly, monthly and quarterly blog posts, webinars, newsletters and thought pieces on its website. The webinars featured experts in the industry, and covered topics related to listing on Nexii's platforms, such as key impact reporting tools. The thought pieces and blog posts were inspired by Nexii staff reflections on important themes or issues facing the industry, as well as survey feedback from stakeholders, who highlighted key issues they would like included in Nexii's media coverage. Through its Twitter, Facebook and YouTube campaigns, Nexii engaged with over 2,000 stakeholders across the globe, representing investors, intermediaries, academics, social entrepreneurs and government employees. Including its outreach through conferences, workshops, and focus groups, Nexii has reached more than 6,000 stakeholders around the world.

#### Nexii Webinar Topics & Guest Presenters

[Understanding Social Return on Investment –SROI Network](#)  
[Understanding GIIRS Ratings & Analytics –GIIRS](#)  
[Progress out of Poverty Index \(PPI\) –Grameen Bank](#)  
[Constituent Voice –Keystone Accountability](#)  
[M-CRIL Ratings –M-CRIL](#)  
[Social E-valuator –Social E-valuator](#)  
[Due Diligence in Impact Investment –Impact Trust](#)  
[Theory of Change –ActKnowledge](#)  
[Listing 101 –White & Case](#)  
[Role of Intermediaries in the Impact Investing Ecosystem – Open Capital Advisors](#)  
[Social Impact Bonds in Developing World Markets\\* - Instiglio](#)  
[Developing an Impact Profile\\* – Relativ](#)

\*Hosted by the Impact Trust

## Advocacy

As an advocate, Nexii actively sought to engage traditional actors in corporate finance, asset management and capital markets' legal advisors to understand and participate in building the impact capital markets. As communicated by social businesses, there was a clear lack of corporate advisory and legal services available to assist during the capital raising process. Nexii reached out to a number of partners to try to encourage their participation in the space.

In 2011, Nexii established a relationship with **TrustLaw Connect**, a program under the Thomson Reuter's Foundation. TrustLaw provides a service connecting social businesses and NGOs with pro bono legal advice. Having engaged TrustLaw to source pro bono legal advice from White & Case in the development of prospectuses for the iX, Nexii had experienced the effectiveness of TrustLaw's programme firsthand. As securing the proper legal advice to participate in the public markets was both costly and difficult to access, Nexii started to work with TrustLaw on developing a group of law firms that would be interested in and able to advise social businesses that were interested in listing on the iX.

"We wanted to work with Nexii because we saw the long-term benefit to society – it was an interesting and innovative project that spoke to our capital markets expertise. From experience, we know the amount of resources that go into a listing. We can see how a whole section of the market was ignored." - Melissa Butler, White & Case

Nexii has also benefitted from the legal advice of **Allen & Overy** and **Hogan Lovells**. Both firms have helped Nexii navigate the regulatory environments in France and abroad as it has tried to find ways to encourage foreign companies to list on the iC, hosted by Alternativa. Allen & Overy, specifically, were committed to working with Nexii on the first committed applicant companies to the iC to ensure that they met the requirements of the platform, particularly in cross-border transactions.

Nexii also looked to establish partnerships with corporate finance advisors that would offer their services pro bono or for reduced rates. In one instance, Nexii pursued a

relationship with **AfrAsia**, a boutique financial services provider based both in South Africa and Mauritius. Nexii understood that AfrAsia had the opportunity to provide a valuable suite of corporate and financial advisory services to companies interested in pursuing a capital raising strategy utilizing Nexii's markets. Nexii saw two different scopes of work that they could provide for the social businesses interested in listing:

- (1) Business Plan and Suitability Review: AfrAsia would review the company's governance and business plan to advise whether they were suitable for the iX, iC or neither, and what they would need to do in order to be eligible.
- (2) Advisory through the Capital Raise: Once the applicant company and AfrAsia come to a mutual agreement to list securities in a Nexii marketplace, AfrAsia would assist with preparing the prospective applicant company from a corporate and marketing perspective, prepare the listing documents and address issues related to valuation and due diligence requirements, among others.

**Nexii understood that advocating among traditional market service providers was critical to the success of an effective, vibrant, and efficient impact capital marketplace.**

## Product Development

Finally, Nexii was very active in the development of Social Impact Bonds (SIBs) in South Africa. A Social Impact Bond, also known as Pay-For-Success or Pay for Performance Bond, is an outcomes-based contract between government, private sector investors and social service providers – typically non-profit organisations or social businesses. It was envisioned that these SIBs could ultimately be listed on the iX, providing for increased access to social investment opportunities for investors and liquidity. In addition to developing social impact bonds, Nexii played an active role in educating social service providers about this new way of financing. Nexii also advocated for them with key stakeholders, including South Africa government agencies, outcome funders, industry groups, USAID, and foundations.

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# 10 Barriers to Market Adoption

**“Social enterprises that were 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. We found since our feasibility study that most of the pipeline was aspirational instead of really ready” - Pradeep Jethi, Social Stock Exchange.**

In its efforts to launch its investment platform and encourage the accreditation and utilization of AIRs, Nexii witnessed several barriers preventing market adoption. Not only was Nexii operating within the nascent stages of the impact investing industry, but it was introducing a new way of thinking about financing social and environmental interventions. Importantly, catalyzing the market meant coordinating the timing, incentives, and understanding of Nexii’s platforms and AIRs amongst several actors: investors, brokerage houses, law firms, corporate finance advisors, impact advisors, rating agencies, and the social businesses themselves. While Nexii focused its efforts to progress the market, there were many obstacles that were holding each of the parties back.

The first barrier with every stakeholder was the lack of familiarity with impact investing or an impact investment exchange.

**As an emerging sector, an extensive amount of education and advocacy-related groundwork has been and will continue to be required to equip investors and social businesses to successfully engage in the market.**

Because of the lack of awareness, Nexii was required to spend a significant amount of time and resources building awareness about the space and its potential. As discussed in Chapter 9, these education and advocacy efforts go largely unfunded, and sap viable resources and gusto from the marketplace builders.

## **Slow Uptake from Social Businesses**

Despite expressed interest from a range of social businesses, a number of barriers existed that deterred these businesses from pursuing the opportunity to list on one of Nexii’s impact capital marketplaces. The barriers to listing, as identified by social businesses, included:

- (1) **High Cost of Advisory Services:** A primary deterrent was the cost of preparing to list and maintaining a listing. The high cost of corporate advisory services and AIRs, whose services are necessary for pre- and post-listing requirements on the iC and iX, are a major deterrent for social businesses to list on impact investing platforms. Furthermore, as the key value propositions of being featured on a private placement platform or on the public board (visibility, liquidity, profile) had not been demonstrated, social businesses were not

willing to cover the upfront costs at risk. Further, it was a struggle for many social businesses to understand the value of the AIR's services as there was no track record to point to, making it difficult to encourage social businesses to engage AIRs.

- (2) Intensive reporting requirements: The platforms required social businesses to monitor and report on their impact, which was deemed by some social businesses as too labour and resource intensive as many were strapped for cash. In the sector, there still exists a debate on how to effectively delegate resources for measurement and evaluation – particularly in the event that those resources are taken away from achieving the mission of the organisation.
- (3) Definitions: Many businesses Nexii engaged, particularly in Africa, did not consider themselves a “social business” though they clearly had a social mission. Therefore, they were reluctant to start measuring and publicizing impact. This lack of understanding or clear definition of social business was yet another indicator of the nascent stage of the impact investing sector broadly.
- (4) Evidence of social impact: The iC and iX platforms required social businesses to be accredited or certified by an appropriate and recognized social standards or rating body, such as Fair Trade. This demanded additional resources to evidence, on top of already high costs of listing.
- (5) Age of business: The platforms required social businesses to have a 2-4 year business plan. Some social businesses seeking to list were still in the early-stage of business. Many suggested that they would be interested in listing in 2015 or beyond, but that their business was premature for a public listing.
- (6) Extensive application process: Some businesses perceived the application process to be too extensive. They were not used to strict reporting requirements.
- (7) Currency: Many expressed continued interest in listing, but could only do so in their local currency. Neither the iC nor the iX traded and settled in many of the African currencies.
- (8) Lack of committed investors: Many social businesses were reluctant to go through the listing process until there was a critical mass of committed investors for the exchange. However, it was also difficult to have committed investors when there was no visibility into a committed pipeline of social businesses.

Nexii spent considerable effort trying to address the various issues affecting social businesses from committing to the listing process. The team constantly sought solutions for the currency issue, particularly in its conversations with Euroclear. Nexii also explored solutions to cost of advisory services by

looking into the creation of a transaction advisory and/or technical assistance fund for social businesses that would fund the services of the AIRs. Nexii also approached partners like the World Bank and Shorebank International to explore how that fund would be set up.

**In its initial model, Nexii anticipated establishing a grant-based platform to complement the iX and iC, the Impact Opportunities Platform (iOP). The iOP was to be an online platform to enable grant-based technical assistance and other capacity building finance to flow in tandem with financial investments in impact opportunities. However, because of confusion regarding lower-than-market returns, as well as the existence of so many grant-based platforms, Nexii did not pursue establishing the platform.**

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## Accrediting AIRs

A significant challenge hindering the progression of Nexii's platforms was converting impact representatives into accredited AIRs by convincing them of the value proposition. At the time, the value of going through the accreditation process for AIRs was profile, pipeline, and a network of fellow professionals to share and discuss impact reporting best practices. However, in the early days, nothing was proven. AIRs had to believe in the framework that Nexii was developing in order to follow through with their AIR application.

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## Market Immaturity

Nexii has not been the only initiative that has experienced challenges in trying to set up an impact investment or social stock exchange. For various reasons – funding, pipeline, regulatory approval, perception – a number of initiatives have been delayed or had to make strategic pivots. Despite the significant momentum that has been built around impact investing, there is a crucial need for more action to be taken to truly scale the sector and prepare the capital markets for a new way of investing.

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# 11

## Challenges Nexii faced

**“If you look at the entirety of the work that Nexii has been doing, as well as with the Impact Trust, it plays a really important infrastructural role. I think that this entire market is slower than advertised. That is across the board for a lot of infrastructure that it is necessary, but it is all a little forward leading at this point. The market hasn’t really caught up. The infrastructure is there to scale the sector, but it is all ahead of its time” - Beth Richardson, GIIRS.**

As with any pioneering effort, Nexii has been faced with a series of challenges. Both internal and external forces have worked to slow or prevent Nexii’s efforts to build a more efficient impact capital market.

### **Funding**

Nexii has experienced a number of challenges with regards to fundraising. Firstly, Nexii had to decide how to structure the business and subsequently, which avenue of funding to pursue. As Nexii has a market-driven business model, the company chose to become a for-profit corporate entity. Like many of Nexii’s clients, it considered itself to be a social business – a for-profit company with a social and environmental purpose. Because of the dual nature of the business, Nexii explored two funding avenues: equity investment and grant funding. In retrospect, perhaps it was this choice that ultimately made it extremely difficult for Nexii to attract the kind of investment capital it required to gain sufficient traction.

### **Equity Investment**

Nexii was originally funded through a grant by USAID that was matched by equity investment from angel investors: BOP Capital LLC and the Finnian Trust. Since that original investment, Nexii has had constant conversations with potential investors in

South Africa, Europe and the United States. While many applaud its efforts and are intrigued by its mission and efforts, it has received no positive indication of interest from investors to invest in the company. There were a number of reasons provided. The most cited reasons were:

- (1) Too early stage: Many investors expressed that an investment in Nexii would be considered venture capital given the amount of risk associated with pioneering these markets and the early stage of the company. According to a South African Venture Capital Association survey<sup>21</sup> of the venture capital industry over the last decade, only R2.6 billion was invested in the venture capital asset class between 2000 and July 2010, of which only 50% of the deals were into start-up businesses. A number of the funds that Nexii spoke to were more interested in opportunities with a longer track record.
- (2) Too long term: Any investor in Nexii would need to be comfortable holding their investment for seven to ten years to earn a market-rate return. In Nexii's business model, the company did not expect to be profitable until approximately year three. Unless there was an opportunity for the investors to exit and sell to another party, they would need to hold for much longer than their usual time horizon.
- (3) Not high enough returns: Given Nexii's purpose to facilitate an open, accessible market to social businesses, Nexii wanted to keep costs low to issuers. Because there would be limited secondary trading on the iX in its first few years, any income from trading revenues would be limited. As such, returns to investors would not be high. Any investor would have to also believe Nexii to be an impact investment in its truest form, and therefore, be investing in the social and environmental impact as well.
- (4) South Africa is not foreign investment friendly: South Africa is not an investment friendly location for foreign investors. Foreign direct investment flows into South Africa decreased by 24% between 2011 and 2012<sup>22</sup>. Nexii has also received feedback saying both that it is "too African" and "not African enough."
- (5) Investment size too big OR too small: In Nexii's business model, Nexii was looking for an investment of US\$1.5 – 2 million. For an independent angel investor, the ticket size was too big. For a fund, the ticket size was too small. Many impact investment funds refused to proceed in diligence simply because the size of the investment did not meet their investment criteria.
- (6) Did not fit investment mandate: For funds interested in impact investing in Africa, they were more interested in investing in companies that had direct impact on beneficiaries at the base of the pyramid. Their investments were limited to healthcare, education, renewable energy, and so on. They were not interested in investing in the market infrastructure that would make sourcing those sorts of deals more efficient or effective.
- (7) Competition: Nexii heard from a few impact investment funds that an open access marketplace would actually threaten the business model that they, as private investment firms, make use of especially as they are currently able to lend at a premium rate and have more clout in the investment negotiations. By making the market more transparent and competitive, private funds thought that they would lose their edge.

### Grant Funding

Just as Nexii had difficulty accessing investment capital, it similarly had difficulty securing grant funding to support its efforts. The company received the following feedback from DFIs and foundations:

- (1) Did not fit funding criteria: Like Nexii had heard from a number of impact investors, many foundations and development finance institutions (DFIs) were not interested in funding market infrastructure.
- (2) Not a non-profit: Many foundations declined categorically because of Nexii's corporate structure as a for-profit organisation. As with many impact investments, there is a concern that grant funding would go to boost the returns of equity investors without the proper controls in place. This speaks to the broader issue of social enterprises not being recognized as a formal corporate structure in South Africa, despite their extensive contribution to the sustainable provision of goods and services to uplift the lives of millions.
- (3) Did not want to "pick a winner": Several endeavors emerged out of Bellagio with the mission to build market infrastructure for impact investing. In a number of Nexii's conversations with potential funders, they expressed reluctance to fund one endeavor exclusively or without offering funding via a Request for Proposals (RFP). They expressed that they did not want to provide exclusive support to one initiative over the other.
- (4) Lengthy due diligence process: Nexii heard from a number of DFIs that they were interested in potentially partnering with Nexii, but would not be able to make a decision for at least a year, and up to three years.

21 "South African Venture Capital Association: 2010 SAVCA Venture Solutions VC survey" South African Venture Capital Association, November 2010, accessed on 11 September 2013, [http://www.savca.co.za/downloads/SAVCA%20Venture%20Capital%20VC%20survey%20report%20\(small\).pdf](http://www.savca.co.za/downloads/SAVCA%20Venture%20Capital%20VC%20survey%20report%20(small).pdf)

22 "World Investment Report 2013: Global Value Chains: Investment and Trade for Development" United Nations Conference on Trade and Development (UNCTAD), pg40, 2013, accessed on 11 September 2013, [http://unctad.org/en/PublicationsLibrary/wir2013\\_en.pdf](http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)

## Additional Resource Constraints

The lack of funding meant that Nexii was left with minimal resources to carry out its mission within a compressed time table.

### Human capacity constraints

Without a stable view of how Nexii was going to finance its operations going forward, it could not build a full-time team to meet the needs of its various endeavors. Instead, Nexii relied on part-to full-time consulting contracts that were subject to renewal at anywhere from 6 to 12 month intervals.

### Time

Because Nexii was unable to secure long-term, patient funding, time became a critical concern. Funders and investors wanted to see that Nexii had “proof of concept” or had an established track record. However, Nexii could not responsibly push forward with listing companies without having assurance that it would be able to continue its own operations into the future, and so maintain the standard and promise that it represented with respect to those same listed companies and their investors.

### Geography

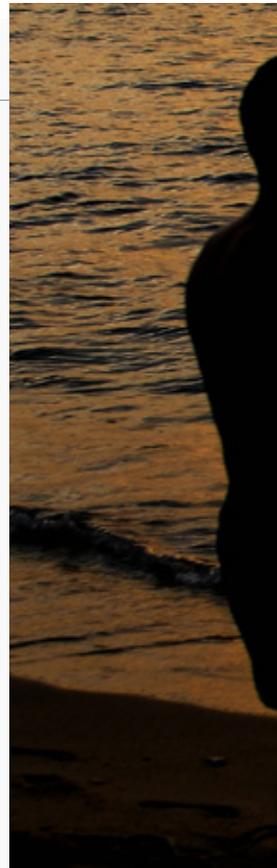
It has also proven difficult for Nexii to execute its mission from a base in South Africa in the absence of sufficient funding to either maintain staff presence in other geographies or cover the increasingly high cost of travel from South Africa to its areas of focus. Importantly, South Africa’s slow engagement with impact investment, and its exchange control and other hurdles, make it neither a venture capital investment destination, nor a ready market for Nexii’s offerings. Consequently, a base in the country is of little assistance, indeed has been something of a hindrance, to achievement of the mission.

## Industry Fragmentation and Competition

**Fragmentation across the impact investment industry, coupled with competition between similar initiatives, posed a significant challenge to Nexii’s industry-building efforts and, indeed, continues to thwart the growth of impact investing worldwide.**

Activity and information, even funding, in the impact investing sector are largely maintained within silos. These silos result in disconnected and fragmented efforts, directly threatening the growth and outside perception of the industry.

Ractliffe elaborated upon the challenge of fragmentation in a funding proposal to USAID, “The biggest competitive threat to impact investment is inaction and/or fragmented action. If



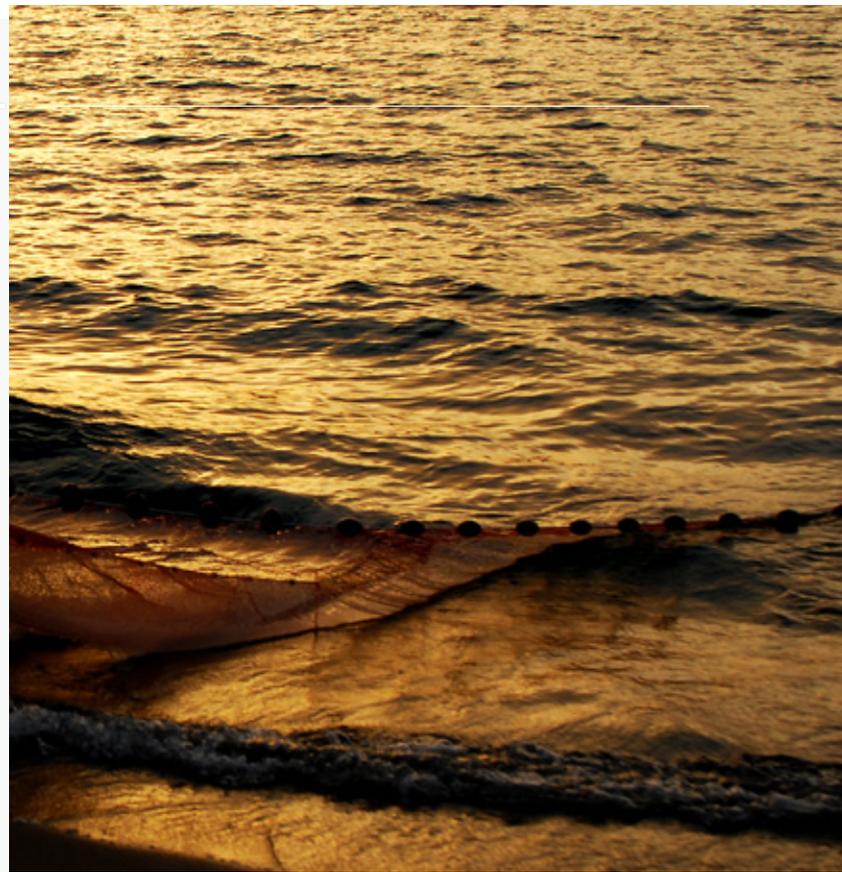
impact investors, marketplaces, impact exchanges and impact finance enterprises continue their current idiosyncratic growth the market may not suffer simply from fragmentation but also from confusion about definitions, incomparable standards, and proliferating platforms.”

Nexii worked exceptionally hard to establish collaborations and align processes and infrastructure with other impact capital market participants in order to synergize efforts, prevent redundancy and encourage standardization, all of which aimed to tackle the issue of fragmentation. However, fragmentation, the very issue these activities aimed to address, hampered the success of Nexii’s efforts to collaborate effectively with other impact investment stakeholders.

## Communication

Nexii made sure to engage stakeholders from the beginning in the development of its markets and platforms. As one social business noted, “We were invited to a discussion group on social stock exchanges and thought it was brilliant that Nexii thought to include us at the table. We could share our biggest concerns. Since then, there has never been a point where we didn’t know what was going on.”

However, as the staff’s time was stretched over a number of projects and initiatives, Nexii did not have the capacity to properly manage communications about each of them. In Henley’s audit of



Nexii's relationships, they explored how the "communication gap" affected the success of Nexii's endeavors. The report stated:

*A few respondents felt completely comfortable with the communication they received from Nexii around the iX platform. They were happy with the frequency with which the information was disseminated, and felt they had adequate information to make decisions about listing, investing through the iX or acting as an intermediary. However, the majority of respondents did not feel confident that they had sufficient information to make decisions to engage with the platform.*

*There were sentiments that Nexii was not proactive enough with communication and that initiative had to come from these external stakeholders. It was highlighted that some basic information around listing requirements was still outstanding, and no information had been provided regarding the delays with activity on the iX platform dating back to September 2011. This information vacuum has led to anxiety and speculation around the iX platform.*

The experience of a lack of communication coupled with the newness of the terrain and the hesitance around the value proposition of a social stock exchange is likely to have slowed the progress to launch which would also have started to dissolve the trust necessary to launch its platforms quickly and with wide-scale support. In addition and particularly because of the associated risk of trying to do something pioneering, Nexii needed the time and focused space to more effectively communicate and build trust with the various stakeholder groups.

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## No Commitments from Social Businesses

Many social businesses expressed that they intended to list on one of Nexii's impact capital platforms, but did not fully commit for various reasons (a number of them provided in Chapter 10). Some also noted that they did not commit to the listing process due to wrong timing. In an interview for this case study, Johannesburg Housing Company said that they remained interested in raising capital through Nexii, but that they needed to raise money quickly and did not have time to explore the option at the time of their capital raise. Throughout Nexii's development, it remained aware of and tried to address the barriers listed above. However, without a committed social business to move forward, Nexii could not provide the demonstration effect that would subsequently encourage other stakeholders to buy into Nexii's mission and vision.

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## Balancing Act

While Nexii sought funding to further its efforts in building the impact capital markets, it undertook a range of consulting work. While this did bring in much needed capital to keep Nexii running, it also took the focus off its main goal. In addition to this, Nexii spent a considerable amount of time conducting free education and consulting activities in order to build the impact capital market infrastructure necessary for impact investing to grow. These activities would directly feed into the scaling of Nexii's work, but required Nexii to do a significant amount of unfinanced groundwork.

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# 12

## Leveraging Industry Resources: Transferring Leadership

“There are very, very few investors that invest in infrastructure. Because we’re trying to build infrastructure, we’re uninvestible. We didn’t fill the theme, the pot, the bucket to get the investment even though everyone realized it was a good idea and needed to happen”- Pradeep Jethi, Social Stock Exchange.

As mentioned above, competition between similar initiatives coupled with limited willingness to fund the development and, importantly, the establishment of infrastructure meant that essential financial resources for Nexii to succeed were in short supply. Add to this that Nexii was a South African based impact company with a weak currency, a long runway to profitability and a relatively unfriendly investment environment and you have some exceptionally difficult barriers to overcome.

With a real understanding of the implications and the knowledge that there was just not enough financial capital willing to support the development of market infrastructure for impact investing in South Africa, Nexii was eager to find ways to partner with others to leverage the success it had achieved in the creation of the iX and the iC. In particular, in the face of mounting resource constraints, Nexii wanted to find a way to preserve the value it had established. It was agreed by the board and the senior management team that transferring ownership and leadership of its key initiatives to similar efforts that had the capacity to take its vision forward was essential. Nexii therefore sought out parties who were in the first instance aligned in purpose and objective, partners who were sufficiently well resourced and positioned to successfully execute and realise the potential it had created.

**Despite the lack of resources to carry forward Nexii’s mission as originally conceptualised, it has been and remains committed to preserving and escalating the momentum for global impact investment marketplaces.**

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### Transferring the iX for the Greater Good

After 18 months of working to fully establish and launch the iX alongside the SEM, Nexii identified a new managerial home for the iX, one that built upon already clear and present connections between Africa and Asia.

The IIX was identified as a suitable partner to take over the management of the platform for a number of reasons. The SEM already operates as a strong dual Africa / Asia facing exchange. In addition, Mauritius has double tax treaties with India and many favourable tax treaties with multiple other Asian and African countries, making it an investment destination that favours entities in both of these regions. Collaboration between the SEM and IIX Asia would thus expand the scope of the iX and leverage it further. IIX also already operated Impact Partners and Impact Incubator, two private placement platforms offering social businesses based

in Asia Pacific a marketplace to raise private capital. These platforms provide a prelude for opportunities that could list on the Impact Exchange in the future.

In May 2013, Nexii transferred the cooperative management of the Impact Exchange to IIX. At that point, IIX took ownership of, and responsibility for, working directly with the SEM to build upon the platform's potential and guide it towards its launch in the future. Nexii deemed the transfer of the iX as a strategic move that would strengthen the platform's chance of successfully launching, and would bolster the impact investing sector by consolidating and integrating like-minded efforts.

### Transfer of AIRs to Impact Trust

Simultaneously, Nexii recognised that for AIRs to be adopted in other social marketplaces, it was important that they be accredited or approved by an industry body that was independent of any specific marketplace or platform. The **Impact Trust**, Nexii's public benefit arm that was formally established in 2011, was identified as a suitable host for the AIRs. The Trust subsequently relinquished its shareholding in Nexii to provide an independent qualification for intermediaries.

**The Impact Trust's work included development research, impact finance product design, advocacy and education. The Impact Trust conducts monthly webinars, named Impact Insights, that provide professional development for AIRs and other actors in the impact investing space. The webinar series covers a wide range of topics regarding industry developments, tools and standards, and features presentations by key industry experts. The AIR Network is a direct complement to the prior work of the Impact Trust. The Impact Trust's research and product design focuses on topics and products that will address barriers to building an effective and inter-connected market. Already, the Impact Trust has made significant contributions towards stimulating SME and social business investment through its most recent tax policy research; and its innovative design of a social impact bond addressing the criminal justice system in South Africa is likely to have significant impact.]**

At the time of the transfer of the iX, Nexii handed over the responsibility of accrediting AIRs to the Impact Trust. From then, the Impact Trust continued Nexii's work to build the network of AIRs and engage in other essential capacity, education and advocacy activities in the impact investment sector.

This move reflected earlier sentiment expressed in Yale's assessment of Nexii's positioning. In their report, they wrote, "We believe that Nexii is well positioned to approach other exchanges about signing on to this intermediary structure. This would allow Nexii to take a leading role in setting an industry-wide standard and

encouraging the use of intermediaries across all regions." While Nexii would no longer be managing the AIRs, it preserved the idea that the AIRs should be used as a standardizing mechanism between the various impact investment platforms through transferring the management of the AIRs to an independent industry body.

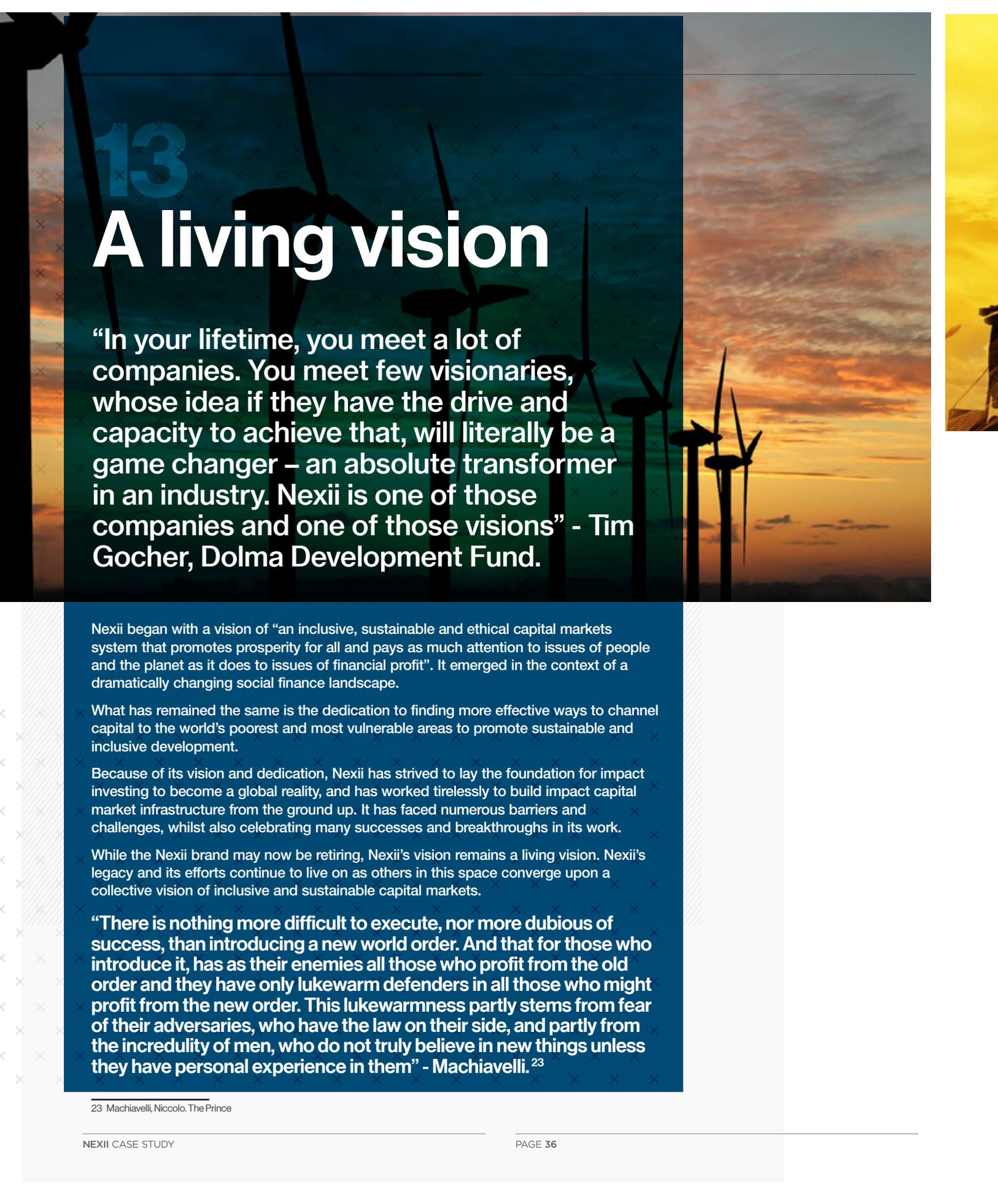
Following the adoption of the AIRs, the Impact Trust took the responsibility to further encourage the professionalization of impact intermediaries, and established the AIR Network. The AIR Network is designed to be a professional membership body that provides intermediaries in impact investing with professional development, credibility, visibility, networking opportunities and eligibility to operate as an AIR on the iX board of the SEM.

It is envisioned that the AIR Network will be a global community, with presence on all continents, experience in a range of impact investing markets, and the AIR function and value marketed to the broader impact investing community. This broader value proposition will increase their utility for other investment platforms, private investors and funds, and development finance institutions. AIR Network membership will also provide a stamp of approval that demonstrates that the AIR is skilled and has the experience necessary to be considered a qualified impact intermediary. This accreditation is vital in building and maintaining industry standards within impact investing.

The Impact Trust is currently seeking to secure strategic and financial support that would enable this vision to unfold. Importantly the Trust is also seeking to establish key partnerships with similar initiatives such as SIAA, the SROI network and others who are working with the intention of building the field of impact practice.

### Finding European Leadership for the iC

Nexii's third core focus has been on establishing a private placement platform for impact securities – one that is importantly accessible and capable of building awareness and knowledge of impact investment opportunities at both a retail and institutional level, thereby significantly changing the game for impact investment amongst those who truly want to align their investment practice with their values. Having spent many years exploring the potential of its iC platform and seeing the success already achieved by its partner, AM France, supporting SME investment in Europe, Nexii is proud to announce that the iC will pursue its objectives under new and dedicated leadership operating from within Europe as of October 2013. Nexii will transfer its iC assets to a European based NewCo to be established under a new and unique brand following completion of a successful Beta Phase. NewCo's leadership team will work to ensure its continued growth and success supported by both AM France and Nexii's founding shareholders. It will be independently responsible for listing and monitoring impact compliance of listings on the iC platform, using the rules and criteria that Nexii had previously developed. NewCo's first priority is to prove the concept through first listings in 2014.

The background of the page features a silhouette of several wind turbines against a vibrant sunset sky with orange and yellow hues. The number '13' is prominently displayed in a large, blue, sans-serif font in the upper left corner.

# 13

## A living vision

**“In your lifetime, you meet a lot of companies. You meet few visionaries, whose idea if they have the drive and capacity to achieve that, will literally be a game changer – an absolute transformer in an industry. Nexii is one of those companies and one of those visions” - Tim Gocher, Dolma Development Fund.**

Nexii began with a vision of “an inclusive, sustainable and ethical capital markets system that promotes prosperity for all and pays as much attention to issues of people and the planet as it does to issues of financial profit”. It emerged in the context of a dramatically changing social finance landscape.

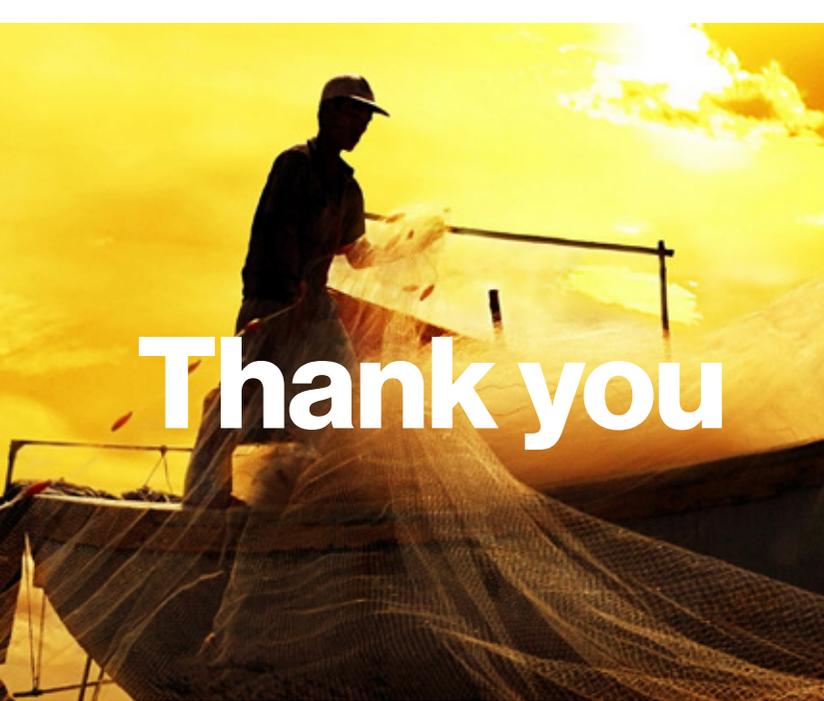
What has remained the same is the dedication to finding more effective ways to channel capital to the world’s poorest and most vulnerable areas to promote sustainable and inclusive development.

Because of its vision and dedication, Nexii has strived to lay the foundation for impact investing to become a global reality, and has worked tirelessly to build impact capital market infrastructure from the ground up. It has faced numerous barriers and challenges, whilst also celebrating many successes and breakthroughs in its work.

While the Nexii brand may now be retiring, Nexii’s vision remains a living vision. Nexii’s legacy and its efforts continue to live on as others in this space converge upon a collective vision of inclusive and sustainable capital markets.

**“There is nothing more difficult to execute, nor more dubious of success, than introducing a new world order. And that for those who introduce it, has as their enemies all those who profit from the old order and they have only lukewarm defenders in all those who might profit from the new order. This lukewarmness partly stems from fear of their adversaries, who have the law on their side, and partly from the incredulity of men, who do not truly believe in new things unless they have personal experience in them” - Machiavelli.<sup>23</sup>**

<sup>23</sup> Machiavelli, Niccolo. The Prince



# Thank you

## Gratitude unlocks the fullness of life. It turns what we have into enough, and more. It can turn a meal into a feast, a house into a home, a stranger into a friend. Melody Beattie

We would like to thank everyone who has contributed to our work over the years. You have given form and substance to our ideas, and breathed life and energy into our dreams. With your support, we turned an idea into a game changer in the global financial markets.

There are specific people we would like to highlight because of the hope they have nurtured and the care they have given our team.

Importantly, to the United States Agency for International Development (USAID) for its investment in Nexii and for pushing the boundaries of social innovation despite the risks. Specifically, to our programme officer, Luis Hernandez, whose dynamism and energy is infectious, and to our contracting officer, Patrick Kollars, who made sure our systems were impeccable.

To our partners at the Stock Exchange of Mauritius and the Central Depository & Settlement Company. Most especially, to their bold and inspiring leader, Sunil Benimadhu. You dared to blaze a trail that others can only hope to follow.

To our partners at Alternavita (AM France) for their continued commitment to developing a private placement platform for impact in Europe. We look forward to the realization of our common unstinting efforts.

To Harold Rosen, one of the greatest minds and true practitioners of impact investing, whom we deeply admire and respect. We have learned so much from you.

To our advisory board for their valuable contributions over the years. Specifically, to Lucy Bernholz, Jonathan Jenkins and Cyrille

Langendorff who have continued to provide deep insight and support to us throughout.

To Trustlaw and to White & Case for their massive contribution to our goals and to the sector by developing the set of template documents that will continue to provide important support to social businesses and the Impact Exchange in the future.

To Allen & Overy and Hogan Lovells for their advice in the development of our European platform.

To Rockefeller Foundation for its original sponsorship of our Bellagio meeting and to the Business Trust and JSE for their subsequent support of the feasibility study.

To the social businesses who participated in our feasibility study and have engaged with us since, and whose heroic efforts are making an impact across the globe. We look forward to seeing you grow and access the public capital markets in the future.

To the AIRs who have understood the potential value of the Impact Exchange and gone through the process of accreditation to help move things forward.

To our Board members, Mike Freedman and Gillian Kettaneh, whose insight and governance has guided us through peaks and valleys.

To Sari Miller, our founding angel investor for her relentless pursuit of the vision and her undying support over all this time.

**We are grateful**