

Social Capital Conference

Conference: SOCAP/Europe 2011

Panel Topic: Three Bridges to Capital

Panel Description:

Three major new pieces of infrastructure are coming online this summer 2011 that will make it easier for impact investors to deploy their money. ImpactAssets landscapes 50 top impact fund managers, to be delivered with investible strategies for wealth advisors and their clients: turning gatekeepers from opponents to advocates. Gate Impact has raised \$2.5 million to build a platform to unlock \$500 million in pent up demand from wealthy clients and portfolio members of Prudential's Social Impact Fund. GIIRS ratings is going live – investors are requiring it – and the second cohort of vetted and validated Pioneer Funds and Companies are getting rated, providing comparable performance data and clarity to the market. How do these new pieces of plumbing fit together and what does it mean for the social capital market?

Moderator & Panelists:

Tim Freundlich (TF), ImpactAssets (moderator), <http://www.impactassets.org>

Bill Davies (BD), Gate Impact, <http://www.gateimpact.com>

Stephanie Nieman (SN), GIIRS, <http://www.giirs.org>

Design, Methodology, Approach:

Reports and expert opinions from panelists.

Main Panel Discussion Points:

Current state of impact investing space

TF outlined the current state of the impact investing space. He postulated that there are basically four phases of market growth and maturation:

1. **Discovery:** Early stage market formation, including finding appropriate definitions,
2. **Collaborative Intermediation:** Growing body of intermediation and brokerage with practitioners pursuing a collaborative approach,
3. **Infrastructure around Intermediation:** Building the infrastructure around the intermediation including appropriate metrics, rating systems, quality control and exchanges, as well as
4. **Disintermediation** as final stage, where impact investment enters the mainstream. This essentially allows everyone to do transactions without noteworthy intermediation.

According to TF, the sector has largely passed the first phase (though not completely) and is well into the second phase. The third phase has been entered but we are still in its beginnings. This Panel was between 2 & 3. The fourth phase is still very much a vision for the future, probably not realizable until SOCAP 2015 or 2020; or maybe even later...

Current state of impact investment platforms

All three panelists gave insight into the current state of their respective initiatives. Gate Impact provides a platform for investors to connect with social entrepreneurs, building on Gate Technology pulling from GIIRS ratings and introductions between investors and social entrepreneurs. GIIRS is a rating system for impact investors to gauge the social value created by a specific standard, determined by a set of standards based on the Impact Reporting and Investment Standard (IRIS). ImpactAssets, with its ImpactAssets50 will be the first index of private debt and equity for (50 experienced) impact investment fund managers. A more detailed description of platforms statuses at June 2011 can be found here: <http://www.nextbillion.net/blog/socapeurope-three-bridges-to-capital>

Usability of platforms: how to keep metrics simple for companies

One of the panel discussion points raised by questions of the audience was the amount of work it takes for companies to register and use the platforms. How to keep metrics simple for people on the ground? GIIRS uses a thorough self-assessment of 3 to 4 hours. This is an advantage for companies, as many don't know what they want to tell to investors. GIIRS supplies a generic system and investors can pick what kind of impact (and its metrics) they like. Fund managers can use it as a management information tool because of the aggregated info of their participating companies. GIIRS collaborates as much as possible with stakeholders to improve usability. Gate Impact uses a thoroughly assessment like, executive summary, private placement memorandum, marketing strategy ppt, and automatically imports GIIRS ratings like GIIRS and show it at a summary level and deeper metrics when necessary. ImpactAssets50 took a much lighter approach. It is an information initiative. They just do a scan of fund managers and take the top credible with scale assets. Criteria: years experience, total budget, 3rd party assessments, etc.

Transaction costs and business models of platforms

GIIRS is heavily funded from grants at this early stage. For companies costs range from USD 500 to couple of thousands depending on revenue. For a fund first year fee is USD 3,000-15,000; following years cost about a third of that. Investors pay as well. Gate Impact transaction costs are for standard deals: 3% for a company and 1% for the investor. Non standard deals: different cost structures. TF raised the issue that other rating systems use higher transaction costs from 6 to 12%. How can Gate Impact make sure to get revenue? BD answered their first goal is inventory, first get over the threshold of critical mass. Over time they will charge for listing and for research. Their business model is to be the hub of all tools using their API (Application Programming Interface) that extracts the data of those tools.

'The key word is trust' and verification

Several questions of the audience were about liability and verification. How do you check the deal? How do you verify the rating data that is based on self reported impact data? How is the rating system itself verified? BD of Gate Impact emphasized several times it all comes down to trust. How do you build a trusting relationship with an investor on an online platform? Some of the answers are to show who is on the board of directors, track records, and management team members. They have some irregular checks of course and monitor their analytics of the deal market. SN of GIIRS explained how they have organized verification at different levels. They use documentation auditing, third party auditing, 10% on site auditing (randomly selected), transparency about the whole rating system and input from stakeholder experts like companies and fund managers.

Outcomes & Analysis:

This session showed how fast this market has moved the last few years. All three are just launching. Theoretically, between the ImpactAssets, Gate Impact, and GIIRS, all the needs of large investors to finance socially motivated businesses on a large scale can be met. The audience present at the session and others will follow how these market players will function on the longer term in practice in the future.

TF stated that these platforms have some overlap especially for the outsider, but are complementary as well and with specialized market segmentation. There's a collaborative air between them.

One of the reporters of this session, Anshula Chowdhury, writes:

“While the panelists certainly represent progress in impact investment infrastructure, there are still holes: The vast majority of social entrepreneurs are only in need of small amounts of capital; much of the development in this space has been for larger organizations in need of millions of dollars of funding. The angel investment space is still one that many social entrepreneurs need to navigate themselves, without institutional support.”

Keywords: Impact investment infrastructure, impact investment platforms, social capital market development,

Paper type: Review of conference panel.

Reporters

[Diana Hollmann](#)

Nextbillion.net

Hamburg, Germany

[Anshula Chowdhury](#)

Social Asset Measurements (SAM)

Toronto, Canada

Egon de Bruin

Kairos Tools

Amsterdam, The Netherlands

egon@kairoostools.nl

With kind permission of the authors Diana Hollmann and [Anshula Chowdhury](#) large parts of this report were almost fully copied from their blogs, respectively:

<http://www.nextbillion.net/blog/socapeurope-three-bridges-to-capital>

<http://socialfinance.ca/blog/post/three-bridges-to-capital-meeting-the-needs-of-impact-investors>