

To the European Commission

The Social Business Initiative:
Promoting Social Investment Funds.

Luxembourg, 12 September 2011

ALFI represents the Luxembourg investment management and fund industry. It counts among its membership asset management groups from various horizons and a large variety of service providers. According to the latest CSSF figures, at 31 July 2011, total net assets of undertakings for collective investment were EUR 2 189 billion. There are 3 795 undertakings for collective investment in Luxembourg, of which 2,403 are multiple compartment structures containing 11 818 compartments. With the 1 392 single-compartment UCIs, there are 13 210 active compartments in Luxembourg.

We thank the European Commission for the opportunity to participate in this consultation on promoting social investment funds.

We in Luxembourg have a thriving investment fund industry in the area of “sustainable investments”. These include more than 60 structures in impact investing, including 34 structures in Microfinance, and around 20 funds in the renewable energy sector

Based on this experience, we are happy to provide the Commission with our detailed responses below. In addition, we would like to highlight the following principle points of our response:

1. We believe it is absolutely essential to create a separate framework for Social Investment Funds in order to give Social Businesses access to increased and diversified sources of financing.
2. We believe the framework should foresee a passport for distribution to retail investors throughout Europe. Nevertheless, as not all funds should be obliged to bear the significant costs/burden associated to retail investors protection (which could be detrimental to small projects) we imagine a framework with two categories of licence, one for distribution to retail investors and one for distribution to professional investors.
3. We believe the framework should be open to the possibility for social businesses and funds which distribute (to the extent initially defined in the offering documents) as long as the financial return objectives are coupled with strong social impact objectives. We are concerned that limiting the framework to non-profit distribution schemes would restrict unduly the appetite from some categories of investors.

We urge the Commission to pursue this very encouraging concept and adopt a framework rapidly, ideally before June 2013, in order to avoid the emerging Social Investment Funds project to be severely hit by the AIFMD implementation implications.

Box 1

Do you agree that the main features of social businesses are as outlined above?

Please consider this from the perspective of ensuring effective private investment flows to these businesses, and include any further detail on how to determine the features. If you disagree, please outline the features that you think are important.

To what extent do you think this initiative should focus solely on those social businesses that do not distribute profits to their investors? (Note that, in contrast with pure philanthropic investments, investors would still be able to redeem their investment, or might be offered small returns through portfolio diversification).

Or shall it also focus on those which distribute profits to their investors (e.g. at least to a limited extent)? If so, how might social businesses be distinguished from other businesses?

Please consider the impact this may have in respect of attracting investors to such businesses.

Response to Box 1

We agree with the proposed criteria defined under the first and the third bullet point.

Regarding the second bullet, we believe that the wording could be more nuanced. Indeed, we believe that the reinvestment of profit is an important feature defining social businesses and indirectly social funds.

However, it should be defined in a less strict way. If this initiative is limited to non-profit investors, we fear that it will be very difficult to find sufficient funding. Distribution of profits should not be strictly limited but it should be required that constituencies of the investment fund foresee how and to which extent the profit is to be distributed or reinvested.

If the second bullet point is worded in a more flexible way, we recognize that the definition of Social Business should be developed in order to include the nature of the investments as part of the definition. Guidance in this regards may be found in the definition of social impact investing.

For instance, the Global Impact Investing Network (GIIN) defines impact investment as: "Impact investments aim to solve social or environmental challenges while generating financial profit. Impact investing includes investments that range from producing a return of principal capital to offering market-rate or even market-beating financial returns. Although impact investing could be categorized as a type of "socially responsible investing," it contrasts with negative screening, which focuses primarily on avoiding investments in "bad" or "harmful" companies - impact investors actively seek to place capital in businesses and funds that can harness the positive power of enterprise."

We believe that the framework should aim at both "Impact first investors" *(those who seek to optimize social or environmental impact with a floor for financial returns) **and** "Financial first investors"* (who seek to optimize financial returns with a floor for social or environmental impact).

Following the above definition, it is clear to us that Microfinance** Investment Funds are to be considered as Social investment Funds.

The model should be flexible enough to allow for different classes of shares/units to have different profit distributions pattern. We also believe that these funds should be allowed to have “donors”/philanthropic shares (for instance, allocated to one sub-fund). Indeed today when some element of a social business (for instance, technical assistance) receives donations, these must flow through a vehicle separate from the social fund. This requires putting in place two vehicles, and adds unnecessary costs. We believe that for transparency and efficiency purpose, donation and investment should be allowed within the same structure allowing for a single governance/reporting mechanisms.

Last but not least, while setting up a framework for Social Investment Fund, we recommend the commission to also ensure that:

- “SRI” funds although not meeting the “Social Investment Funds” definition, will still be able to be marketed as “SRI”, Sustainable funds” or “Responsible funds”;

The framework confirms that Social Investment Funds are UCITS eligible investments under the article 50, 1. (e) of the Directive.

(*) This segmentation has been defined by the Monitor Institute and is commonly referred to on the literature on social impact investing

(**)Microfinance is defined as the supply of loans, savings, insurance, transfer services and other financial products to poor and low-income clients excluded from the traditional banking system. Typically, microfinance includes providing financial services to micro-entrepreneurs to set up a business

Box 2

What are the main difficulties social businesses face, in your experience, in getting access to finance? (Please provide any data or evidence you have to show the scale and relative importance of the difficulties you identify).

Do different kinds of social businesses face different barriers? (Please include details about how these differences might impact on the access of these social businesses to finance, including over their lifecycle where appropriate.)

To what extent do you think barriers to access to finance are limiting the growth of social businesses across the EU? (Please provide any data or evidence you have to illustrate the scale and nature of these limitations).

Do you agree that there is a need to tackle any such barriers at the EU level?

Response to Box 2

We agree that there is a need to tackle barriers at EU level. Our responses to the following questions to these consultations outline some possible ways to tackle such barriers.

We also believe it is essential that Social Investment Funds should be allowed to invest in Social Businesses outside EU. This is consistent with European and Member States broader development objectives.

Box 3

If you operate a social investment fund, or are aware of the (national) legislative requirements that apply currently in practice, could you please provide broad detail on these requirements.

How do you think funding through investment funds might effectively compliment other sources of funding, e.g. philanthropic funding? Are there any challenges here?

Do you think that the UCITS framework is sufficient for funding social business without change?

Do you think a bespoke fund framework tailored to the needs of social business might be better suited to channel funds toward social businesses?

(If you think the UCITS framework is not suited, please outline the features of the UCITS framework that you think are mostly responsible for this).

Response to Box 3

We warmly welcome the EU Commission initiative to explore the concept of a new framework for Social Investment Funds. Such framework will create a unique brand and is a critical milestone to the emergence and development of Social Investment Funds in Europe.

We do not believe that the current UCITS framework is adapted to Social Investment Funds for the following reasons:

- definition of eligible assets and in particular the requirements to invest only in listed securities is not consistent with the fact that Social Businesses are generally not structured as listed entities ;
- liquidity requirements at UCITS level (to meet at least twice a month redemption request) is not consistent with the long term development objective of Social Investment Funds;
- UCITS requirements (risk diversification, compliance, risk management, capital requirements, KIID...) might be considered as relatively heavy and too onerous for Social Investment Funds whose average size is usually modest.

We do not believe that AIFM directive neither offer an ideal framework as the AIFM directive:

- does not offer a passport for retail distribution;
- is branded as an "Alternative", i.e. Hedge Fund, Private Equity, Real Estate initiative;
- includes numerous and onerous reporting/monitoring requirements to address the systemic risks associated to alternative funds and in particular hedge funds. Social Investment Funds, given their long term development objectives and relative modest size do not present systemic risks and should not be subject to onerous reporting requirements that are irrelevant for their activities.

Moreover, we believe that investments and philanthropy should not necessarily be excluded. Indeed, practice has demonstrated that both aspects can go hand in hand: for instance, it would not be unusual that investors would also subsidy technical assistance to projects in which they invest. Today, donations (such as technical assistance) and investment are usually channelled though different structures. There would be some merits in foreseeing hybrid structures. This would ensure that the two constituents of the support given by the investors/donors enjoy common corporate governance and reporting framework. We could think, for instance, of an umbrella structure where one (or several sub-funds) would be used for donation purpose only. The investors/donors willing to donate to a specific project (or element thereof) would “subscribe” with no redemption value. We may also envisage funds where part of the profit will be donated to technical assistance.

The interaction between this new framework and the existing/coming framework should not be neglected either (UCITS/AIFMD).

UCITS:

- we believe that it would be important to confirm that Social Businesses are eligible investments for UCITS fund under the “10% unlisted ratio” (article 50 2.a) of the UCITS Directive),

we also believe that it would be important to confirm that Social Investment Funds will be eligible under the article 50 1. (e) of the UCITS.

AIFMD:

As the AIFM Directive will enter into force on July 22, 2013, it will be important to clarify before this date that existing funds meeting the definition of Social Investment Fund are not to be considered as AIF, and their manager as AIFM. Failing to confirm this by the entry into force of the AIFMD, the existing Social Investment Funds would incur significant implementation costs to comply with the new AIFMD requirements.

Box 4

Do you believe that social investment funds should be open to retail investors? Please give reasons for your answer.

What features of a social investment fund do you think are most important for retail/professional investors?

What specific pre-contractual information do you think would need to be provided to retail investors?

Should the framework encompass funds that explicitly forego greater financial returns for the benefit of the social impact of their investment, or that expose investors to greater risks, or both?

Response to Box 4

We believe that the framework should ensure Social Investment Funds benefit from a European passport allowing its distribution across Europe to all categories of investors, including retail investors. Indeed, we believe that there is a higher "social investment" potential amongst the High Net Worth Individuals (HNWI) and retail investors categories as:

- institutional investors are usually limited by their investment mandate which do not allow to accept lower returns (except if specifically foreseen in their mandate);
- awareness on social issues increase in our society.

We recognize that products aiming retail investors should include increased investors protection (although we understand that there would be additional safeguards in the MIFID provisions). We therefore recommend to create two categories of "Social Investment Funds":

- professional funds which would have a European passport for distribution to Institutional, Professional and Qualified Investors (such as High Net Worth Individuals).
- retail funds which would benefit from a European passport for distribution to retail investors.

Both categories would be subject to supervision.

Additional requirements would nevertheless apply to retail funds as follow:

	Retail	Professional
Risk diversification	20% limit concept	To be foreseen by offering document
Manager	Regulated	No specific requirement
Leverage	No	Allowed

The offering marketing documentation should clearly indicate that these funds may offer less liquidity and a different risk profile than more traditional investment funds.

Box 5

What do you think would be the appropriate time frame for redemption of units in a social investment fund, e.g. monthly? Please give reasons for your answer.

Do you think there are other options for balancing the liquidity that small retail clients might be seeking with a focus on a long-term time horizon? (For instance, requirements on holding certain levels of liquid assets, lock in periods, etc.)

Response to Box 5

We do not believe that Social Investment Funds should be required to offer systematic redemption rights as it is contradictory to the long term objectives of social investors. In order to offer redemption rights, Social Investment Funds would be obliged to either:

- keep a non negligible portion of their assets in liquidities, thus limiting the capital flows into social businesses;
- or even worse, provide support to Social Businesses on the basis of short term investments that could be withdrawn on short notice. This could be very detrimental to the Social Businesses.

We therefore believe that the legislative framework should not impose a redemption frequency. Close-end funds can be a suitable investment option for retail investors, provided that the absence of redemption rights is adequately disclosed and explained. Moreover, liquidity could be organized outside of the Investment Fund structure, i.e. through a secondary dealing of the fund's shares on a specific stock exchange ("social stock exchange"?) for instance. We urge the Commission to consider putting such mechanism in place as it would reconcile the long term investment nature of Social Investment with the liquidity requirement of retail investors.

Box 6

Do you think that social investment funds should be subject to diversification rules?

To what extent do you think investors might expect a fund focused on social businesses to only invest in social businesses?

Should social investment funds be required to invest into different types or numbers of social business? (How many separate businesses might be required?).

Should there also be diversification across asset classes different from social business? (What limits might be appropriate? For instance, 40% social businesses, 60% highly liquid transferable securities).

Response to Box 6

In order to avoid "abuse of the brand", we do not believe that Social Investment Funds should be encouraged/allowed to invest a portion of their asset into asset classes other than Social Businesses, with the exception of cash and cash equivalent (cash, term deposit, money market instruments and money market funds) on an ancillary basis.

The "Social Business" portfolio should be subject to risk diversification principles. For professional funds, (as defined in our answer to box 4), the diversification principles would be defined in the offering documents. For retail funds, we would suggest to impose a 20% risk diversification limit (per project/per entity) to be achieved within a year from the launch of a fund/sub-fund.

"Donor" sub-funds as mentioned in our answer to the Box 3 should not be subject to risk diversification principles as these sub-funds would not foresee redemption to investors.

Box 7

What types of assets should a social investment fund be able to invest in? Please give

examples.

Should the funds be limited to certain kinds of strategies (for instance, aimed at maximising their attractiveness for retail investors)? If so, which?

What rules or limits might be necessary to prevent firms using a new framework to circumvent restrictions in other frameworks (e.g. UCITS)?

Response to Box 7

As we mentioned in our response in Box 6, we believe that Social Investment Funds should have as main objective to support social Businesses aiming at their long term development.

We therefore do not believe that they should be allowed to invest into other asset classes, except cash and cash equivalent on an ancillary basis.

The funds should be allowed to invest in Social Businesses though all kind of instruments including equities (listed and non listed), deposits, loans, bonds, notes (all kind of debt instruments), certificates, guarantees, other Social Investment Funds and real assets (property, infrastructure,...). They would be allowed to use derivative for hedging and efficient portfolio management purposes but not for investment/trading purposes. It shall be important to clarify that while the funds will get exposure to derivatives, they will not be considered as falling under the scope of the EMIR regulation.

They would be allowed to hold liquidities such as cash, term deposit, money market instruments and money market funds on ancillary basis. It shall be important to clarify that while the funds will give loans, they will not be considered as credit institutions and will fall outside of the banking regulation.

The funds should be allowed to pursue strategies where the capital reimbursement is protected or guaranteed. We could envisage mechanisms such as:

- guaranteed funds (where the reimbursement is guaranteed by a third party),
- capital protected funds where the risks are hedged and derivatives are being used to "protect" the capital,
- "waterfall" mechanism where the more junior tranches will provide some level of protection to holders of senior tranches.

Box 8

Do you agree that it would be impractical for social investment funds to have frequent valuations of assets? Please give reasons for your answer.

If so, for the purposes of investor protection what frequency might be appropriate? Please give examples.

Do you think that any non-social business assets that might be permitted should be subject to different valuation requirements? Might different kinds of assets require different approaches?

Response to Box 8

Valuing unquoted investments at fair value costs significant time and money. Depending on the circumstances, this might not be viewed as a priority for Social Investment Funds (as such costs would be diluting the investment flows to social businesses).

For open-ended funds, we believe that the frequency of assets valuation should be linked with the subscription/redemption frequency with a minimum of once per year. On the other hand, close-ended funds could avoid valuing their assets at fair value provided sufficient qualitative and quantitative information is provided to investors on the evolution of the investment.

Those in charge of the governance of the fund (Directors...) will be responsible to ensure that an adequate process is in place with appropriate methods and tools. The valuation method should be clearly disclosed in the fund offering documents.

Box 9

How do you think 'social returns' might be best addressed and measured?

How might this build on other existing work, for instance on non-financial company reporting, social accounting, socially responsible investing, etc.?

What information do you think needs to be disclosed to investors, and how might this best be presented?

If you have experience in this area please provide examples, data, and as much detail as possible. Please consider that prospective investors might need different information compared with already existing investors.

Response to Box 9

Consideration of social returns should be a key element of the investment process (and not just a reporting consideration). The recent years have seen the emergence of transparency guidelines in the SRI field (i.e. the EUROSIF guidelines) as well as initiative over social performance reporting in specialized field such as microfinance (for instance the global standards promulgated by the Social Performance Task Force at the MFI* level or social performance disclosure required by LuxFLAG, the Luxembourg Fund labeling agency at MIV** level). Social investors are looking for information on the social outcome ("impact", "performance", "return") of their investments. We therefore believe that Social Investment Funds should be requested to report on social returns as well as on financial returns. We should nevertheless recognise that, as social performance reporting is a relatively new concept, standard KPI's applied consistently across industry have not yet emerged.

We therefore suggest the following approach (consistent with the EUROSIF transparency guidelines):

- 1 The funds should be required to disclose in their offering document the social objective they are pursuing, the investment process (including due diligence) that they will apply and related KPI's (at investment and at the fund level) that they will use to monitor the investment and the fund social performance,
- 2 The funds should report regularly and at least once a year on the results of this investment process and in particular assess social outcome of the Fund using the KPI's referred to in the offering document. If different KPI's were to be used, the report should explain the reason for substituting new KPI's.

We believe that the above approach, where each fund selects the social performance KPI's which are relevant to measure the Fund's social outcome, is appropriate as long as universally recognized KPI's have not yet emerged. We could imagine that in the future (i.e. 3-5 years after implementation of the framework) ESMA would review reporting best practices and suggest some minimum standard KPI's to be disclosed in annual reporting

(*) MFI is a Microfinance Institution, it refers to all types of formal and semi-formal institutions that offer microfinance services. CGAP (the Consultative Group to Assist the Poor), an international consortium of public and private development agencies that sets standards in the microfinance field, requires an MFI to have an average loan size in its loan portfolio of less than US\$ 5,000 (or \$10,000 in Europe). (Source : LuxFLAG)

(**) MIV is a Microfinance Investment Vehicle: a Microfinance Investment Vehicle is an investment vehicle raising funds from social, commercial, private or institutional investors in order to invest them in microfinance assets. The vehicle can take various legal forms. (Source: LuxFLAG)

Box 10

Do you agree that investor participation will contribute to the success of these funds? Please give reasons for your answer.

If so, please outline how this might work in practice, and whether this can or should be required as part of the social investment fund framework itself.

Response to Box 10

We believe that investors' participation might be an asset for certain projects and certain types of investors. We would therefore recommend that the framework allows investor participation but does not impose it.

Box 11

Which particular features of social investments might require specific risk management requirements?

When considering this question, please also consider issues of non-financial outcomes and risks.

Response to Box 11

We believe that the risk management process should be adapted/proportionate to the type of investors in the fund. We suggested that the managers of the funds sold to retail investor should be regulated and subject to strict risk management requirements.

This risk management process should not only monitor financial risks but also the mission drift risk; i.e. the risk that the social outcome of the fund would not meet the fund non-financial objectives initially set. This should be addressed by a sound due diligence process and monitoring of the businesses in which the fund has invested, including the monitoring of social KPI's at the investments and at the Fund level.

Box 12

13

What should be the duties of a depositary (e.g. tracking the funds' assets, reconciling units or shares issued with subscription proceeds received)? Please give reasons for your answer.

Please take into account the specific kinds of assets that might be held by a social investment fund.

Response to Box 12

The investments in the portfolio of a Social Investment Fund are likely to be very similar to the investments of Private Equity funds. The role and duties of the depositary should therefore be broadly aligned to those foreseen in the AIFMD, distinguishing between the financial instruments held under custody and other assets.

Nevertheless, we would like to draw the attention to the fact that Social Investment Funds, given their small sizes and the trade off made between financial and social outcome, are very cost sensitive.

It is therefore important that the role of the depositary be defined with more proportionality than currently discussed within the UCITS and AIFMD to ensure that Social Investment Funds remain sustainable and that investment opportunities are not jeopardised by operating costs considerations.

Box 13

How might the sustainability and profitability of a social investment fund regime be ensured?

Are there any particular factors in your experience that might determine the commercial success of the fund?

In your view, what kinds of incentive structures might be appropriate or inappropriate for the managers of the funds (e.g. performance fees versus flat management fees)?

Response to Box 13

Social Investment Funds are usually very cost sensitive for the following reasons:

- the Funds are usually of a relative small size (due to the size of the businesses they targeting): they are therefore very sensitive to fixed costs,
- conflict or trade off to be made between financial return and social investment,
- due to the small size of social businesses and the diversity of their activities and location, costs to identify investment opportunities, perform due diligence and monitor the investment might be proportionally high, in particular in comparison to the amount invested.

It is therefore very important to foresee a flexible framework, where the operating and fixed costs could be limited to a minimum.

We would therefore suggest that:

- no minimum capital requirement be imposed on the fund nor its manager,
- flexibility on how the due diligence costs are allocated/supported and by whom.

If the remuneration of the manager is largely derived from carried interest or performance fees linked to the financial performance only, this may increase the risk of mission drift. We could foresee some remuneration mechanisms to avoid mission drift such as, for example

- performance fees be also linked to non financial performance indicators,
- remuneration be reviewed by a remuneration committee.

Box 14

What steps do you think should be taken to improve transparency for investors in relation to funds targeting social businesses?

What steps do you think should be taken to improve transparency for fund managers about the social businesses which they target?

Please consider how to balance burdens on social businesses against effectiveness in ensuring their 'investment readiness'.

Response to Box 14

We do not believe that all investment funds should be required to report on their investment into social businesses. An investment fund should strictly follow its investment mandate as described

in its prospectus. If the prospectus does not foresee investment into social businesses, the fund should not be required to report on this.

Social returns reporting should be a distinguishing feature of the funds that claim to be “social” and have social investment as objectives. We have developed in our response to BOX 9 how we believed that such transparency should be organised.

More transparency at the level of the social businesses would certainly be useful but we should bear in mind the small size of these businesses and the importance of not imposing disproportionate reporting requirements.

Good practices may be found in microfinance where several initiatives such as the industry-wide MIXMarket information exchange on financial and social performance indicators facilitate the process between investors and social businesses (www.mixmarket.org)

Box 15

How do you think common criteria for defining, labelling and rating social funds and social businesses might be most effectively established?

Who should establish them and develop them over time?

How might they be verified, to ensure they are appropriately used in practice?

Please set out views on the pros and cons of different approaches.

Response to Box 15

External control and verification mechanisms may play an important role in ensuring that social investment funds live up to their stated social objectives. Such services may range from simple audits of social performance data, social ratings and certification through labeling processes to “social fund awards” recognizing outstanding managers and ideas.

We believe that it is premature to impose any rating requirements and leave the market to launch rating and labeling initiatives as it was the case for the microfinance sector.

Regarding the definition of a social fund, we believe that a Directive should set up the general principles. Implementing technical standards set up by ESMA would then define precise criteria to be met for a Fund in order to get (and maintain) the “Social Investment Fund” license. Such criteria would be reviewed by ESMA or national supervisors, in close dialogue with professional associations and stakeholders, on regular basis, in order to ensure they continue to be in line with the market evolution.

Box 16

Do you think a strong new EU label (e.g. supported by a common logo) would help social investment funds succeed? Please give reasons for your answer.

How might the appropriate use of such a brand be ensured in practice, and potential for

confusion with other brands or labels diminished?

Response to Box 16

We should distinguish between the concepts of “brand”, “label” and “logo”.

The creation of a separate framework will lead to a “brand” which we hope will be successful as the UCITS brand was. We really welcome this concept.

The monitoring of compliance with the “brand” requirements should be the role of the national supervisors.

Investors (as well as intermediaries) information and education will be key in ensuring the success of the brand. Creation of a website including investor education materials and a list of all authorized Social Investment Funds in Europe would be a good starting point. We also believe that the Commission should promote and support marketing campaign initiative at the European level. It took decades to create the UCITS brand awareness in the public. We believe that social businesses cannot wait for decades/years and it is therefore important to ensure a prompt reach of this brand to the public.

As mentioned earlier, it is very important that Social Commitment Funds get EU passport, including for retail investors distribution. The administrative burdens to obtain and use the passport should be reduced to a minimum. We welcome the UCITS IV initiative to simplify EU notification and would suggest this simplification is extended also to changes in the prospectuses/offering documents.

The Commission should also ensure that the “MIFID” requirements would not refrain intermediaries to sell “Social Investment Funds” to retail investors by imposing to such intermediaries responsibilities they would not be able to discharge easily.

We see value in engaging at EU level a dialogue with the investment funds distributors on how to encourage the distribution of Social Investment Funds. The value added of a common “logo” could be reviewed in this context.

We believe that labeling initiatives, that implies qualitative assessment, should be left to the private sector.

Box 17

What steps do you think might be taken at the European level to facilitate better intermediation between funds and social businesses? Are there particular responsibilities that you think fund managers should take on?

Do you think there are any possible actions at the European level that might ensure effective distribution of social investment funds?

Response to Box 17

We have enumerated in our response to Box 16 ideas of actions to be considered in order to ensure effective distribution of “Social Investment Funds”.

We could also suggest to provide incentives for institutional investors such as pension schemes to allocate a percentage of their investment into “Social Investment Funds”.

As mentioned in our response to Box 3, it would also be important to ensure that UCITS funds are allowed, as long as foreseen in their prospectus, to invest into “Social Investment Funds”.

Facilitating intermediation is also a very important milestone. Good practices may be found in microfinance where several initiatives such as the industry-wide MIXMarket information exchange on financial and social performance indicators facilitate the process between investors and social businesses (www.mixmarket.org)

We therefore recommend to support the creation of a social business platform or database that would include information about social businesses throughout Europe (a “Social businesses mix-market”). In order to allow investment in other part of the world, such platform should be ideally linked with non-EU initiatives.

The creation of a trading platform, such as a social stock exchange, would also facilitate flow of capital and information, bringing transparency and liquidity to the market.

Such exchange would also trade the units of “Social Investment Funds” on the secondary market.

Box 18

How might tax incentives be made useful? Please provide data on any existing such incentives you are aware of.

Are there any other measures you think might be possible to maximise investor's access to social investment funds, or the attractiveness of these for investors?

Response to Box 18

Tax incentives are always useful to mobilize investors. Taxation should be envisaged at the level of the fund and at the level of the investors.

“Social Investment Funds” should not be supporting double taxation and would ideally be tax exempt. We may cite the Luxembourg initiative to exempt Microfinance Investment Funds from the Luxembourg subscription tax.

At the level of investors, it would be important to foresee a tax relief mechanism on their investment (for instance linked to long term investment such as requiring holding of the share for 5 years). Such benefit would ideally be harmonised across the EU so that the investors benefit from the relief wherever the fund is domiciled or invested. This is the condition to ensure the real emergence of European “Social Investment Funds”.
