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- Explaining incubation: the black box
- PART 1: Charly Kleissner on the highlights of 2012 for social enterprises
- Sneak peak from the HUB Global Board meeting
- The HUB was there! TEDxVienna 2012... instantly insane
- A great team and tons of notebooks
- Dream, Believe and ACT
- Where design meets human needs
- INSITE - triggering innovation and collaboration
- Observe! Criticise! Participate!
- Johannes Kaup from ORF on his event series "im zeit-raum"

November 30, 2012

PART 1: Charly Kleissner on the highlights of 2012 for social enterprises

As a social entrepreneurship aficionado, you must know *Charly Kleissner*. As he was leaving the *HUB Global Board meeting* two weeks ago, we had a quick chat with him about the highlights of 2012 and trends to emerge or continue in 2013.

HUB Blog: What are your feelings about the social entrepreneurship scene in 2012, what got you excited this year?

Charly Kleissner: I differentiate between the investors, the investees and the infrastructure, very exciting things happened on all three levels.

On the investors' side we have seen modern **global networks** like **TONIIC** gaining membership traction and syndicating deals between multiple different investors all over the world. We have also seen the emergence of a serious **impact measurement demand**, with new reports coming out and a couple of investors actually pushing the envelope. I have also seen for the first time what I call the **"100% folks"**, putting 100% of their wealth in impact as opposed to one or two investments. There's five or six of us 100% folks globally. We are investing in all asset classes. It is a great opportunity for us to aggregate demand for impact products, particularly on the commodities side. We only invest in impact commodities since most normal commodities have a negative ecological and/or social impact. It would make a huge difference if all extractive commodities would be mined in a way that is good for the earth and good for the community. One more exciting thing about 2012 is the emergence of 50+ million dollars **investment funds**. For the first time institutional capital decided to actually go into these funds and capitalize them.

At the intermediary level, the system will have to change from non-impact to impact: instead of having investment banks we need impact investment banks, instead of having merchant banks we need impact merchant banks, instead of having non-impact funds we need impact funds. There are **emerging institutions** in each one of these fields, like **Total Impact Advisors** and **Sonen Capital**. There has also been some significant **products innovation** by multiple players. In the US, for instance, **ImpactAssets** is preparing to cater to a whole new class of investors who will soon be able to get a fully diversified portfolio of impact investments in certain themes for as little as \$25.000. I see this trend as the pre-cursor to retail products for young people with 100, 200, 1.000 dollars to invest. This will still take a couple of years, but it is certainly around the corner. **Crowd funding platforms** are also in the active experimentation stage. And we have new intermediaries, like **Quadia** (in Europe) and **Sonen Capital** (in the US), which are managing hundreds of millions of Impact Euros and Impact Dollars.

Finally, the third piece on the investment side is represented by **social enterprises** themselves. To assess the progress we need to differentiate between seed stage, early stage and growth companies. For those in **seed stage** it was the year of **incubators**, which replicated themselves all over the world. It's clear that not everybody will be successful if success is defined by actually enabling those seeds to get to the next stage. Be that as it may, just the fact that there are that many incubators is good, because it means that it's recognized as a need and new players are financing them now. In the US, the World Bank through the **IFC** is trying to put subsidized capital into these incubators. We have **innovative programs**, like the **Investment Ready Program** here in Vienna, which cater to a whole new geography of entrepreneurs that otherwise would not have any chance to learn business practices that actually matter. It will take a few more years to make connections and establish a trusted eco-system of investors for growth **companies** which need between two and fifteen million euros to accelerate their impact. The institutional capital is not really there yet; we need success stories as well as education of decision makers to move this sector along. Entrepreneurs who were successful in creating impact businesses need to get capital from institutional impact investors that will enable them to significantly grow their impact as opposed to becoming commercial only. If they end up selling and retiring, their businesses usually get bought out by somebody who doesn't care about the impact. These are longer term issues of the industry that need to be solved.

Stay tuned for the second part of the interview, in which Charly Kleissner shares his forecast for 2013.

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PART 2: Charly Kleissner's forecast for 2013

Remember [Charly Kleissner's review](#) of exciting things happening on the social enterprise scene in 2012? The conversation continued on trends to follow in 2013.

HUB Blog: You were saying that one of the highlights of 2012 was the amplification of questions about measurement. How long do you estimate it's going to take until a viable answer becomes available?

Charly Kleissner: On the impact metrics side, within the next 3 years we will be moving from the 'visionary' stage to the 'early adopter' stage. Visionaries like us and others, **are defining what impact means by doing impact deals**; we are putting methodologies in place, we have to throw away some things that don't work, we experiment and then report, we're committed to open source, to radical transparency. We're not afraid of being criticized; many in the financial community point fingers not even acknowledging that it took them 40 years to come up with metrics that don't really count. We need to remind them that it is not about simplistic metrics, but about a **combination of quantitative impact metrics together with qualitative stories** that together better characterize the positive impact of our investments. I don't expect impact metrics to become mainstream within the next 3 years, but early adopters will embrace them and thus take this topic to the next level.

- PART 2: Charly Kleissner's forecast for 2013
- Explaining incubation: the black box
- PART 1: Charly Kleissner on the highlights of 2012 for social enterprises
- Sneak peak from the HUB Global Board meeting
- The HUB was there! TEDxVienna 2012... instantly insane
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- Where design meets human needs
- INSITE - triggering innovation and collaboration
- Observe! Criticise! Participate!

With respect to portfolio approaches, it is very early days. The Holy Grail is that the pension funds of the world dedicate 100% of their investments to positive impact, but that will certainly take quite a bit longer than 3 years. One of the issues is that **institutional capital is gated by policies** that don't allow the administrators to make the right decisions, but allow them instead to hide behind a wrong interpretation of fiduciary responsibility. The whole system right now is set up to do the wrong thing. That cannot be changed from one day to the next. The way to change the status quo is by the first five, six "100% folks" collaborating with each other, **publishing their results** and showcasing not only the financial performance of their portfolio but also the impact of their portfolio. This will – over time – dispel the myths that impact portfolios do not provide an adequate level of financial return as well as great positive impact. After this, it's going to take a generation of results that will ultimately force pension funds to change their policies, which will probably take another 10-15 years, unless there is a major financial crisis, which would be the only shortcut to a more sane investment environment.

HB: What are you looking forward to in 2013?

CK: I would call it the start of a movement from social entrepreneurs to **holistic sustainability entrepreneurs**. The additional dimension of these types of entrepreneurs is an elevated level of awareness and consciousness with a deep understanding of humanity and the universe that goes well beyond a skin-encapsulated ego. It means the recognition of the inter-connectedness of it all and a level of responsibility towards all stakeholders of their businesses and humanity as a whole. I think social entrepreneurs are the first incarnation of this movement but it's not sufficient. There is no path to a livable planet for all of humanity without wholeheartedly embracing holistic sustainability, i.e., sustainability from an economic, social, environmental, and spiritual perspective: bottom-up and top-down. This view will gain weight and momentum as we embark on this big change on a planetary scale, which will ultimately allow humanity to live in harmony with itself and within the carrying capacity of our beautiful planet. Everything you do with your social enterprise will have to take into account a holistic positive contribution to the planet and the universe, from a supply chain perspective, from a value chain perspective, from the perspectives of the communities that you serve, from the perspectives of all the constituencies that you have. I am confident that this discussion will progress a bit further this coming year.

More insights from members of the HUB Global Board coming up next, stay tuned!

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