



A new future for our financial sector is there for the taking, writes Paul de Ruijter in his essay: Amsterdam as the center of involved investors, who want to put their money in sustainable, innovative companies.

# On to the stock exchange as it was meant to be

BY PAUL DE RUIJTER

- The Dutch East India Company was the world's first nameless non-trading partnership with freely tradable stock. Furthermore, the first futures and options were traded in Amsterdam. But now the Dutch seem to have definitely lost the battle with the financial markets of New York and London.
- Since the international credit crisis of 2008 substantial federal support, sometimes even nationalization of the financial sector, and strong regulation have caused free market operations on the capital market to malfunction. The threshold to be officially quoted in the Stock Exchange List is high. Especially true entrepreneurs are in danger to get the worst of it.
- Meanwhile, the majority of our savings is invested in international stocks via anonymous pension funds and insurers as well as via foreign stock exchanges. Few of us know in what. Do we really not want to know anymore what we are investing in? Are there no other considerations aside from risk and return, such as ethics, sustainability or just the fun of owning a cool enterprise?
- In a world full of unreliable, short-term orientated financial players, I see a glorious future for a financial sector that addresses people that do want to know into what they are investing. A sector in which investors are no punters purely focused on short-term gain, but true shareholders which consciously take risks to make things possible in the long run.
- The financial sector of Amsterdam cannot win from New York and London on price and volume. But perhaps, by bringing investors back in touch with innovative entrepreneurs, we kill three birds with one stone. A competitive financial sector in Amsterdam, risk capital for our entrepreneurs and a source of new solutions for social challenges.

This essay originally appeared in the Dutch Financial Times Magazine FD.Outlook in July 2014, volume 7, issue 2.



## Wanted: investors in the Philips and Shell of the future

IHC Merwede is an exceedingly fast growing technology company that invests not only in dredgers, but also in innovative new technologies such as deep sea mining and foundation techniques for windmill parks. There are numerous extractable raw materials for making batteries of electric cars and magnets for generators of wind energy on the ocean floor. In addition, mining on the sea-floor is less polluting than mining on the mainland.

IHC wanted to go to the stock exchange. And I had gladly invested in them. But even with a turnover of 1 billion and a profit of 100 million a stock-market flotation in the Netherlands turned out to be too complex because of regulations and thus too expensive. There have been other opportunities that have passed over the average investor.

Who had not wanted to invest in the LED lamp factory Tendris by Ruud Koornstra? If there had been an accessible stock exchange where that was possible, both businesses could have made billions and given the Netherlands an enormous impulse for growth and entrepreneurship. A successful flotation could not only have helped these two companies, but also created an ecology of early loafers that became rich and could play their role as angel (informal) investors. There would have been role models that could have inspired young entrepreneurs.

Alas. Once upon a time we had our own stock-exchange in Amsterdam, but because of the sale to Euronext, NYSE, and ICE it has become a plaything at the mercy of geopolitics. Hardly an option for true entrepreneurs.




## Required: a place where entrepreneurs and investors find each other

A financial market is a place where supply and demand meet each other. That was from times immemorial the stock exchange of Amsterdam. People with money came, via their middleman, in contact with entrepreneurs that wanted to conquer the world. A risky business, because not every ship that sailed East also returned.

Fortunately we invented shares in the Netherlands, which made two things possible. Investors could then participate in the enterprise for just a small amount and risks could thereby be spread over several enterprises. So you would not lose all your money when a ship sank. More and more people invested and followed what happened to their money with great interest.

That time is now over. Only a few entrepreneurs go to the stock exchange and almost nobody knows in what they have invested. The financial market has literally been monopolized; after all you may not just start a stock market. Also for the banks it is no matter of a truly free market.



## The financial market must become a free market again

Competition and the possibility of going bankrupt are natural elements of each free market. Except for the financial market. Banks are apparently not allowed to go bankrupt. In the Netherlands we only have a few banks and the two biggest ones are owned by the state. Banks get, in the form of “free money”, more state funding from the ECB than the textile and the shipbuilding industry have ever received.

Competition is hindered, because you are not allowed to just start a bank. It is also legally basically impossible to freely trade in shares and stocks. You are no longer allowed, as you were in the Golden Age, to offer your stocks for sale in a bar on the Dam of Amsterdam. This now has to be done via a stock exchange and there are only a few of those allowed in the Netherlands.

The financial market is not a free market, but a very strongly regulated and monopolized market with increasingly more government players. The real investors, entrepreneurs, and savers are the victims. Since the financial crisis it has been more difficult for entrepreneurs to get a funding via the bank. Aside from the stricter regulations, the economic prospects cause banks to exercise restraint in granting credit, especially where it concerns long-term loans. It is then not surprising that more entrepreneurs complain about financing by banks.




## Investing in innovation stays uncertain by definition

For innovative, socially oriented entrepreneurs there is another complicating factor. Many innovations only offer significant savings in the long run, while they require extra investments in the short term. Innovations are now uncertain by definition.

Banks often translate ‘uncertain’ as ‘risky’. Because, even though in practice not innovating is far more risky, banks are not the appropriate party to participate as risk-bearing. After all they finance based on certainties. And precisely starting, innovative enterprises have a need for external funding, because they have often built up insufficient certainty. But they are the ‘superchargers’ of business, focused on extra growth.

The Dutch stock exchange as a source of capital is not popular. Institutional investors are focused on returns and model-based investing, while the participants for whom they invest often have a longer horizon. Most participants of pension funds for example, have decades ahead of them before they are allowed to retire. Nevertheless pension fund investors are directed at the rate of the day. Moreover the threshold to be allowed to enter the stock exchange, especially since the stock exchange of Amsterdam is in the hands of Euronext, is extraordinarily high.

For that reason flotation is often no option even for companies with a turnover of 1 billion euros. Direct funding via the capital market is not possible, both for attracting capital stock as for issuing bonds.





## The Netherlands is holding gold with sustainable investment

In the Netherlands people are working hard on possibilities to make airplanes fly on biokerosene, a sustainable alternative for kerosene from fossil fuels. KLM has already done successful test flights on biokerosene. Worldwide biokerosene is a market of tens of billions. KLM has, together with other enterprises, established a separate company for this (SkyNRG). But developing test arrangements that are large enough to reach reliability and efficiency requires years of development and hundreds of millions of euros. This is risk capital, because nobody knows if it will succeed.

If it succeeds, it would be a golden opportunity for the Netherlands. An ideal candidate for collecting risk capital. With a well-functioning stock exchange, SkyNRG could have seduced me to become (a small) part of this exciting enterprise. Also for pension funds with a long horizon SkyNRG could have been a good candidate.

And what about the entrepreneurs in the North of the Netherlands, that are working on the biobased economy, or the use of biomass for non-food applications in the pharmaceutical industry and the chemical as well as energy branches? With almost 136 companies and institutions in Groningen, the province is a frontrunner in this area.

The Netherlands is loaded with entrepreneurs who would like to get in touch with people that want to make risky investments. Unfortunately there now sits a thick layer of institutions between them, full of officials and professionals – so thick that investors and entrepreneurs no longer find each other.



## Will Euronext and Amsterdam ever make it up?

We no longer have a financial infrastructure for cultivating truly innovative enterprises. In the US there is a well-functioning stock exchange, where enterprises such as Tesla, Facebook and Google can enter. And because there is often a big success between the numerous flotations, there is also still a lively and entrepreneurial culture. The Netherlands lacks that essential financial infrastructure and, if we are not careful, a truly entrepreneurial culture as well.

Innovative solutions are possible. Entrepreneurs are contending with the problem, but they simultaneously hold the solution. The directors and principal shareholders usually have large cash reserves and they often function as angel investors: they issue supplier credit, risk-bearing capital or private loans.

There are more conceivable innovative services that make it easier for entrepreneurs to collect money from each other or on the capital market, such as fund initiatives, crowdfunding, and peer-to-peer networks. Especially exciting are developments such as crowdfunding and the new stock exchange NPEX. However, these alternatives are still limited in girth, our supervisory bodies are mostly very suspicious, and our institutional investors are doing too little. And we can only hope Euronext Amsterdam will turn out fine, now that they are no longer owned by NYSE and ICE.

## Pension funds and private investors as entrepreneurs

If the Netherlands wants to be a pulsing financial center in the world, it is holding the keys itself. Pension funds can decide to invest more in the Netherlands via Dutch stock exchanges. Then they do need to have an eye for positive external effects such as sustainability, local employment, and ethics.

More and more pension fund executives are aware that they have more impact and responsibility with their investments than can be stated in numbers of risk and return. Entrepreneurs do have to stop complaining that they are not getting risk capital from a bank; that time is over. So prepare for a successful flotation.

This does require the right accountants and advisors which help making prospectuses which elucidate not just financial return and risk, but also the societal surplus value. Media such as the Dutch Financial Times (FD) and BNR Newsradio are already paying attention to innovative, socially-oriented initiatives. But before private and institutional investors dare to join, more has to be done. With deep analyses and fair comparisons with other possibilities for investment, investors can start to better appreciate these types of investments.

So do not report only about profit and loss, but also about future opportunities and surplus value for the environment and employment. Then investors can determine themselves what that is worth to them. Shareholders are more than punters. Investors are an essential part of the team of an enterprise. It is a fine hour for the entrepreneurial investor.

## Something beautiful can grow from the 'ash' of the financial sector

The stock exchange of Amsterdam, and actually all of the Dutch financial sector, are well behind from an international perspective. Also our economy is slow to come into motion. We can reconcile ourselves to that fact. But from the faded financial sector something beautiful can also arise.

A new ecology of reliable accountants, who have a good understanding of the triple bottom line – people, planet, and profit. Pension funds are looking to ethics and the external effects of their investments. A renewed Euronext in Amsterdam, new stock exchanges such as NPEX and crowdfunding websites. New entrepreneurs who are focused on the long term.

With such a sustainable financial ecology, the Netherlands could take up a very unique place in the world. And from that ecology other industrial ecologies can arise, around biokerosene in the Haarlemmermeer, bioplastics in Groningen, and medical technology in Twente. All because of a well-functioning and socially responsible stock exchange in Amsterdam.

This is the ultimate reconciliation between the merchant and the minister. Not by converting people via merchandise, but this time the other way around. By earning money sustainably by improving the world. It is possible, it is possible now, and it is possible in Amsterdam.

Paul de Ruijter is an investor, entrepreneur, and scenario to strategy consultant, for the financial sector among others. Recently the English version of his strategy handbook came out: Scenario Based Strategy - Navigate the Future