



Philanthropy  
Impact

# Magazine

Inside this issue:

Defining Characteristics of Social Enterprise and Social Investment

Social investment: White Hope or Red Herring  
Scotland, Canada and Asia: Beginning Understanding  
Social Investment Tax Relief

Impact Philanthropy Comes into its Own

Issue 6: Summer/Autumn 2014



# Social Enterprise and Social Investment:

Characteristics, Approaches,  
Issues and Challenges

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# A Comprehensive Overview of Social/Impact Investing

**T**he various forms of social investment and social enterprise are growing rapidly. They are contributing to the economy whilst creating jobs and helping to solve social problems.

The third sector (voluntary organisations, charities and social enterprises) and funding/ social investment support for the third sector is in a significant transition phase. This is occurring at a time when the societal need for third sector support is growing – these needs including but not limited to addressing the problems and high costs of poverty<sup>1</sup> and its impact (e.g. inequality, increased crime, negative health outcomes and increased costs, reduced educational attainment); and issues related to the environment, the economy, population growth, migration, health and culture.

Sector challenges include dealing with government cutbacks, as well as the need to increase funding whilst diversifying sources of revenue. New models for service delivery and funding are being developed and tested, many of these putting pressure on traditional approaches to service delivery as a social entrepreneurialism ethos takes hold. The latter includes:

- The significant growth over the past few years of the social enterprise models and social investment funding mechanisms
- A growing government emphasis on increased outsourcing of the delivery of public services to social enterprises and charities

Government, investors and other funders are also putting pressure on the voluntary and community sectors to save money, invest resources effectively and avoid duplication and waste. They increasingly expect their money to achieve an impact, to provide a

return for their investment – be this social, financial, economic or environmental. Lastly the current economic conditions are making it more difficult for third sector organisations to continue to meet the needs of their current clients let alone emerging needs.

To help them fulfil their mission, charities and social enterprises must move beyond a survivor mentality to innovation and growth.

This issue of the magazine looks at these complex issues from a number of perspectives:

- First attempting to define the various concepts with the added example of social firms and a consortium approach to social investing in a social enterprise
- Questioning social investment as the solution; seeking to balance philanthropy with social investment
- Outlining in a series of articles various perceptions of and applications of social investment – a tool for philanthropists, venture philanthropy, impact investment, applications to major donor fundraising and to communities, microfinance
- The role of business in supporting social progress
- Impact investment and impact oriented investment
- Perspectives from Scotland, Asia and from Canada
- The social stock exchange
- The Social Investment Tax Relief
- Measuring impact

Special thank you to the past editors Michael Green and Sue Daniels for all their efforts in producing a series of magazines that were engaging and enlightening.

We invite letters to the Editor at: [editor@philanthropy-impact.org](mailto:editor@philanthropy-impact.org)

<sup>1</sup> For example 30% of the children in the UK live in poverty and approximately 13 million people in total live in poverty in the UK.

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### Philanthropy Impact: Vision and Mission

Our vision is to increase philanthropy and social investment across borders, sectors and causes.

Our mission is to achieve greater sector knowledge and expertise by working with professional advisors. Through our links with the key sector stakeholders we develop thought-leadership on philanthropy and social investment.

We do this by delivering activities that include:

- Events: a comprehensive programme of events that support professional training and development
- Publications and Research: our 'body of knowledge' guides, case studies, and other resources, and the acclaimed Philanthropy Impact Magazine
- Lobbying: we advocate for policies and regulations that encourage philanthropic giving and social investment

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The purpose of the magazine is to share information about philanthropy in a domestic and international context. We welcome articles, letters and other forms of contribution in Philanthropy Impact Magazine, and we reserve the right to amend them.

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# Social Enterprise and Social Investment

## An Overview

Prepared by **the Editor, John Pepin** ([www.philanthropy-impact.org](http://www.philanthropy-impact.org))

*There is no absolute consensus concerning the definition of social enterprise or social investment. This paper attempts to list some of the terms presenting definitions hoping to make it easier for the reader to understand the variety of concepts being used in the sector. Articles throughout this edition of the Philanthropy Impact Magazine will, in many cases support the definitions adding value as well as addressing the complexities of their application.*

### Social Enterprise in the UK

According to Social Enterprise UK The State of The People's Business publication<sup>1</sup> in 2013 'there are at least 70,000 social enterprises in the UK employing around a million people, the sector's contribution to the economy is valued at over £24 billion'. When you add charitable organisations' gross revenues, half of which is from social enterprise activities such as commissioning and trading, the size and impact of social enterprise is significant.



*John Pepin*

**S**ocial enterprises for the most part have done relatively well in the recession. The above study identified that 'growth, optimism and innovation – are very healthy among social enterprises compared to mainstream businesses'<sup>2</sup>.

### Social Enterprise: Definition and Models

Social enterprise is an activity as opposed to an organisational type. It is one of the forms of activities that social entrepreneurs engage in.

Social enterprise activity does not exclusively need to be performed by organisations commonly called 'social enterprises'. Any voluntary and community sector organisation may also engage in social enterprise activity. Often the following words 'social enterprise', 'trading', 'earned income', 'commercial enterprise', 'co-operatives', and 'social businesses' are used interchangeably, although each has a slightly different emphasis on social and financial return. The difference is in how an organisation self identifies – some identify as social enterprises, others as charities or NGO's with trading arms or holding companies, and others as co-

operatives. However, the ends are the same – a social, cultural, economic or environmental mission combined with financial return or financial viability.

The definition of the term ‘social enterprise’ continues to be discussed at length. In the simplest terms, a social enterprise is a business with more than one bottom line, measuring its performance on more than profit. Social enterprises may have double or triple bottom line measurements – financial; social or community or cultural; or environmental.

Venturesome<sup>3</sup> proposes three models, defining them from a social impact perspective. These include enterprise activity that focuses on maximising profit, with the profits going to support social ends (‘profit generator model’), enterprise activity with social impact, with a balancing of commercial activity with social mission (‘trade-off model’), and an enterprise activity that has a social impact generating financial returns that grow as the social impact grows (‘lock-step model’).

### Corporate Social Responsibility, Venture Philanthropy and Social Enterprises

Corporate social responsibility (CSR) is the voluntary action that business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society.

**Social enterprise activity does not exclusively need to be performed by organisations commonly called ‘social enterprises’. Any voluntary and community sector organisation may also engage in social enterprise activity.**

There exist numerous approaches to CSR that businesses undertake, from developing employee benefit packages, to sourcing materials and services from ‘ethical’ producers or donating money to charity. One approach has been for businesses to play an integral role in establishing social enterprises through funding (sometimes using a venture philanthropy approach), contributing business expertise or gifts in kind. In addition private sector foundations or trusts traditionally give grants to charitable causes.

Another way companies get involved is through venture philanthropy. Research by Aperio<sup>4</sup> demonstrated that venture philanthropy investors are helping to develop social enterprises through providing grants, loans and other financial resources coupled with business acumen to start up, bring about a step change or grow enterprises by building organisational capacity.

In addition, a number of funds invest in individual social entrepreneurs to help develop skills through training and mentoring as well as financial assistance.

### Definitions: Social Investment and Venture Philanthropy

Social Investment is broadly defined as being the supply of finance and non-financial support with the objective of strengthening an organisation’s social, economic, environmental or cultural impact whilst potentially seeking a financial return on capital and/or community or organisational financial sustainability and viability.

Some social investors, intermediaries and wholesalers may see the definition of social investment and impact more limited than described above. For example, Big Society Capital sees social investment as ‘about lending or investing money to achieve a social as well as a financial return’.

A report entitled *Investor Perspectives on Social Enterprise* prepared by *ClearlySo* (published July 2011, [www.clearlyso.com](http://www.clearlyso.com)) addresses social investment from an institutional investor perspective. The report defines social enterprise as a societal mission related organisation that utilises a commercial approach. It distinguishes this from a social business which has a profit oriented purpose but which achieves a social impact.

It also outlines a number of different forms of investment:

- **Mission connected investment** ‘as investment by foundations which promises a market return but also helps to achieve mission (New Economics Foundation, *Mission Possible 2008*)’
- **Programme related investment** ‘as investment by foundations primarily for mission purposes which generate returns that are typically below market levels (New Economics Foundation, *Mission Possible 2008*)’.
- **Socially responsible investment** as ‘the incorporation of environmental, social or governance issues into investment decisions and ownership practices’.
- **Impact investing** focusses on ‘the impact an investment can make’.
- **Social enterprise investment** seeks a balance between ‘social return and financial return’

Venture philanthropy (high engagement giving)

which invests capital and human resources in charities and social enterprises may be categorised as a form of social investment seeking a social return at the same time as attempting to achieve organisational and/or community sustainability and viability. For more information go to European Venture philanthropy Association ([evpa.eu.com](http://evpa.eu.com)) and Asian Venture Philanthropy Network ([www.avpn.asia](http://www.avpn.asia)).

Note, investing for financial gains alone would not fall within any of the definitions listed in this section.

### The UK Social Investment Market – Recent History and Timeline

Historically, that is, prior to 1995, there have always been rare examples of social investment practice – from the foundation of the building society movement in the 1740s as the original community finance institutions, through to prominent examples such as World In Need (now the Andrews Charitable Trust<sup>5</sup>). This is a charitable trust founded by Cecil Jackson-Cole in the 1940s which took what we now call a Venture Philanthropy approach – a notable early success being the development of Oxfam.

Four key trends shaped the development of social investment in the early 2000s:

- The promotion of social enterprise as an important means of public service delivery, by both Government and the trade body the Social Enterprise Coalition<sup>6</sup>.
- The promotion of loan finance as the primary supply of capital to social enterprises e.g. the foundation and growth of Charity Bank, Adventure Capital Fund, Futurebuilders, Venturesome, Big Issue Invest.
- The increase in interest in venture philanthropy approaches<sup>7</sup>, evidenced by the launch of funds such as ARK, Unltd, and Impetus and the formation of a trade body the EVPA<sup>8</sup>.
- The exploration by grant making foundations of programme-related investment.

In the period 2004 – 2006, several market participants began to advocate the need to increase the supply of ‘risk capital’ or social venture finance<sup>10,11</sup>, in the form of equity and equity-like finance. The drivers of this being: the inherent mismatch between the high risk of rapid growth and lower risk profile of loan finance; and the wish to implement high engagement models closer akin to venture capital than bank lending. Also in this period, a number of new venture philanthropy funds were established – often funded by the then booming private equity / venture capital and hedge fund sectors.



In 2007, two public bodies sought to stimulate the social venture fund market specifically targeting the sub-commercial Blended Value space. NESTA sought proposals for new funds providing Equity for Social Enterprises, and the Office for Civil Society<sup>12</sup> undertook a consultation on the supply of risk capital to social enterprises. This led in 2009 to an award of support from NESTA and investment totalling c£5m from the Office for Civil Society into Bridges Ventures Social Entrepreneurs Fund. Big Issue Invest’s Social Enterprise Investment Fund also attracted funding from NESTA. These two policy interventions/ market stimulations have been pivotal in the establishment of an increasing range of social venture funds in the UK, which have attracted funding from public, charitable and corporate sources.

Since then there has been significant growth in social investment. Wholesalers such as Big Society Capital ([www.bigsocietycapital.com](http://www.bigsocietycapital.com)), which is exclusively a social investment wholesaler, have played significant role in financing intermediaries as an investor and as a champion of social investment. The Big Society Capital web site lists numerous intermediaries, some of whom are investors and others providing investment readiness support.

There is an issue of not having enough investable propositions. Amongst a number of funds is the example of two funds supporting investment readiness managed by the Social Investment Business ([www.sibgroup.org.uk/our-funds](http://www.sibgroup.org.uk/our-funds))

- **The Community Investment Fund** launched in February 2014. The fund is owned and managed by our partners *Social and Sustainable Capital (SASC)*. It is part financed

by the *Social Investment Business Foundation* and *Big Society Capital* and provides loans and equity to community based social enterprises and charities in England.

- The £10 million **Investment and Contract Readiness Fund** is being delivered on behalf of the Office for Civil Society and aims to ensure social ventures are better equipped to secure new forms of investment and compete for public service contracts.

In summary UK social investment funds may be categorised according to the following:

- **Appetite for risk and the risk inherent in the use of funds.** This dimension measures the chances of the investment achieving its primary objective – social or financial allied to the use of funds e.g. an equity investment in a start-up organisation is higher risk than a loan secured on a building.
  - **Financial instrument.** The different means used to supply funding to an organisation from grants, equity shareholding to bonds and secured loans.
  - **Pricing – financial and social.** The target financial returns from each investment and across a portfolio of investments. The expected social returns from each investment and across a portfolio, and the means of measuring them.
  - **Engagement and non-financial support.** The closeness of the relationship between investor and investee, and the level of engagement with operations of the organisation.
- **Stage of development of the organisation.** Does the investment fund support start-up projects, early stage/ incubation, development/ growth capital, publicly traded investments, mature businesses, refinancing and rescues?

### In Summary:

Social enterprises, in the main, appear to be growing and to be profitable whilst achieving their social ends. Social entrepreneurs' optimism remains high. Social investment in social enterprise remains vibrant in the UK. However, the need for financial support continues on one hand, whilst on the other hand the search for investible propositions goes on. The investment process remains complex and costly as high engagement is necessary in many cases to support capacity building. Bringing together capital and expertise from philanthropic, government and commercial and corporate sectors, creating collaborative joint investment and capacity building strategies and plans will help to potentially create even more effective use of resources and greater impact.

The elements for growth are present. Legal structures are in place in the UK and social entrepreneurship is thriving. Various sectors' engagement, such as the corporate sector and the public sector, is growing. Transparency exists and there is a lack of corruption. Although intermediaries are present, more needs to be done to build the capacity of social enterprises to achieve greater returns. The ability to evaluate performance, to measure success and to be clear about value and risk-return is essential to future growth. Much still needs to be done to strengthen the social investment process; much has been accomplished and social entrepreneurs remain dedicated and optimistic.

<sup>1</sup> *Social Enterprise UK: The State of The People's Business* page 6.  
[http://www.socialenterprise.org.uk/uploads/files/2013/07/the\\_peoples\\_business.pdf](http://www.socialenterprise.org.uk/uploads/files/2013/07/the_peoples_business.pdf)

<sup>2</sup> *Ibid* page 6

<sup>3</sup> *Three Models of Social Enterprises: Creating social impact through trading activities Parts 1 and 2 (2008)*  
[www.venturesome.org](http://www.venturesome.org).

<sup>4</sup> *Aperio, 2008, Existing Venture Philanthropy Funds, Characteristics: A Preliminary Overview*

<sup>5</sup> [www.andrewscharitabletrust.org.uk/our\\_heritage.htm](http://www.andrewscharitabletrust.org.uk/our_heritage.htm)

<sup>6</sup> [www.socialenterprise.org.uk](http://www.socialenterprise.org.uk)

<sup>7</sup> See *APERIO Europe paper listing the venture philanthropy funds world wide.*  
[www.aperio-group.com/resources/publicationstempltes.html](http://www.aperio-group.com/resources/publicationstempltes.html)

<sup>8</sup> *European Venture Philanthropy Association, www.evpa.eu.com*

<sup>9</sup> *'Foundations and Social Investment', Esmee Fairbairn Foundation, 2005*

<sup>10</sup> *'Equity-like capital for social ventures', 2004, Bridges Social Ventures*

<sup>11</sup> *'The Financing of Social Enterprises: A Special Report by the Bank of England', Bank of England, 2003*

<sup>12</sup> <https://www.gov.uk/government/organisations/cabinet-office>

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# The Most Difficult Social Enterprise of All

Di Cunliffe and Michele Rigby, Social Firms UK ([www.socialfirmsuk.co.uk](http://www.socialfirmsuk.co.uk))

*Social firms, a unique approach to social enterprise, are successful commercial enterprises that play a significant but generally unrecognised role in supporting employment readiness by creating employment opportunities for people with learning disability or mental health problem, a prison record or experience of homelessness.*

## Social firms, with their emphasis on creating employment opportunities for people, are little understood

These days, social enterprises are beginning to be recognised as organisations that have social and /or environmental missions, in addition to a focus on the financial bottom line and which generally recycle their profits to further their missions, rather than distributing it amongst shareholders. There is no strict definition of social enterprises generally and latest estimates of the wider social enterprise sector show there now some 68,000 social enterprises, contributing £24bn to the economy. They have a wide variety of forms and functions from larger co-operatives, public sector 'spin-out' bodies, community and international development organisations through to micro businesses. 23% of some 900 social enterprises surveyed by Social Enterprise UK (the sector's umbrella body) in 2013 employed some people facing disadvantage in the labour market (such as long term unemployment, history of offending or disability).

It is this focus on overcoming the most intractable barriers to work (such as having a learning disability or mental health problem, a prison record or experience of homelessness) that distinguishes social firms from the wider social enterprise sector. There are two main forms of social firms. Under the employment social firm model, at least 25% of employees face a major labour market disadvantage and 50% of income is generated through trading their goods and services. In addition, there are employability social firms that aim to increasing the chances of people facing the major barriers to work to gain employment, by offering basic work skills, arranging work experience, job-seeking and interview skills.

Social Firms UK [www.socialfirmsuk.co.uk](http://www.socialfirmsuk.co.uk), which was set up in 1999 to support the growth of social firms in the UK (when there were only 5 employment social firms in the UK), has identified over 200 employment



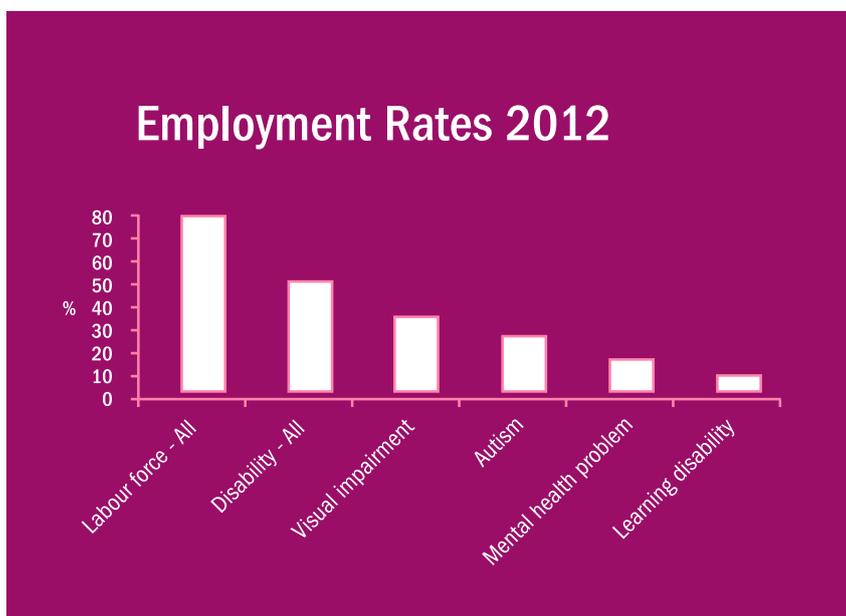
Di Cunliffe



Michele Rigby

social firms. The number of employability social firms is less clear but extrapolating from the Social Enterprise UK survey they are most likely to be several thousand.

As is so often the case, it's not until you scratch beneath the surface you can see the real picture. The need for social firms is abundantly clear when you compare the employment rates for people facing different types of disability. The chances of employment for people with a prison record or experience of homelessness are similarly slim. Only 11% of ex-prisoners are in employment a year after release and just 15% of homeless people are in work.



Social Firms UK's vision is that everyone should have the opportunity to be employed. We know that social firms can and do help to achieve this. Enabling people in the situations just mentioned to gain and retain employment, and to experience the self-esteem, independence and other positive rewards that employment brings is the driving force behind social firm start-ups. Social firms include organisations like Blue Sky <http://www.blueskydevelopment.co.uk> - whose strange boast it is that they only employ people with a criminal record; Hao2, <http://www.hao2.eu/> where employees are usually on the autistic spectrum, and Pack-It <http://pack-it.com>, a social firm in Cardiff, now replicated in Hereford, where employees who were not only previously on disability benefits, but also in receipt of local authority care, are now the main breadwinners for their families.

Social firms offer a different model, and a model that works. This contrasts with government schemes such as the Work Programme, which has been notably unsuccessful in its attempts both to meet the needs of jobseekers facing major barriers to the work place, and to encourage employers to give such jobseekers

a chance. The Government has also now removed its support for Remploy, the factories it set up to employ disabled people, taking the line that disabled people should not be segregated from the mainstream labour market. As the figures above show, this might work for some disabled people, but it is unlikely to work for all.

The values of 'Enterprise, Employment and Empowerment' encapsulate what employment social firms are all about. The quality goods and services they offer range from grounds maintenance, to contract catering, from picture framing to market research and from kitchen manufacturing to virtual reality work and conference facilities. The high proportion of employees facing major disadvantage in the labour market has considerable cost implications for the business, because these employees need higher levels of support to remain in work. The cost of providing this support, and in some cases the lower productivity rates that might apply for example with employees with learning disabilities, need to be built into the business model. Practical research by Social Firms UK has uncovered that the average additional support cost per individual employee is £3,000 a year.

Meanwhile, to achieve their social mission it is imperative that employment social firms are successful businesses that can compete with a quality offer in the open market. Social Firms UK's most recent published research showed that the majority (74%) of social firms generated at least 75% of their income through trade and there is a strong desire amongst all social firms to be financially independent and not reliant on any grant funding. Making this work, particularly with the additional support costs implies very complex business models indeed, like running two or more synergistic trading activities. For example a hotel and training in hospitality work that effectively cross-subsidise each other within the shell of a larger enterprise.

These social firms require specialist business advice. But the withdrawal of public funding means that specialist support is harder to find and to fund. And for most growing social firms, generic social enterprise loan funds are too large for them to access. There is a need for small and agile loan funds and grants to purchase new or replacement equipment to maintain efficiency, but most sources have minimum loan levels which are way beyond the needs of the majority of social firms. In 2013 Social Firms UK piloted small grants to purchase specific equipment or training, which was able to fill this gap for a few social firms.

Another challenge facing social firms is how to market themselves – getting the balance right between 'being good' and 'being good at'. The message that they produce excellent quality goods and services gets lost if the customer focusses on the employment of disadvantaged people. And many social firms would not want to make a feature of the particular characteristics

of their employees. So some social firms choose to remain coy about their additional social benefits. However, in order to promote social firm businesses, Social Firms UK set up the Just Buy online trade directory [http://www.justbuy.org.uk/?page\\_id=640](http://www.justbuy.org.uk/?page_id=640), which contains contact and product details of its member social firms.

Social Firms UK has estimated that the social firms subsector account for savings of some £40m in welfare payments, £20m in healthcare costs and £1m in social services costs. It is becoming more and more important for individual social firms to demonstrate their particular social impact can help social firms to attract grants and investment and to win contracts independently or as part of a supply chain. However, given the additional costs of employee support, and the difficulty of accessing finance, individual social firms can find themselves in a vicious circle of not being able to free up the resource and time to develop the necessary measurement systems in order to capitalise on the obvious social impact they make.

The many social firms that exist are not just evidence of the genius of social entrepreneurs and the ability of those previously written off by society to actually make their contribution to it, they are evidence of

the systemic failure of the wider business world to create employment where it's most needed, as the employment rate figures above demonstrate. Even the public sector, for all its equal opportunities machinery, does no better than the private sector when it comes to employing disabled people. Meanwhile, targeted public sector practical and financial support for growth in the social firm sector, which could help address this systemic failure, is sadly lacking. The corporate sector can and does have a role to play by mentoring social firms' managers and by including social firms in their supply chains.

To conclude, it is precisely because this kind of social enterprise is the hardest of all that makes it so inspirational. And it doesn't stop at the difficulty of making a business work with an automatically higher cost base. Social firms are not just about creating jobs for disabled and disadvantaged people; they are also experiments in a whole new way of doing business from the inside, of people relating to each other in a more inclusive and integrated workplace. Really, this is social enterprise's cutting edge, and it often challenges not only conventional business wisdom, but also the social enterprise movement itself.

<sup>1</sup> *Social Enterprise Market Trends, Cabinet Office 2013*

<sup>2</sup> *The People's Business, Social Enterprise UK 2013*

<sup>3</sup> *Can the Work Programme work for all user groups? Parliamentary Select Committee on Work and Pensions, 2013-14 Session.*

<sup>4</sup> *Social Firms UK Mapping 2010 [www.socialfirmsuk.co.uk/resources/library/social-firm-sector-mapping-2010](http://www.socialfirmsuk.co.uk/resources/library/social-firm-sector-mapping-2010)*

<sup>5</sup> *Based on: fiscal value of employment set out in David Freud's independent report to the Department for Work and Pensions 'Reducing Dependency, Increasing Opportunity: options for the future of welfare to work'; social return on investment (SROI) methodologies; and a series of SROI studies of social firms employing people with mental health problems.*

# The Foundry: An Example of a Consortium Approach to Impact Investing

Debbie Pippard ([www.aplaceforchange.co.uk](http://www.aplaceforchange.co.uk))

*The UK has had significant growth in social investment over the past several years. There are a growing number of trusts and foundations interested in developing the social investment market, as can be seen in the article about Esmee Fairbairn.*

*As a new office, conference and exhibition space called The Foundry opens in London, this article explains why The Foundry is a good example of a consortium of trusts and other social investors working together to create The Foundry.*

Many trusts and foundations in the UK have embraced social investment and welcomed the opening up of the market, from charity bonds to charity banks. What was initially seen as risky and expensive is becoming better understood by institutions, and support for impact investing is growing steadily.



*Debbie Pippard*

However, many potential investors remain more cautious, preferring to wait and see how social investment develops before shifting resources from more familiar markets. If we are to encourage a greater range of institutions to move towards social investment, we need to ensure there are different models available to suit different risk appetites and preferred social outcomes.

The Barrow Cadbury Trust is among the group of early adopters of impact investing, and one of our aims is to grow the social investment market. We do this both by grant funding new initiatives such as Ethex (the online platform where individuals can buy and sell social investments), and by making investments where we judge either that our involvement will encourage others to follow (as in the case of the Peterborough Social Impact Bond), or where support is needed for a promising new model.

The Foundry was just such an opportunity, with its vision of developing a building that would provide accommodation, and become a focus, for human rights and social justice organisations. We, alongside the Ethical Property Company, Trust for London, Joseph Rowntree Charitable Trust and the LankellyChase Foundation, became the founder investors in a company, the Human Rights and Social Justice Centre Ltd, that would purchase, refurbish and manage a building providing offices, a conference centre and exhibition space.



*The Foundry, London*

The Foundry opened in September and will provide modern, fully serviced office space to social justice and human rights organisations. But it will be about more than just telephones and desks – we and our co-investors have a vision to create ‘a place for change’ where these organisations grow stronger through working together and sharing resources, as well as providing benefits to the local area, so that the Foundry becomes a beacon and an inspiration for social justice.

By putting funds into The Foundry we have made a social investment. Our return on that investment will be financial – through dividends derived from the tenants’ rents, and social, through helping these social justice and human rights organisations to develop and expand their reach.

### How it began

The idea for the Foundry was based on the business model of the Ethical Property Company, a values-driven organisation, which, since 1998 has owned and managed shared office space for organisations with a social purpose. It was an attractive partner given its track record of running a successful, and ethical, business that has delivered returns to its investors over nearly twenty years. Initially, the Ethical Property Company owned all its premises. More recently, it has started to manage similar properties on behalf of other organisations, but The Foundry project was different in that it would build a partnership between a private company and charitable trusts and foundations.

Susan Ralphs, Managing Director of The Ethical Property Company, recalls that the concept emerged following conversations between Trust for London and Ethical Property about providing accommodation and support for a particular group of organisations, while at the same time testing out a model in which organisations that shared those values could pool their resources in a mission-related investment. They approached the LankellyChase Foundation and the Barrow Cadbury Trust who immediately saw the potential in partnering with others in developing a

new model of private sector/charitable trust partnership that could be used to develop the social investment sector.

**By working together we shared the risks, but we also enhanced the operation by pooling the reputations and resources of each investor organisation.**

The search was then on to find a building and secure sufficient funding to realise the vision. We achieved this with a mixed structure of equity stakes and loan finance. The founder investors each contributed equity, loan finance or both, and we secured additional loans from Charity Bank, Big Society Capital, Bridges Ventures and Rathbones.

The full deal was worth £12m, which in March 2012 allowed us to buy a large Edwardian industrial property in South London. After extension and renovation, it now provides 2900m<sup>2</sup> of high quality office, conference and exhibition space in an exciting architect-designed building.

By working together we shared the risks, but we also enhanced the operation by pooling the reputations and resources of each investor organisation. We are delighted that our faith in the vision has been borne out in practice, and expect to fill the building more quickly than we had originally forecast. 85% of the space had been reserved before the building opened and there is interest in the remaining space. Once our tenants are successfully settled, we will begin our programme of public engagement to ensure we add value to the local community and wider third sector.

The journey hasn’t been without its challenges – embarking on developing a building on such a large scale in a difficult economic climate was never going to be straightforward. The single greatest challenge was undoubtedly putting the financial package together. We had originally wanted to get a greater equity to loan balance than we currently have, although the amount

of equity we secured has comfortably allowed a very acceptable loan to value ratio. We anticipate that once the building is showing a return and as more trusts and foundations become engaged in the social investment conversation, equity stakes will become more popular for both The Foundry and in the wider sector.

We also had to be bold and take some measured risks. Initial market research indicated that there was sufficient demand to fill such a building, but with many charities struggling for survival, we had to face the possibility that we might not be able to fill the building quickly enough, thus risking lower than projected returns for equity investors. However as soon as we started to market the opportunity to the human rights and social justice sector, we knew that demand was strong.

As the aim of the founding investors has always been to open up the social investment market, we continue to look for new investors. We will be refinancing within the next four years, but in the meantime are interested in finding investors who would like to buy into the concept.

### **Why we are all involved**

Social investment, in contrast to grant funding, enables trusts and foundations to 'spend the money more than once' and thus increase the resources available to fulfil their missions. At Barrow Cadbury we were particularly keen to explore how we could participate in a project that would make the most of this kind of model.

A particularly attractive aspect of this type of investment is that by creating a social business to provide accommodation for charities, rent money that would otherwise disappear into private property remains in the sector, available for reinvestment through the payment of interest and dividends to the investors.

Fran Sanderson, Investment Director at Big Society Capital, told us that a project based around a building was attractive to them too. "Our investment in the Foundry reflects our broader market development remit – the building is designed to be a focal point where charity market intelligence can compound and grow in a supportive environment," she says. "We believe a secure and affordable tenancy also helps organisations to concentrate on service delivery and internal sustainability."

The fact that several investors were working together was another significant positive point, she emphasises: "It has also been a great opportunity in terms of representing the different stakeholder prerogatives in the capital structure, with equity and junior debt from

partners, including the foundations, allowing us and the other senior investors to offer lower-risk, lower-return debt to bring the project to scale."

As Susan Ralphs from The Ethical Property Company adds: "We were keen to work in partnership, to prove that with shared values, companies like ours can work very well with impact investors. The Foundry demonstrates that a relatively disparate group of investors can come together to make a large and reasonably complicated project work. It was a risk, but we've shared the responsibility."

Bharat Mehta, Chief Executive of Trust for London, explains that Trust for London was one of the instigators of the project. "We got involved because we wanted to prove that you could do something socially beneficial whilst also making a healthy financial return, and show that a group of charities and corporates can come together in partnership and raise money on the financial markets."

### **Why this is different**

Once The Foundry is operational, the company will start paying dividends to the equity stakeholders. But crucial to success of the project is the social impact it will deliver both locally and to the organisations working inside the building. This part of the vision will be taken forward by a new charity that will be set up to run a programme of educational activities, engage the local community and wider charity sector with regular exhibitions, events and other activities to promote social justice issues.

We have set a framework against which to judge our social impact. It takes in indices ranging from increased collaboration between the tenant charities, to promoting ethical employment practices such as the living wage, and ensuring local residents, and the broader human rights and social justice community are engaged and using the building. We also have targets around environmental sustainability and aim to reduce energy consumption by 3% a year after the base line year. With equity stakes from organisations that exist to deliver social good, social impact is front and centre of our minds.

We believe that The Foundry doesn't just offer a new home to a handful of charities in London and a triple bottom line return for its backers, it also offers a pathway for other trusts and foundations looking for ways to fulfill their remit for mission related investments.

# Is it Possible to do Well and Do Good?

Hannah Blakey Maurice Turner Gardner ([www.mauriceturnorgardner.com](http://www.mauriceturnorgardner.com))

*There are multiple perspectives of social investment and legal issues as well as risk need to be addressed by charity trustees in a changing environment. However, as the article points out the social investment market can be a significant source of funding*

Whether marketed as ‘social’, ‘impact’ or ‘mixed motive’ investment, it is undeniable that the hype surrounding investments that combine social and financial returns is at fever pitch, with one US economist commenting that the world of philanthropy was experiencing a ‘Big Bang moment’.



*Hannah Blakey*

**L**auded as the future of philanthropy, it is hoped amongst its advocates that social investment will become a solid alternative to no-strings-attached giving.

However, despite the government’s agenda firmly encouraging social investment and the social investment market growing apace, the general reaction within the philanthropy sector is one of bemused enthusiasm, revealing a real lack of understanding both among potential investors and investees as to what social investment is and how it is relevant to them.

So, first things first, what is social investment? Big Society Capital, an independent financial body established by the UK government to develop social investments in the UK, defines social investment as ‘the provision and use of capital to generate social as well as financial returns.’ Where traditional philanthropy relies chiefly on grants provided by individuals, foundations and corporate philanthropy programmes, social investment engages commercial banks, pension funds, insurance companies and specialized investment funds to provide large capital injections, primarily in the form of secured lending.

It is hoped that, by tying social and financial benefit, social investment will introduce a new range of entrepreneurial philanthropists to the sector. As the investor has a vested interest in seeing the project flourish, it is anticipated that this new way of giving will catalyse a more active and long-term engagement between investor and investee.

As the market develops, a bewildering array of products are increasingly becoming available, each designed to appeal to varying investor attitudes. For those interested in riskier and more innovative investments, products are available that directly link the impact generated with the returns offered to investors. For example, in 2010, Social Finance launched the first Social Impact Bond (SIB), with investors financing a range of interventions designed to prevent re-offending among a group of short-sentence prisoners.

The intention of the SIB is that if the service achieves the desired outcome then the investors receive an outcome payment, funded by the Big Lottery Fund and the Ministry of Justice. However, despite its label, unlike a traditional bond, all of the investor's capital is at risk of being lost if the service underperforms. The first outcome payment is due during Summer 2014. However, the Ministry of Justice published preliminary figures from the project's first year which showed a 20 per cent reduction in the frequency of re-convictions compared to the national average, indicating that the interventions were having some effect on the rates of recidivism in the area.

**It is estimated that charitable organisations have committed £100 million to social investment to date, taking advantage of the benefits of 'recycling' their funds rather than committing them outright.**

For those looking for a less risky investment, Threadneedle Investments and Big Issue Invest are in the process of launching a product advertised as a 'mainstream' way of accessing the social investment market. Based on an established asset class – bonds – Threadneedle claim that their investment strategy has the ability to deliver respectable financial returns and daily liquidity, as well as positive social outcomes. Demand for this product launch, marketed to a broad investor base ranging from pension funds through to ISA investors, appears to mark the beginning of the transformation of the social investment industry from a niche sector to part of the mainstream economy.

The growing attention of policy-makers further indicates the increasingly mainstream nature of the social investment market. The government has continued to press ahead with the proposals announced last year to provide tax incentives for investment in

qualifying social enterprises. In certain circumstances capital gains will be able to be deferred with qualifying investments; capital gains arising on disposals of these investments will be tax free; and income tax relief will be available at 30 per cent of the amount invested.

Although the tax relief may provide a further incentive for investors to get involved, it must be made clear that entering the social investment market is a decision not to take lightly, especially for potential charity investors. It is estimated that charitable organisations have committed £100 million to social investment to date, taking advantage of the benefits of 'recycling' their funds rather than committing them outright.

However, in a report published in April 2014, the Law Commission concluded that charity trustees must be incredibly careful that, by engaging in social investment, they are not acting outside their powers. The Law Commission reported that a charity trustee's power to invest may only be used to make a social investment if the investment is anticipated to provide a 'positive financial return', by which they mean a return beyond mere repayment of the initial capital outlay. Due to the high risk nature of some social investments, it would, in these circumstances, be impossible for trustees to expect a positive financial return.

The lack of clarity in the law, when combined with the risks of entering an industry that lacks a solid track record, makes it clear that any charity trustee must carefully consider any step to enter the social investment market, with legal advice strongly recommended.

The social investment market is clearly a dynamic and potentially lucrative source of funding, with social investments seemingly sitting happily alongside traditional charitable grants and wider investment portfolios. However, the social investment market is still relatively embryonic, with the risks applying to specific social investment opportunities uncertain and perhaps somewhat difficult to predict. It is still too early to predict whether the hype is well-deserved. Still, it cannot be denied that the market is promising, offering hope to charities increasingly struggling for funding. Social investment demonstrates that it is possible, when investing, to do well and to do good at the same time, with outright giving no longer the only way to create social benefit.

# Social Investment – White Hope or Red Herring?

**Alison Hope** ([www.hopephilanthropic.com](http://www.hopephilanthropic.com))

*Alison Hope is an independent philanthropy adviser and founder of Hope Philanthropic. [www.hopephilanthropic.com](http://www.hopephilanthropic.com). She questions some basic assumptions about social investment; proposing that there be a balanced approach (philanthropy and social investment as appropriate) to supporting the third sector. An example of this balance is in the article about Alder Hey Children's Charity.*

It's always refreshing to hear about new methods of funding and the current hot topic is social investment. It's certainly generating a huge buzz at the seminars where the pioneers in the UK social investment sector are gathering to swap stories and discuss the opportunities it opens up. However, without wishing to pour cold water on a hot topic, I do still have some questions...



*Alison Hope*

## **So we know who it might be for, but who won't get a look in?**

**L**et's be honest here. Most issues cannot be tackled via a social investment funded initiative. That is because on the whole the current charity sector has nothing to 'sell' or cannot prove an ROI, a direct and most importantly quantifiable impact on public sector savings resulting from successful outcomes. I would suspect this probably accounts 99.9% of the not for profit sector in the UK. However, the world is a big place and offers a massive opportunity for social investors to think globally and we still need people to give, and give intelligently.

## **How can we make sure people feel good about getting involved?**

I have heard advisors refer to the 'lack of product' available to satisfy potential demand. But the term devalues the worth of social investment, ignoring the many initiatives that improve services for some of the world's most disadvantaged people. Let's keep the terminology positive and emotive so that investors who want to make a difference will feel drawn to this, and add investment to their giving.

**Buyer- beware! Is there a danger of miss-selling?**

A concern has to be how some organisations are selected. A private banker told me of a presentation she had attended where a number of social investment opportunities were described by a representative of a social investment fund. Amongst its portfolio was a care home chain, which included a home where her mother had been living and to whom she had made several complaints of poor care on behalf of her mother.

.....  
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 and give intelligently.**  
 .....

There are some parallels here with other forms of investment. I am reminded of a presentation by ethical investors I attended a few years ago, which was equally concerning. They included a massive international hotel chain in their portfolio because it made much of its environmental credentials. While many hotels are doubtless trying to improve their sustainability they are still, after hospitals, amongst the highest consumers of energy and water and producers of waste. Of course care homes in the UK are regulated but if they appear in social investment portfolio should there be extra due diligence? And who should do it?

**Will the current experimental investments come clean if they fail?**

We have some extremely high expectations of social investment. It aims to tackle some of society's most intractable problems: reoffending, adoption breakdowns, homelessness to name a few. I look forward to hearing how some the pioneering investments pan out but sincerely hope that we will see real transparency. Events at Peterborough Prison, where the UK's first social impact bond (Sib), was hailed as a success but now faces an uncertain future due to changes in government running of rehabilitation services, are confusing to say the least. But given the strong connection between the rise of social investment and government policy, we need to know that the learnings are shared – good, bad and warts!

From my perspective as a philanthropy advisor, I feel that it is very early days, so would certainly make sure that clients are aware of opportunities, but I anticipate philanthropy will win out for some time to come. However that doesn't stop me crossing my fingers for a solid success story that can be emulated world-wide.

# Social Investment

## A Tool in the Philanthropists Toolkit

Lenka Setkova ([www.coutts.com/couttsinstitute](http://www.coutts.com/couttsinstitute))

*Coutts, along with other similar institutions, is increasingly playing an active role in illustrating the power of social investment. The Coutts Million Dollar Donors Report [www.coutts.com/donorsreport](http://www.coutts.com/donorsreport) notes that social investment is of increasing interest to major philanthropists in the UK*

In recent years social investment, by which I mean the provision of finance to generate social and/or environmental as well as financial returns, has increasingly appeared on the radar of philanthropists.

In fact many clients of Coutts are, in their own right, leaders in the field having helped to create and develop the social investment market in the UK. And interestingly Angela Burdett-Coutts, one of the most progressive Victorian philanthropists gave an interest-free loan to help the development of the Royal Marsden hospital.

Over the past few years, the Coutts Institute has engaged with this emergent field in a number of ways. Our Forums for Philanthropy have offered clients the opportunity to hear from some of the UK's leading philanthropists that have incorporated social investment into their work. We have hosted events that have provided social businesses the opportunity to pitch for social investment and where appropriate we have also raised the opportunity of social investment when providing tailored advice to clients and their families on philanthropy. In addition to offering tailored advice, we have made introductions to other social investors to enable collaboration. Many of our clients are entrepreneurs, so where they have chosen to make a social investment in some instances they have also brought with them their valuable expertise and networks to help the organisation they have invested in develop and grow.

But what is clear is that there is only a relatively small subset of charities or social enterprises that are well-placed to take on social investment. Social investment is not and will not become a magic-bullet that will replace philanthropy. Many organisations are not suitable for social investment, and those that may be in a position to take on repayable funding may need philanthropy to help them become investment ready. So philanthropy will clearly continue to be essential to support charitable organisations and social enterprises worldwide.

**...what is clear is that there is only a relatively small subset of charities or social enterprises that are well-placed to take on social investment.**

The development of the social investment narrative has, however, helped to raise awareness of the different ways in which philanthropists can deploy their financial resources to positively impact social or environmental change. At one end of the spectrum there is the much needed grant-making, and at the other end of the spectrum there are those who have established endowments and are looking to incorporate environmental, social, governance and ethical factors in to investment decision-making processes in relation to mainstream markets. Social investment lies in the middle of this spectrum, and where appropriate, it can potentially be a great tool in the philanthropist's toolkit.



Lenka Setkova

# Big Society Capital – Championing the Social Investment Market

By **Alastair Ballantyne** ([www.bigsocietycapital.com](http://www.bigsocietycapital.com))

*Big Society Capital defines social investment as 'lending or investing money to achieve a social as well as a financial return', a definition different from some of the other social investors who have written articles for this magazine.*

*Big Society Capital is the primary wholesaler and in partnership with intermediaries is playing a role acting as a catalyst for social investment innovation.*

*For further information go to [www.bigsocietycapital.com](http://www.bigsocietycapital.com), a resource rich web site.*

Social investment is about using repayable finance to make a positive difference to people's lives and the communities in which they live. Big Society Capital is playing an important role in developing this market by increasing the scale and type of funding available to charities and social enterprises and, at the same time, increasing the instruments investors can use to achieve both financial and social returns.



*Alastair Ballantyne*

Since Big Society Capital's launch in the UK we have seen considerable developments such as the first social bond fund that can be held in an ISA; the introduction of a Social Investment Tax Relief; and the growth of the charity bond market.

Most importantly, Big Society Capital is growing a market that will provide funding to address real issues. Already charities and social enterprises are using it to support a broad range of programmes, including early interventions to prevent youth unemployment; enabling community organisations to tackle isolation among older people; and increasing the chances of finding suitable adoptive parents for hard to adopt children.

This article looks at Big Society Capital's journey from inception to where we stand today; what the institution was set up to do; what has been achieved to date; and how our strategy is evolving for the future.

## **The journey to establishing Big Society Capital**

Big Society Capital was launched as the world's first social investment bank by Prime Minister David Cameron in April 2012. However, the proposal to establish a social investment bank had its roots in 2000 as an idea of the Social Investment Task Force established by the then Chancellor, Gordon Brown.

The proposition was that there should be an institution that would act as a source of investment funding and support for organisations that provide finance for entrepreneurial activity in deprived areas and in particular to ‘third sector’ organisations.

Sir Ronald Cohen established a Commission on Unclaimed Assets in 2005 which proposed that the estimated £500 million of assets left in dormant bank accounts in the UK could be used to establish a social investment bank. Its final report, published in 2007 after widespread consultation set out a blue print for what the organisation would look like and its functions. The idea was embraced across the political spectrum and the Dormant Bank and Building Society Accounts Act 2008 with cross-party support.

.....there should be an institution that would act as a source of investment funding and support for organisations that provide finance for entrepreneurial activity in deprived areas and in particular to ‘third sector’ organisations.

In addition to the money pledged by Government, the four major high street banks agreed to each invest a further £50 million in equity in Big Society Capital. Capital is paid into Big Society Capital over a period of time (initially five years).

### Our founding mission and principles

Big Society Capital’s mission is to grow the social investment market in the UK. It has two principal roles: to act as a market champion to raise awareness and encourage other organisations to engage with the market; and to invest in organisations that provide finance and support to charities and social enterprises to help build a diverse market of social investment providers.

The founding principles of the organisation are:

**Independence:** the Big Society Trust holds a majority of the equity in Big Society Capital and has a clear remit to keep the organisation ‘on mission’. We are not owned or controlled by Government, nor are we controlled by the banks that have invested in us.

**Transparency:** there is a commitment to detailing both the financial and social impact of Big Society Capital’s investments. Big Society Capital also acts as a champion for sharing information and expertise across the social investment sector.

**Self-sufficiency:** in order to demonstrate the social

investment model is sustainable, Big Society Capital needs to cover its operating costs and any losses it incurs and return a small profit.

**Wholesaler:** so as not to undermine the activities of others providing finance to social sector organisations, Big Society Capital will invest in funds and institutions that themselves deliver finance to the front line organisations.

### How we operate

Big Society Capital invests alongside other investors. At year-end 2013, the £48 million of signed investments made by Big Society Capital have been matched with over £55 million of investment from other sources. Going forward it is hoped to raise the match achieved to higher multiples.

In its market championing role, Big Society Capital has brought together impact specialists to help establish a common framework for reporting impact – the Outcomes Matrix. As well as hosting and sponsoring regional events to support awareness-raising across the UK about social investment, Big Society Capital has dedicated teams helping to develop engagement with those providing finance including trusts and foundations, mainstream financial institutions and the community of high net worth individuals. We are also engaging with frontline charities and social enterprises and their membership organisations to raise awareness of where social investment can be used effectively.

### How we’ve been investing

In its first year, Big Society Capital made investment commitments of £57 million across 20 investments. These comprised both general and specialised funds, social impact bonds and operating intermediaries to support the social investment market. Generally speaking these investments were reactive to demand.

The second year of operation saw total commitments made rise to £150 million as Big Society Capital not only continued to respond to demand from existing institutions but also signalled five specific areas where it was looking for investment opportunities.

Big Society Capital flagged an interest in the establishment of: regional funds (realised through North East Fund and Social Growth Fund (with Social Investment Scotland)); funding for community organisations (Community Investment Fund); retail investment suitable for ISA investments (Threadneedle Social Bond Fund); and unsecured lending (two new

funds: Social Impact Accelerator Fund and Third Sector Loan Fund).

Big Society Capital has also invested in operating companies supporting the sector including investments in Charity Bank, Social Stock Exchange and ClearlySo.

Details of all Big Society Capital's announced investment commitments can be found on its website [www.bigsocietycapital.com/how-we-invest](http://www.bigsocietycapital.com/how-we-invest).

### Our future strategy

In 2014, Big Society Capital looked closely at its strategy and set out the four elements it sees for developing a thriving social investment market in the UK:

1. Growing the availability of sources of suitable funding for a broad range of charities and social enterprises including smaller and medium sized organisations. As well as awareness raising and sign-posting activities, Big Society Capital is looking to invest alongside others to blend grant and investment capital to improve the supply of products for smaller-scale investments.
2. Looking to provide more social investment to support innovative new models that address entrenched social issues. Big Society Capital is exploring alternative routes to growth of organisations eg. through social buy-outs or alternative group structures and supporting the development of the social impact bond market. It is also looking to support more issue-focused fund initiatives.
3. Exploring opportunities to develop investments that can attract mass participation in social investment. Big Society Capital has been involved the design and

awareness-raising of the Social Investment Tax Relief that was announced in the 2014 Budget. It has also been advocating for the 'right to choose' ethical or social alternatives for private pensions, is actively supporting the development of the retail bond funds and making it easier to finance community assets.

4. Recognising that if the social investment market is to grow and become more sustainable it needs to offer opportunities for investments at scale, particularly in area with major financial needs such as education, health or capital intensive areas such as housing or residential care. Big Society Capital is working with key groups such as foundation and pension trustees to clarify their fiduciary duties in relation to social investing, partnering with housing associations and exploring how mainstream financial institutions can participate in developing this market to scale. It is also working to grow the charity bond market.

### Final thoughts

It has been an exciting few years since we first launched, and as is captured in the many other articles in this special edition, there are some amazing individuals and organisations working to build the social investment market. But building a market does not take a few years. It takes decades. We look forward to continuing our journey and having more people join us in unlocking the finance needed by charities and social enterprises to do even more in tackling our biggest social issues.

# Impact Philanthropy Comes into its Own

Michelle Benson and Jenny North, Impetus – The Private Equity Foundation ([www.impetus-pef.org.uk](http://www.impetus-pef.org.uk))

*Impetus-PEF is a venture philanthropy fund which seeks to transform the lives of 11-24 year olds from disadvantaged backgrounds by ensuring they get the support they need to succeed in education, find and keep jobs, and achieve their potential. It establishes long term relationships with the portfolio of charities it supports; the support made up of expertise and funding.*

*For information on the venture philanthropy scene go to [www.evpa.eu.com](http://www.evpa.eu.com), [www.avpn.asia](http://www.avpn.asia), and [www.impetus-pef.org.uk/how-we-work/venture-philanthropy-around-the-world](http://www.impetus-pef.org.uk/how-we-work/venture-philanthropy-around-the-world)*

Philanthropy is at a crossroads. The traditional model of benevolent giving - for all of its huge heart and generosity of spirit – is under scrutiny. More and more large-scale donors are asking serious questions about what's being done with their money and what that activity is really delivering. They want to know what's working and what isn't. Today's philanthropists don't just want to feel good, they want to do good.

The mantle of giving is in the process of transition, being passed from one generation to the next - and this new generation think and act differently. Many of the great philanthropists of earlier generations were brilliant entrepreneurs who built a fortune on street smarts and gut instinct. Today's philanthropists have more often made their money in technology, finance or professional services and many have benefited from management training and a formal business education.

Philanthropy – literally, love of humanity – has always been, and will continue to be, driven by a passion to help others, either directly through personal foundations or indirectly through charities. But there has always been something of a disconnect between what a philanthropic individual expects from their business ventures and what they expect from the charities in which they involve themselves. The results-driven rigour of the company boardroom hasn't always carried over to the trustees' meeting. That is changing; today's philanthropists want to see similar practices and standards in their beneficiary organisations that they would apply to their own businesses.

## From feel good to do good

During the 1990s, the penny started to drop that, while good intentions and integrity were necessary starting



**Michelle Benson**



**Jenny North**

points for charitable endeavours, they were not enough on their own. If donors truly respected the sector and the people who dedicate their lives to the sector, they would really hold them to account and, in so doing, enable them to deliver real and lasting solutions. Some started talking about running charities like businesses – a concept that still makes many in the non-profit sector uncomfortable. But philanthropists, foundations and intermediaries – and many of the more mission-orientated charities – saw there was a huge amount that the social sector could learn from commercial models. Such was the breeding ground for venture philanthropy.

.....  
**Today's philanthropists don't just want to feel good, they want to do good.**  
 .....

Venture philanthropy takes an active approach to philanthropy, which involves providing skills as well as money to a charitable organisation. It uses the principles of venture capital, with the investee organisation receiving management support, specialist expertise and financial resources. The focus however is on achieving a social, rather than a financial, return.

Venture philanthropy was born in the US in the late 1990s where it has since gained significant traction. Impetus – The Private Equity Foundation (Impetus-PEF), our own organisation, imported the model and refined it for the UK market. It pioneered the concept of British venture philanthropy and, like all true pioneers, it has learned and iterated along the way.

With sights firmly locked on impact, Impetus-PEF focuses its energies on 11-24 year olds from disadvantaged backgrounds in the UK. It is committed to transforming the lives of these young people by ensuring they get the support they need to succeed in education, find (and keep) jobs and achieve their potential. It identifies the most promising youth charities and social enterprises and helps them – through a package of funding, management support and specialist expertise - become highly effective organisations that transform lives.

Impetus-PEF was established over ten years ago by senior individuals from the worlds of private equity and venture capital, many of whom also sat as trustees of charity boards. They had a particular interest in bringing with them all the best practices from the world of business, aiming to apply them to the social sector: due diligence to find best-in-class charities; rigorous

assessment and development of management teams to ensure they're capable of delivering; and financial discipline.

Today, as then, Impetus-PEF only invests in charities that meet a set of criteria and think are already making a difference. Once selected, Impetus-PEF allocates the charity an investment director – a dedicated business consultant – to hyper-engage with the charities to provide the vital strategic support that all developing organisations need. By working with portfolio charities in-depth and over a number of years, Impetus-PEF get to really understand their needs. The investment directors will work with charity leaders on everything from mission and strategy to business plans and talent sourcing. It helps them design and implement robust systems and processes so they are in the best possible position to make a transformative, and lasting, impact on the lives of the most vulnerable young people.

The key to success is the model - combining funding, strategic and operational expertise. For example, backing a charity's five year business plan, helping them achieve key milestones and supporting the management team through growth is far more effective than just giving them a lump sum of money and moving on to the next charity. This model not only delivers real impact but is also financially very efficient: for every £1 it invests, Impetus-PEF is able to deliver £3 of value to the organisations it supports.

A significant component of Impetus-PEF's support package is pro bono advice: professionals, many from global consultancies and institutions, who volunteer their valuable skills to help charities build their capacity. The investment team identifies the most critical needs of the charities and matches them with experts from this powerful network of volunteers. Professionals contributing their skills can help a charity with its business plan, strategic review, financial systems, management structure and much more, providing advice that the charity would never be able to access otherwise.

This type of strategic input is proven to dramatically accelerate the growth of charities and social enterprises. Sir Ronald Cohen, who co-founded Apax Partners, a leading private equity firm, is one of the UK's social investment leaders. He applied the models he learned from private equity in his more socially-oriented roles, such as co-founder of Bridges Ventures and founding chair of Big Society Capital. His view is that, "In philanthropy as well as business, money alone can only do so much; it is money combined with skills

and experience that achieve real impact. Impetus-PEF is leading the way in creating lasting change through this strategic combination.”

### Merging for impact

Impetus-PEF is itself the result of a merger in July 2013 of two of the leading venture philanthropy charities in the UK. After taking a long hard look at themselves, they did exactly what they would advise portfolio charities in the same position to do: join forces. At the heart of the merger is the determination to have the greatest possible impact on the lives of disadvantaged children and young people.

Since the merger, Impetus-PEF has been through a process of self-examination and change. The driving force here was the conviction that, as a nation, we have spent billions of pounds on initiatives to alleviate child poverty and the associated social problems. But only a fraction of this money, has produced real and lasting outcomes for the young people who need it most.

Impetus-PEF is committed to the social sector and has no desire to denigrate the good work done to date. But young people are being let down and there must be another way. Impetus-PEF leads by example: it asks the difficult questions, it scrutinises the evidence – driving more of what’s working and discarding what isn’t with one key goal: to constantly strive to deliver the greatest impact on the lives of young people. It is about helping charities first to become better and only then, helping them to grow.

So what does this impact-led approach look like? For Impetus-PEF, it’s the meaningful and sustained change in a vulnerable young person’s life which can be attributed to a specific intervention. It’s about how you measure success. Traditionally, success has been measured by charity ‘reach’ or levels of interaction between the charity and its service users. But success should not be about number of touch points – it should be about whether the outcomes of interventions are real and lasting.

We believe that the question that all of us in the social sector need to ask ourselves is this: How do

we know our interventions work? If you run an employment skills workshop for 200 young people from disadvantaged backgrounds and the feedback is that everyone found it interesting and enlightening, that’s positive and encouraging – but it’s not a concrete outcome and it certainly doesn’t follow that you will have made a real and lasting difference to the participants’ lives. A much more meaningful measure of success in the case of young people is: have the young people found work because of our intervention and, crucially, are they still in work 18 months after the intervention ended?

Street League is a charity that delivers eight-week programmes involving football and classes to help young people into education, training and employment – and that Impetus-PEF has supported since 2008 – certainly subscribe to this view. Its CEO Matt Stevenson-Dodd observes that: “At Street League, we used to measure our impact by counting how many people played football with us. Impetus-PEF helped us to focus on what really matters: actually getting the young people into work, training or education. That’s the beauty of Impetus-PEF: helping to add value to us as a charity, so that we in turn can get more and more young people into the world of work.”

This new impact-led approach is still cutting edge and, in some eyes, controversial. In business, success is measured in terms of profit and shareholder return but, in charities, that’s not part of the equation. Many charities do not think in terms of impact and often there is little incentive for them to do so. What’s more, the prevailing funder culture is still traditional so the social sector is not especially attuned to the more business-like, analytic and impact-led way of working. So, not surprisingly, the focus has been on securing funds and all the accommodations that this activity requires. Impetus-PEF believes this has to change. Our goal is to work with all stakeholders – donors, trustees, charities, policy makers and beneficiaries – to help bring about the real and lasting impact that disadvantaged young people so desperately need.

# Bat Bill or Super Gates: What Kind of Philanthropist Are You?

Martial Paris WISE Philanthropic Advisors ([www.wise.net/index\\_en.php](http://www.wise.net/index_en.php))

*The role of advisors is essential in helping to support individuals and their families deal with a range of issues including if and how to get involved or enhance their philanthropic giving and/ or social investment.*

*This is even more relevant as indicated in a recent study Family Foundation Giving Trends 2014 Report 6th Edition of the Annual Report on Private Giving by UK Family Foundations ([www.acf.org.uk](http://www.acf.org.uk)) which reinforced the importance of family foundations. Additionally The World Wealth Report 2014 [www.worldwealthreport.com](http://www.worldwealthreport.com) shows that creating social impact is important to 92% of high net worth individuals and this is done by investing to achieve a social impact, philanthropy and volunteering.*

Many studies have defined the various types of philanthropists and philanthropic activities. They show that philanthropists have diverse motivations and that there are many ways to perform philanthropy.

## The Avengers Are Back

**W**e could oppose two models inspired by the comics of our youth: Batman and Superman, or rather, Bat Bill and Super Gates.

On one side, a dark knight: A super-hero without supernatural powers, he must find help to compensate this lacks. He thus develops his own technology and relies on outside help (Alfred, and especially Robin), and sometimes on institutions (Police Chief Gordon).

On the other side, we have iron man: a superhero with supernatural powers (strength, vision, speed, flight), a quasi semi-god who doesn't need anyone to save the planet.

**The World Wealth Report 2014**  
**[www.worldwealthreport.com](http://www.worldwealthreport.com) shows that**  
**creating social impact is important to 92%**  
**of high net worth individuals**

In other words, there are two different philanthropic approaches: Bat Bill, who favors a strategic approach, is surrounded with advisors, relies on partners, and supports existing projects rather than new structures that are often redundant.

Super Gates' approach is less inclusive: he wrestles with a challenge, creates and supports his own initiatives, and contributes with his own skills and part of his wealth.



*Martial Paris*

### Is HNWI philanthropy as stereotypical?

Our experience is more nuanced, and specifically shows that philanthropists seek the following: social impact, commitment, flexibility and advice.

1. Social impact: a leading trend in recent years, social impact means that the donor wants to know precisely how his money is used and what the social impact is. Philanthropists do not support a sole cause anymore; they want to know the difference they make. To give is to choose; the measure of social impact helps philanthropists make decisions among the many solicitations they get.
2. Personal commitment: philanthropists don't want to be perceived as piggy banks or check-signing machines. They want to get involved and sometimes involve other family members. This commitment is expressed in various ways: visits to organizations and their beneficiaries, sitting on boards, or support in fundraising.
3. Flexibility: Philanthropists want flexibility in their support. This begs for a strategic, long-term, and cycle-based approach to support projects. New vehicles like the Donor-Advised Fund offer flexible tools and can be easily adapted as experience grows.
4. Philanthropic advice: besides impact and personal commitment, there is growing demand for philanthropic advising to be more inclusive and engage other family members. The transmission of values is key here. Philanthropic advisors can help define strategies so that the impact is increased and the aspirations of various family members are met. This strategic approach is always balanced out by choices made with the heart.

There are a large range of advisors, because philanthropy is transversal: financial advisors when it comes to making money available; legal advisors if a foundation or another structure is established.

Philanthropy is motivated by many different reasons, some very intimate, which is why we can speak of philanthropies. Philanthropy relies on individuals or families that evolve with time, and make their philanthropy evolve as well.

This evolution has consequences on the strategy. Experience has shown that families can often say what moves them, but have more difficulty defining clearly what they want to do with their donation. Decision-

making is not always rational; it is often a balance between heart and reason.

Those who advise families must understand change theory and favor a midterm approach that allows each family member to get involved according to interest and availability. This time-frame allows to learn from the first commitments and to analyze the social impact from the beginning.

**Philanthropists do not support a sole cause anymore; they want to know the difference they make. To give is to choose; the measure of social impact helps philanthropists make decisions among the many solicitations they get.**

Philanthropic advisors have to remain modest: families who have problems will not see them resolved only through philanthropy, but philanthropy can be a unifying force. Our experience shows that many advantages can be earned from a well-thought generosity. It allows for the transmission of key values for the Seniors Gen, and enables the upcoming generation (Next Gen) to take part in strategies and decision-making. It strengthens the ties and quality of the time spent together; sometimes, it also inspire a calling among some family members.

In conclusion, philanthropies are diverse, and more numerous than super-heroes. The challenge is to find the costume that will be the best fit.

# The Future is Innovation: Integrating Social Investment into Our Campaign

Clare White Alder Hey Children's Charity. ([www.alderheycharity.com](http://www.alderheycharity.com), [www.alderhey.nhs.uk](http://www.alderhey.nhs.uk))

*Charitable institutions when wishing to raise significant sums of money often embark on a major donor campaign – a traditional approach that uses a case for support to attract donations from high net worth individuals, corporations and trusts; these usually in the form of tax efficient donations. Some institutions like universities may raise investment funds for specific commercial ventures. These two approaches are usually separate activities; generally not leveraging relationships with each other.*

*An integrated fundraising campaign brings the two together, combining traditional major donor approaches with social investment making it an integrated campaign – the campaign funding/ investing in investable propositions, that is, lists of items that the charity is raising funds for e.g.*

- *Programme/service quality enhancement, growth, and new service development to meet emerging or unmet needs; capital campaigns; research.*
- *Social enterprises new product development and growth; supporting external partners/key stakeholders.*
- *Creating an infrastructure that will support greater organisational effectiveness, efficiencies and growth.*

*This approach allows for the leveraging of relationships, cross marketing and upselling. In the simplest terms there are different approaches to different donors, depending on their perspective.*

*Alder Hey Children's Charity fundraising campaign, as described in the article, is combining a traditional case for support approach with that of a business case utilising social investment methodology.*

The Charity landscape is changing. Pressures of the economic climate, together with an increasing number of charities means there is effectively less funding to go around. Yet, we at Alder Hey Children's Charity, believe that charities can still be optimistic about future success as long as they are willing to embrace innovation within their fundraising strategy.



Clare White

The UK Giving Report confirmed that charities are being asked to perform an ever expanding role in the current economic climate. It claimed that nearly half of UK voluntary organisations receive the majority of their funding from individuals but recent research suggests that these donations may be decreasing – ‘a worrying prospect for many charities and those they aim to help’.

Alder Hey Children's Charity is aiming to raise £30million for a new Alder Hey Children's Hospital, which is set to open in 2015. Alder Hey is already one of Europe's most famous children's hospitals and provides care to over 275,000 children and young people each year. However, the current hospital buildings are 100 years old (Alder Hey celebrated its 100th birthday in 2014) and are no longer fit for providing modern day healthcare.

Through its appeal, Alder Hey Children's Charity is raising funds to enable the new hospital to have the highest specification of lifesaving medical equipment, provide funding for vital research and investment for art and play activities that make a valuable contribution to a patient's happiness and wellbeing. The charity will also support digital technology in the new hospital and investment in other facilities that enhance a patient's experience. In short, it will transform a national children's hospital into one of the best in the world.

The appeal was launched publicly in October 2013 using the 'Land of Remarkable People' campaign and involved radio advertising on stations across the North West, regional PR, extensive direct mail and a social media campaign. The campaign has helped to raise awareness of both the charity and its appeal across the North West region. Since its launch the campaign has reached 170 million people through media coverage and 200 million people via Twitter.

A highly competitive environment coupled with the economic downturn have made it a difficult time for charities and launching an appeal of this size is certainly challenging. For this appeal to be a success we recognised the importance of understanding our donors and why they give – to achieve an impact – and what approach is appropriate such as a traditional philanthropic methodology using a case for support or social investment utilising a business case. We also knew that we would have to be flexible and willing to explore different fundraising options.

**In an increasingly competitive environment, charities need to understand what encourages donors to give more. With so many charities asking for vital funds, donors choose their charities carefully. More than ever, individual donors want to give to causes where they believe their contribution can make the biggest difference.**

The new hospital appeal still involves a number of traditional fundraising techniques, including straight forward cash donations and community events. Alongside regular direct debit cash donations, the charity's community fundraising and corporate giving teams have been maximising opportunities, building donor relationships, developing current donors and recruiting new supporters. Community volunteer groups, fundraising ambassadors, volunteering initiatives, sponsorship opportunities, fundraising events and tribute funds have all helped to build up community support, while creating both short and long term sustainable income.

This day to day fundraising activity will always be the bedrock of any charity campaign. Unsurprisingly with a campaign of this scale, major donors remain integral to the Charity's success in reaching its challenging £30m target in the timescale required.

An Appeal Board has been created to help the charity re-engage past major donors and approach new potential donors. Liverpool Football Club and England Captain Steven Gerrard is the latest major donor to come on board after pledging £500,000 to Alder Hey

through his Foundation. Following discussions it was agreed that his donation would be used to fund a Brainlab navigation system for an intra-operative MRI scanner in the new hospital's theatres. The remainder of Steven's donation will be invested in play equipment for the outpatients' courtyard.

Major donors have always preferred to 'sponsor' or pledge funds for a particular item, enabling them to see clearly the impact of their contribution. However it is clear that regardless of the size of their contribution, all donors are requiring greater information about how exactly their money will be used clearly identifying its social and health related impact.

According to *Managing in the New Normal* (March 2014), 44% of charities reported an increase in donors looking for charities to show they can demonstrate a social impact. Simple reporting is no longer enough. Charities need to be 'telling donors, supporters, funders and other stakeholders how [their donation] is fulfilling its purpose and making a difference to people's lives.' A survey conducted by the Charities Aid Foundation in April 2013 found that 81% of supporters wanted to see more hard evidence of the impact of the charity before donating.

In an increasingly competitive environment, charities need to understand what encourages donors to give more. With so many charities asking for vital funds, donors choose their charities carefully. More than ever, individual donors want to give to causes where they believe their contribution can make the biggest difference. Funders are increasingly asking charities to demonstrate the impact they individually are making. Transparency is vital in the new world of fundraising.

There is fresh focus on long lasting social impact and it's time for charities like us to be bold. Many donors are looking for a long term investment and relationship with the charity they support. They want to make a significant lasting impact or see a return in their investment. In recognising this, our future fundraising strategy involves investing in an innovative new way of raising money – these including a business case to address societal return on their investment and also providing opportunities to be more involved using the 'venture philanthropy' social investment ethos and model allowing for the donor to invest expertise and funding helping Alder Hey to achieve greater impact.

Alder Hey's new hospital will be a world class, iconic facility and is the first 'hospital in the park' in the UK. Sitting within acres of open parkland, the new Alder Hey brings some fantastic opportunities for the charity to explore using social investment, a relatively new approach to fundraising in the NHS and indeed the UK.

We are in early discussions with the hospital Trust about how the parkland can be used to build sustainable income. The aim is to bring together a group of related organisations, for example the local council, other charities and local social enterprises that together will invest and attract funding. These funds will then be used to develop the park into something that can make a real impact on community health.

Investment from donors to this scheme must have a long lasting impact that will bring multiple benefits to those involved. For this to be a success, the schemes will need to be self sufficient, while also bringing wider health benefits to children and young people.

Early discussions have begun on the type of schemes and projects that could give donors and investors the social return they desire. One simple idea could be to fund a garden or city farm that will be dedicated to growing a selection of fresh produce. Local schools and other community groups could be involved in looking after this garden and the produce could then be used in the ward based kitchens of the new hospital. Along with the educational benefits to those involved in looking after the garden, this project would enable the hospital to promote healthy eating to patients, families and staff thus supporting Alder Hey's vital role as a World Health Organisation health promoting hospital. Some of the food grown in the garden would also be sold at local markets or in a shop on site, enabling funds to be re-invested into the scheme.

Another idea involves developing sports facilities in the park that would be available for hire by local schools and the community. This again would be a fantastic way to promote an active, healthy lifestyle while bringing a return on the initial investment. Festivals, events, elderly residential housing projects, and restaurant facilities for staff are part of the project. It is early days but there are endless possibilities for this type of social enterprise.

An innovation centre is also planned in the hospital's new Research and Education facility. Using funding together with the skills and knowledge of Alder Hey experts, latest technologies and medical products could be developed in this innovation hub before being commercialised and sold across the industry. Meanwhile, for the new hospital, the charity is already working in a collaborative commercial partnership with a gaming company to develop a 3D 'virtual world' platform which will recognise patients on arrival and enable them to create their own personal characters or 'avatars' that would accompany them on their Alder Hey journey. Along with the obvious benefits this would have for the patients' experience, there is potential for



the platform to be commercialised in the future for use in other organisations and profits fed back for future charitable investment.

*Steven Gerrard  
pledging £500,000*

As Galvanize Digital Solutions Chairman, Professor Paul Morrissey, puts it: "It's a great honour as a Liverpool SME to bring our Digital and Creative skills and competencies to this exciting and worthwhile major local community project. We firmly believe the experience children realise through today's gaming and digital technology can be encapsulated within a Virtual Hospital environment to provide encouragement, comfort and support for children in what can often be a very frightening and stressful time."

The short term focus is to stay brave and continue to work closely with the Alder Hey Children's NHS Foundation Trust, commercial partners and financial experts and make ideas such as these a reality.

# Investing In Our Communities

Stephen Hammersley UK Community Foundations ([www.UKcommunityfoundations.org](http://www.UKcommunityfoundations.org))

*UK Community Foundations is the umbrella organisation for all community foundations in the UK, providing philanthropic advice to clients and delivering UK-wide grant-making programme; the purpose of which to help build thriving communities.*

*The article provides another perspective on social investment, one of which local community foundations as intermediaries managing and distributing funds on behalf of philanthropists and social investors; leveraging their funds with volunteers and local knowledge.*

The landscape of charitable funding has seen a seismic shift over the last ten years, and traditional methods must develop if the vital work of the charity sector is to continue. Government spending on the sector has been severely reduced, whilst charities are being put under more pressure than ever to fill the gaps left by government cuts. The fast-growing world of social investment may well provide part of the solution to this pressing reality.



*Stephen Hammersley*

One strand of this which has seen an unprecedented increase in recent years is social investment through community foundations, which address local need through the funding of various regional charitable organisations. In 2013/14 around £150m was raised and/ or channelled into communities – a record that includes around £80m into community endowment taking the stock to over £450m.

By investing through a community foundation, the investor/ philanthropist is able to leverage their funding. Financial leverage comes from the fact that the invested ‘pot’ grows and their money can be distributed gradually across a host of different charitable causes (boosted at present in England by a government 50% incentive). Social leverage comes from the fact that each donor’s fund builds the capacity of the community foundation as a platform for all kinds of giving and social investment.

One recent social investment triumph which makes full use of the platform provided by a community foundation is the Kent Big Society Fund. Run by Kent Community Foundation, this Kent County Council fund provides loans to assist local charities and social enterprises, looking to start or increase their trading

income from either selling a product or tendering for a service. Since it started in 2011 the fund has seen an increasing interest from prospective applicants and has offered support totalling £1.5m to 26 local organisations.

One of the first beneficiaries of the fund was the start up social enterprise, Turner Cars, based in Margate. Competing for contracts from the Council, Turner Cars provides transport from home to school for children with special educational needs. The fund provided initial capital for the purchase of two wheelchair adapted vehicles, since then, the enterprise has expanded to operating the largest wheelchair adapted service in Thanet.

Fund Manager Andrew Garrett said, “We know that the traditional sources of income such as grants and donations are being squeezed for organisations. The Kent Big Society Fund shows that social investment at a

local level can provide a massive boost in helping them to maximise the potential for income generation and continued service provision or expansion.”

Initiatives such as the Yorkshire Venture Philanthropy (YVP) scheme (created by the Leeds Community Foundation and delivered in partnership with the community foundations of Calderdale and South Yorkshire to stimulate the growth of local social enterprise) also allow social investors access to third sector organisations that wish to develop a culture of entrepreneurship. The scheme provides a combined grant/ loan package with Key Fund offering repayable social investment while community foundations provide both local expertise and match grants. This reduces the risk for charities and start-up social enterprises and gives them the opportunity to test their social business models, while mitigating the risk of failing to repay 100% of the total funds



Workers at Enabled Works Ltd, a Workers Co-operative and Social Enterprise that provides employment, learning training and rehabilitation for disabled or disadvantaged people in Leeds. The Yorkshire Venture Philanthropy provided £75,000 to purchase much needed equipment to deliver commercial contracts along with a business mentor and pro bono support.

given. The Yorkshire Venture Philanthropy Scheme boasts a number of success stories, including the South Leeds Alternative Trading Enterprise (SLATE), a social enterprise providing work and volunteering opportunities for people with learning difficulties in the inner Leeds area. The organisation's retail outlet, 'The Feel Good Furniture Shop', provides a place for the company to sell unwanted furniture at affordable prices, mainly to people from the most disadvantaged areas of the city, while stopping furniture being dumped or going to landfill.

Since the beginning of YVP two years ago, it has invested £400,000 in grants, supported 60 social enterprises, recruited 20 individual mentors, provided practical support to 25 companies, created 35 new jobs, safeguarded 25 additional jobs, and created 9 new businesses. Such is the success of YVP, Leeds Community Foundation have just launched new investment prospectus charting the progress of the programme and focussing on the impact of five of the supported groups.

In both locations, local donors are also looking more closely at social investment. Garrett said, "Being able to 'use' their money more than once as loans are repaid is a major benefit, as is the fact that an applicant has to really consider the long term sustainability of the organisation and its services."

Community-led charities often have real benefits for investors, as a relatively small amount of money (as a grant or loan) goes a long way, being leveraged by the time of committed volunteers and vast amounts of local knowledge. However, small, community-led charities are often prohibitively expensive and difficult for social investors to access. Community foundations, through their expertise and local presence, help investors find and fund social enterprises and community groups, making the process easier and more effective.

The success of these schemes highlights the exciting opportunities offered by social investment, both for investors and for charities needing to adapt to survive in these austerity-laden times. With numbers of charities continuing to rise, and public sector funding continuing to fall, our sector needs to consider how to attract more investment for social good. Ever-more savvy donors are looking for different ways to have as much impact as possible with their funding. Community Foundations rapid and accelerating growth suggests that much of what we do will be towards the traditional end of the spectrum, but increasingly we expect our infrastructure to be used by philanthropists wanting access to the techniques of social finance at a local level.

# Innovation in Service Creation and Development and in Fundraising

Nava Hinrichs The Hague Process on Refugees and Migration ([www.thehagueprocess.org](http://www.thehagueprocess.org))

*Another example of an integrated approach to revenue generation combining traditional major donor (case for support) and social investment (business case) as basis for raising funds in support of the pilot and of converting the organisation from a charity ethos to a social enterprise commercial approach in support of long term financial sustainability and growth.*



*Nava Hinrichs*

## The Organisation

The Hague Process on Refugees and Migration (THP) is an innovative, independent, not-for-profit organization with a global network of over 4,000 individuals, public and civil society organizations and institutions that brings together stakeholders to seek policy solutions to migration and refugee challenges. THP is unique in its innovative approach to engagement with the private sector and global cities on migration and refugee issues. It is also innovating in the way it is raising funds – taking an social investment approach utilizing a business case clearly articulating market need, the products/services and business model designed to meet the need, investment required and societal return on investment, and the organisation as a success invested in by others.

**T**HP is currently testing an innovative pilot project: creating a business-city partnership in the city of Rotterdam to address labour and skills shortages through the migrant population. This new partnership approach is unique and is creating solutions to the specific labour needs of the businesses in the city.

THP is also innovating by moving from being a charity towards becoming a social enterprise to ensure long-term sustainability whilst achieving our mission. Subsequently, THP is looking to expand in the coming years the organisation to other cities in the world using a social franchise model.

The support and guidance from THP's Board of Directors has been instrumental in all areas of innovation. Members of THP's Board include HRH Prince Constantijn of The Netherlands, Professor Ian Goldin (Director of the Oxford Martin School at the University of Oxford), David Arkless (CEO of Arklight Consulting and former President of Manpower Group's Global Corporate and Government Affairs).

THP is supported by trustees from the most senior levels in the corporate sector and academia as well by experts in migration and has been financially supported by such groups as ManpowerGroup, Western Union, Shell and Unilever, foundations such as the Ford Foundation, Oxfam Novib, UNHCR, Danish Institute for Human Rights, the Dutch Postcode Lottery, the Swiss Federal Commission for Refugees, and governmental ministries including the Dutch Ministry of Foreign Affairs, the European Commission, and the German Ministry of Development. To date, THP has received a total of approximately €6 million in donations and grants.



*Global Hearing 2012 at the Peace Palace, The Hague*

### Organisation Accomplishments

THP has achieved numerous successes in pursuit of its mandate. Notable examples include:

- *Intergovernmental Global Commission on International Migration:* THP played a crucial role in establishing and coordinating the Intergovernmental Global Commission on International Migration.
- *Global Forum on Migration and Development (GFMD):* THP convened and influenced governmental quarters for the establishment of a non-binding Global Forum on Migration and Development (GFMD) consisting of an intergovernmental component and a separate civil society component.
- *UN High-Level Dialogue on Migration and Development:* THP was consulted on the topic of business and city engagement during the drafting of the agenda of the 2nd UN High-Level Dialogue on Migration and Development, coordinated by UN Special Representative on Migration and Development, Mr. Peter Sutherland.
- *World Economic Forum's Global Agenda Council on Migration:* THP was invited to become a member of the World Economic Forum's Global Agenda Council on Migration due to its expertise in building a nexus between the private sector and city governments.
- *Expert Consultations:* THP conducted a series of Expert Consultations in cities around the world (Johannesburg, Manila, Toronto and Istanbul) to address the role of cities and the private sector in migration challenges. THP convened both local and international actors to discuss pertinent local migration issues.
- *Global Hearing on Refugees and Migration:* THP organized the 2012 Global Hearing on

Refugees and Migration where over 200 individuals from over 60 states came together at the Peace Palace to discuss pressing issues in refugee and migration policies and outline a strategy for the coming decade.

### Current Market Need

Increasingly over the years, THP has focused on the role of the private sector and the role of cities in addressing migration and refugee challenges.

**Businesses** are increasingly struggling to fill skills gaps from within their local labour market. The Organization for Economic Cooperation and Development (OECD) found in its 2012 survey that one in four employers is currently unable to find the right person to fill a position in their company. Tapping into the migrant labour force more effectively could help alleviate this challenge. Recent studies show that about one third of the growth in the Euro area, the UK and the USA over the past decade can be attributed to immigration and that "a more rapid pace of immigrant inflows in the decades ahead will result in a corresponding increase in the level and growth rate of GDP"<sup>1</sup>. In effect, increased migration leads to improved productivity, profitability and GDP.

**Cities** are faced with the challenge of effectively integrating migrants, including easing access to the labour market. Capitalizing on the skills migrants have to offer not only attracts foreign investment, but also reduces the cost that migrants could potentially have on the welfare system due to unemployment.

**Migrants** need to gain employment, thus contributing to the local economy and actively participating in their new community.

All three of the above stakeholders tend to address their respective challenges in silos resulting in disjointed solutions that are less effective. Given the complementary needs of all three groups it is crucial for them to work on these issues in partnership to give results that can be mutually beneficial.



*Global Hearing 2012 at the Peace Palace, The Hague*

### The Hague Process Solution

A series of Expert Consultations convened by The Hague Process (THP) in Johannesburg, Toronto, Manila, and Istanbul with city authorities and key local businesses highlighted the need for further cooperation among stakeholders. The consultations were a unique platform where local government and the private sector addressed migration issues together. From this successful experience THP concluded the way forward for practical action was to facilitate the formation of partnerships between the private sector and cities.

THP has designed a project in Rotterdam to create a formal partnership between the city and the private sector. The aim of the partnership is to firstly, identify specific labour migration needs as expressed by the private sector in Rotterdam, secondly, to design models based on best practices which can address those needs, and thirdly, to implement the models with the private sector and cities as the key actors. The office of the Mayor and key businesses in the city have expressly stated the need for labour migration solutions and turned to THP to facilitate this process, making it a demand-driven process. The experience gained by THP over the last 14 years makes it uniquely positioned to facilitate the formation of such partnerships.

After successfully completing the Rotterdam project THP will roll out four more partnership projects in different European cities and then progressively expand to create partnerships in other regions around the world. THP will also conduct applied research on

one key area in the migration and refugee field per year over five years to identify additional areas of activity in need of further support.

THP's long-term vision and model is intended to be a profit generating social enterprise; THP is seeking long-term financial sustainability whilst achieving its mission of safeguarding the rights and opportunities for migrants.

### Impact

The partnership project will attract foreign direct investment, up skill migrants to enter the labour market and lead to further economic growth in the city. Businesses in the city will be better able to fill skills and labour gaps by expanding their employee pool to include skills offered by migrants, leading to greater efficiency and increased productivity in the company. The city itself will benefit in that it will reap the rewards of greater economic impact, increased integration and access to jobs for migrants which will also reduce the cost that migrants could potentially bare on the welfare system. Similarly, migrants themselves will be more effective and active participants in their host communities and contribute to the economic and societal wellbeing of the city.

# The Quid Pro Quo between Business and Society

Steve Almond Chairman of Deloitte Touche Tohmatsu Limited's (Deloitte Global) Global Board of Directors ([www2.deloitte.com/global/en](http://www2.deloitte.com/global/en))

Another approach to impact investing is articulated in this article; addressing the role of the corporate sector in investing in society; not just attempting to maximise returns to shareholders.

GoodCorporation, which supports businesses in the area of social responsibility, has indicated that:

- The various scandals of recent years have shown that how a business treats its employees, customers, suppliers, shareholders and neighbours does matter.
- Good social responsibility means taking the interests of all stakeholders into account.
- With governments and regulators placing businesses under greater scrutiny, a clear understanding of this is vital to good business management.
- To restore trust and rebuild reputations businesses need to remember that in addition to making profit, they also have an obligation to society.

Links to background information at [www.goodcorporation.com/business-ethics-debates/restoring-trust-in-business](http://www.goodcorporation.com/business-ethics-debates/restoring-trust-in-business)

[www.goodcorporation.com/business-ethics-debates/are-business-ethics-getting-worse](http://www.goodcorporation.com/business-ethics-debates/are-business-ethics-getting-worse) and [www.goodcorporation.com/wp-content/uploads/2013/06/News-Focus-ethics.pdf](http://www.goodcorporation.com/wp-content/uploads/2013/06/News-Focus-ethics.pdf)

It is now widely accepted that business has a fundamental role to play in building society. And in an effort to restore public trust in the aftermath of the global financial crisis, an increasing number of CEOs are endeavoring to articulate a societal purpose for their enterprise that is distinct from but does not conflict with the profit motive. The Millennial generation, projected to make up 75 percent of the workforce by 2025 is accelerating this shift. Deloitte's *global survey of millennials* tells us that they believe the success of a business should be measured in terms of more than just financial performance and a focus on improving society should be among the most important goals for business leaders.



Steve Almond

Harvard Business professor, Michael Porter, put it eloquently when he argued that connecting company achievement to social progress creates a sense of shared value that leads to economic success. Simply put — business does better when society does better.

But with so many competing issues and challenges— from resource scarcity and climate change to income inequality and access to education—where does a business begin making an impact beyond traditional corporate social responsibility programs? And, how do they know where they might have the greatest impact? In simple terms, there are three key steps to finding out.

1. **Use data to determine the issue that best aligns with the core business.**

Unilever's commitment to making hand washing a habit for 1 billion people around the globe was based on sound research and aligns directly with their business. Businesses should only invest in a new market or a sector when research tells them there is a match of need or opportunity with their own skills and expertise.

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*The Social Progress Index (SPI)* provides a comprehensive tool to help businesses to determine where to focus their efforts. Developed by the Social Progress Imperative in collaboration with Harvard Business School, Deloitte, The Skoll Foundation, among others, the Index provides an authoritative view of a country's social and environmental strengths and weaknesses based on the issues that matter most. By identifying the areas that are hindering a particular country's progress relative to their peers, it can serve as a country specific guide for to help businesses determine where to leverage their skills and expertise to greatest effect. Measuring social progress of over 130 countries, covering 90% of the world's population, the Index considers three key areas: Basic human needs – such as water and shelter; Wellbeing – such as health and secondary education; and Opportunity- the ability people have to improve their lives – such as through equality and personal rights.

2. **Identify the right partners.** The complexity of the big societal challenges demands collaboration. The Index can act as a catalyst in bringing different parties together to address a single issue, combining the authority and policy making of government,

the convening power and subject matter expertise of NGOs and the technical skills and creativity of the private sector. We have seen this first hand in Latin America where Deloitte leaders have been collaborating with leaders from business, government and society to accelerate action. For example, the Paraguay government issued a Presidential decree, making SPI an official measure of national performance and committing the government to work with the Social Progress Network Paraguay, comprised of 12 NGOs, foundations and businesses, including Deloitte, to support the implementation of the National Development Plan 2013-2018 with priorities in water, nutrition and sanitation, the key areas of need identified by the Index.

3. **Measure impact.** Businesses plan for and measure 'Return on Investment' (ROI), and stakeholders expect nothing less. Corporate citizenship should be no different. There are ways to measure how a social investment affects brand awareness and reputation. But stakeholders also want to know that their social programs have real impact. SPI can serve as a measurement tool to guide business investment efforts. For instance, in Brazil, Coca Cola in collaboration with their local partners have begun to apply the Social Progress Index to develop a way of assessing the impact of their investment efforts. Measurement can help businesses further refine their programs to have a bigger ROI in future years.

Businesses are becoming increasingly aware of a symbiotic relationship with social progress and are keen to collaborate with governments and NGOs to address societal challenges. Moreover, responsible businesses know they must engage their stakeholders who demand more value and more impact from business, and demonstrate their contribution to society. After all, a sustainable and prosperous society needs thriving businesses – and for business to thrive over a sustained period, it needs to operate in a prosperous society.

# Microfinance in a Nutshell

Christelle Kupa ([www.symbioticsgroup.com](http://www.symbioticsgroup.com))

Microfinance plays a significant role in supporting low income people who generally have limited access to financial services. According to MIX [www.themix.org](http://www.themix.org) 'microfinance institutions currently operate in over 100 countries, serving more than 92 million clients'.

In May an event, entitled 'Impact Investing – Doing Well by Doing Good' took place in London. There were presentations on global microfinance initiatives, impact investing, inclusive finance and philanthropy. A panel debated 'The Two Dimensions of Impact Investing'. CSSP AG Liechtenstein launched their new guide about 'my Impact - Fundamentals of Modern Philanthropy' at the event. The guide has been issued as a print title (2014 edition) and is available online [www.myimpact.li](http://www.myimpact.li). To find out more about the EMF Initiative, please visit [www.enabling.li](http://www.enabling.li)

## A Significant Industry

Microfinance can be defined as the provision of access capital in low and deprived economies.

While the microfinance industry has its historical roots in the 19th century, it wasn't until the 1970s that microfinance institutions such as Accion and Grameen in India started to emerge.

It was the realisation that return on investment for the lender was not only relative to the interest charged but also to the size of the loan that created a gap in the market for social enterprise and charitable investment.

The first ever microfinance fund was launched in 1998, ahead of the United Nations development goals which promoted the use of such funds for financial inclusion. The growth of the industry culminated in 2006, when Muhammad Yunus, the acclaimed father of microfinance, won a Nobel Prize.

Microfinance investment has emerged about a decade ago and has been transformed from unattractive rural financial activity into development programs for investors to be lending directly to a micro entrepreneur in remote area.

Microfinance has seen an unprecedented growth in developed markets from 2004 to 2008, representing a staggering USD 29 billion in assets under management.

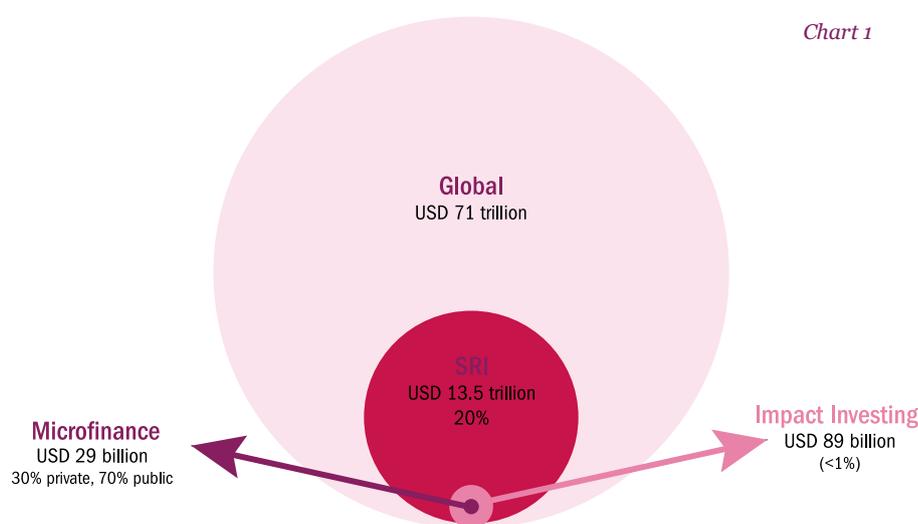
Overall the microfinance investments industry has developed into an attractive uncorrelated asset class. See Chart 1 below.

Microfinance is widely recognized as a strong development tool and financial inclusion mean, providing an appropriate macro and micro economic framework to support the underprivileged.

Microfinance, as useful as it may sometimes be in reducing poverty, is of limited use in long-term economic development.



Christelle Kupa



MIV survey 2014

The danger of microfinance is that it promotes the worldview that poverty reduction, rather than economic transformation, is the central purpose of development.

Microfinance as an investment vehicle. The current Asset under management in Microfinance is estimated at USD 9.9 billion. The annual MIV survey produced by Symbiotics (with the collaboration of 80 participant), which include exclusively commercial funds, shows us an increase of 17% growth of the total asset and microfinance portfolio. Both Switzerland and the Netherlands were the top managers in microfinance. See Table 1 and and Chart 2.

### Microfinance: its Challenges and Controversies.

In the past few years the microfinance industry has encountered challenges in countries where the industry has become highly institutionalized. Unstable levels of growth left some countries, such as Nicaragua and Morocco, vulnerable to repayment crisis.

Looking at Nicaragua, one can note a sharp decline on the return on equity beginning in 2008, and a PAR (portfolio at risk) that exceeded 10%. These two indicators highlight a severe deterioration in the quality of loans. As always, context is crucial to understanding the origins of the issue. Nicaragua suffered from a delinquency crisis that affected 22 major Macro Financing Institutions (MFIs) in the northern region of its country. The fundamental reason for this was that the northern region was the epicentre of the *no pago* movement (no payment); a strong political movement encouraging borrowers to not repay any debt accumulated which emerged in 2008. Similar to Nicaragua, the quality of debt in Morocco in 2008 raised alarm bells with a PAR over 30 days >10 %.

However, the main issue in Morocco was that the merger and acquisition of the largest MFI at the time

became public, that particular MFI grew by 150% in 2006 with an obsolete technology, producing misleading reports and leading to a delinquency crisis soon after.

The industry came under scrutiny when things started to get more difficult. Especially in connection to the credit crisis the world has suffered from. Furthermore, the microfinance industry has been highly criticized for the high rate charged by some MFIs to their end clients, since the microfinance is intended to help the poor. Indeed, in some instances usurious lending practices tarnished the reputation of the industry.

In addition, some criticized the fact that lending to entrepreneurs with a promising future may not have achieved the desired effect. Indeed, in some instances, some first time borrowers found themselves unable to grow as part or all their profits were consumed by debt servicing costs. Thus, in some cases, a small business relying on an unsecured loan needed to grow at a faster rate than a large business on top of the normal pressures of competing in an open marketplace.

Lessons have been learned from these recent challenges, allowing the industry to understand how to address these issues. For example, in many countries we have seen the emergence of credit bureaus that support MFIs to prevent delinquency problems by providing help on managing the credit risk for lenders. Also, a good exchange of information with regulators and a mapping of the market should allow MFIs to better understand the risks and opportunities of their market. Moreover, better access to technology should help both sides of the loan to lend and repay.

These recent developments are expected to strengthen the microfinance industry in many countries. Nevertheless, the recent delinquency

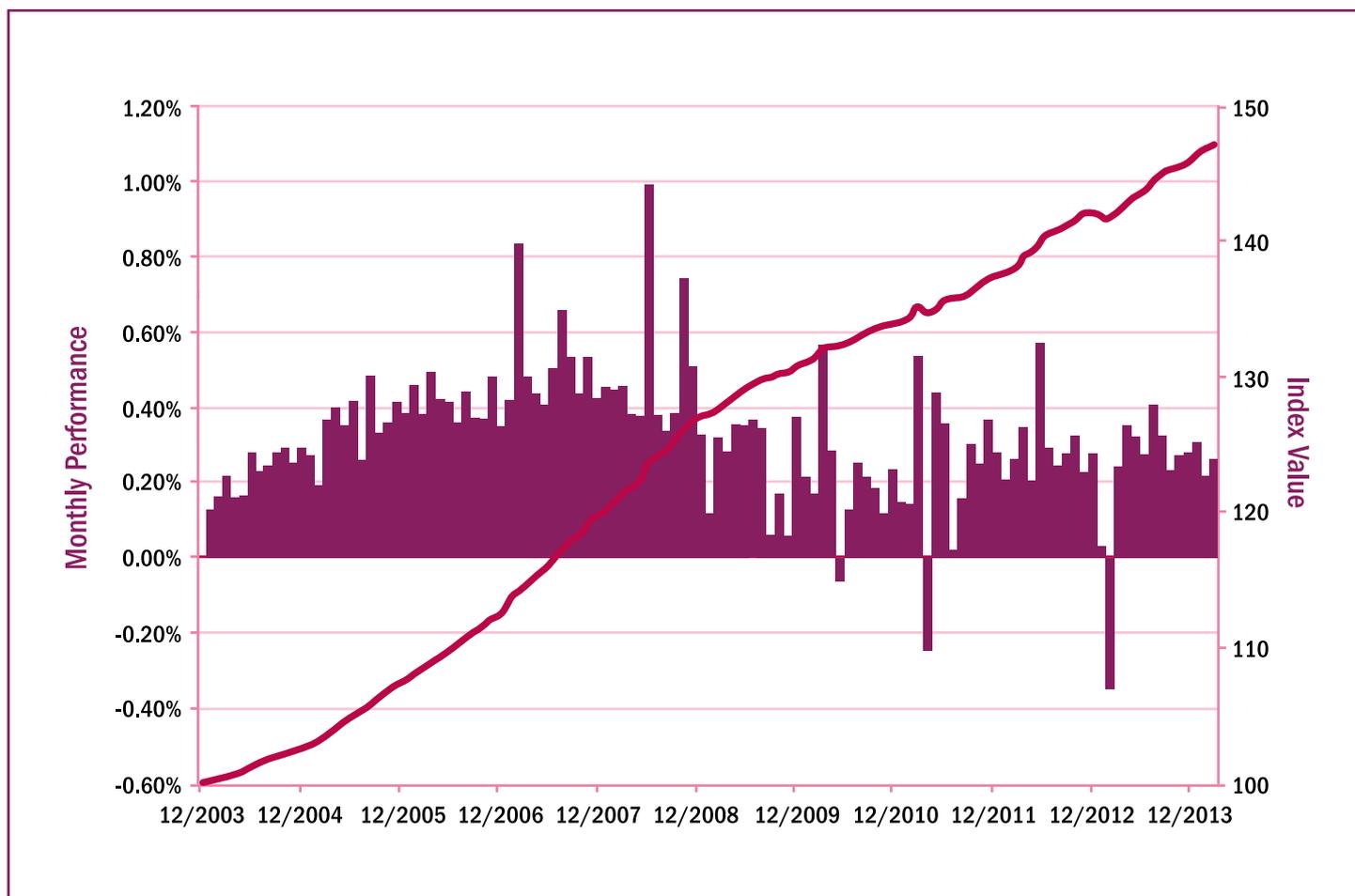
**Table 1. Asset Managers' Domicile**

	TOTAL ASSETS (USDm)	MICROFINANCE PORTFOLIO (USDm)	NUMBER OF PARTICIPATING ASSET MANAGERS
	9,276	7,080	44
SWITZERLAND	28.4%	32.9%	13.6%
THE NETHERLANDS	28.0%	25.4%	13.6%
GERMANY	16.8%	14.4%	6.8%
UNITED STATES	8.9%	9.7%	25.0%

MIV survey 2014

**Here is the industry performance**

Chart 2



**Table 2. Impact investing sector allocations**

SECTOR	AuM	% OF AuM
MICROFINANCE	6,400,000,000	72.1
SME FINANCE	1,300,000,000	14.6
AGRICULTURE	585,000,000	6.6
HOUSING	100,000,000	1.1
EDUCATION	17,000,000	0.2
ENVIRONMENT	216,000,000	2.4
CROSS-SECTOR	263,000,000	3.0
<b>TOTAL</b>	<b>8,881,000,000</b>	<b>100</b>

[www.cgap.org](http://www.cgap.org)

crisis is a reminder that microfinance remains a risk management business. The microfinance industry can justifiably emphasize its strong historical financial and social performance. Yet new risks and challenges are being discovered as microfinance develops. MFI managers, investors, and regulators should look for and be open to discussions of these new risks and work to find the most appropriate mitigation measures.

### Microfinance and Innovation

Over three billion people in today's world lack access to basic financial services, and extending banking to these individuals has the potential to transform economies and improve livelihoods.

One of the most promising means of reaching this goal involves expanding mobile banking services. Indeed, mobile phones have now become tools for saving money, transferring funds and accessing credit, to mention just a few of the numerous innovating products provided by the mobile banking industry. In the last few years other innovating product linked to microfinance have emerged (which includes microcredit, microinsurance, and a whole host of other innovations).

### Microfinance and Impact Investment

The notion of impact investing became integrated in the financial market rhetoric in 2007, and is now widely used by companies investing in developed and emerging markets, especially in Sub Saharan Africa.

A study by JP Morgan, Social Finance and the Global Impact Investing Network highlighted that about 70 percent of the total money is invested in emerging markets, and that investors are most planning to increase their allocations in sub-Saharan Africa.

Impact investing describes an investment approach which aims to make a financial return alongside a positive social impact. Both financial and social objectives are equally targeted and pursued, making impact investing different from philanthropic investing where financial return is not a concern, and from socially responsible investment where negative impacts are avoided but positive impacts are not necessarily required. Impact investments are made with the intention of generating measurable social and environmental impact, along with a financial return. The impact investment term is used to not only do good but measure the positive impact on every investment made without compromising the financial return on the investment.

Impact investors do not distinguish themselves from traditional investors by their funding vehicles, products, or the markets or sectors in which they concentrate, but rather through the motivations behind their investment. Therefore, broadly speaking, impact investors fall into two categories:

- 'Impact first' investors who aim to maximize social and environmental impact and are prepared to accept below-market-rate returns
- 'Finance first' investors who seek investment vehicles that offer market rate or above returns while secondarily generating social or environmental impact

A key feature of impact investment is that 'impact' is measured and reported. From the table above, one can see that Impact investing represents over 89 billion of investments in USD worldwide. A recent study showed that last year about \$10.6 billion in impact investments were made and investors intend to commit this year a further \$12.7 billion or 19 percent more.

Compared to the entities financed by MIVs, impact investment goes to a much more diverse group of possible investees.

Many specialized investment firms have emerged with the sole focus on impact investment, and many more mainstream institutions have started to offer impact investing products. Indeed, market surveys indicate that a growing number of clients are asking their private banks and family offices to offer impact themed investments.

Impact investments are funded by development finance institutions, private foundations and specialized asset managers. According to CGAP, one third of the impact investing comes from institutional investors

and private individuals, donors and public investors as an opportunity to leverage private investments into solving development goals. These investors are the main actors supporting high risk investment and early stage businesses.

### What are some of the challenges related to impact measurement?

The impact measurement is one of the most challenging aspect of impact investment. Impact investments should use common metrics and methodologies in order to compare and benchmark every fund and project. There are now 2 international tools that help the community to be aligned. These are IRIS and GIIRS.

### Describing the TA Facilities Offers With Funds

Technical assistance (TA) for funds is a powerful tool to help the MFIs develop themselves and the products they offer to their end clients. As well as helping the MFIs on their business development, the TA aspect of an Impact Investing fund is often used to fund various consultancy projects. These projects translate in the form of upgrading IT systems, converting excel spreadsheets into adequate accounting tools. Furthermore, TA can provide training from management to lower level clerks, improving the corporate governance. In most cases the TA is facilitated by grant raising, which runs alongside the Fund for which we can increase the impact.

### Microfinance and beyond

Tiny firms, micro-enterprises, usually employing a handful of people, frequently get more attention, as donors seek to help the very poor. The recent Nobel Peace Prize awarded to Muhammad Yunus of the Grameen Bank visibly demonstrates the emphasis given to this approach.

But the type of support inherent to microfinance lending is generally ill-adapted to serving their slightly larger, and arguably more dynamic cousins, the SMEs.

In high-income countries, small and medium enterprises (SMEs) are responsible for over 50% of GDP and over 60% of employment, but in low-income countries they are less than half of that: 17% of GDP and 30% of employment. This SME gap is called the 'missing middle'.

The 'Missing Middle' is a phrase that has been used relatively loosely in economic development discussions. But what does the term 'Missing Middle' really mean? For some, the term has meant 'a lack of SMEs in the developing world.' For others, the term has meant 'the lack of investable capital targeted at funding SMEs.'

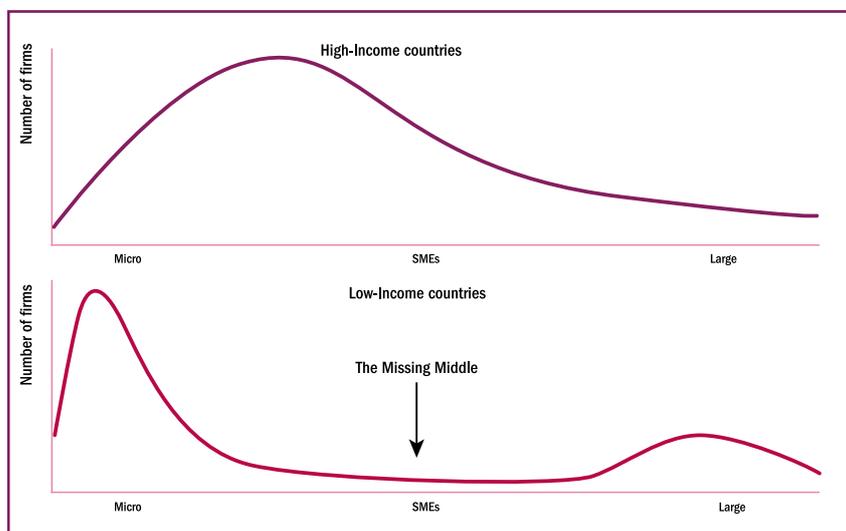


Chart 3

The World Bank defines Small Enterprises as those that need loan sizes of \$10,000 to \$100,000 and Medium Enterprises that need \$100,000 to \$1 million to grow. Small and medium-sized enterprises (SMEs), typically employ 10 to 250 workers, form the backbone of modern economies and can be crucial engines of development through their role as seedbeds of innovation. In many small and less-developed countries, it should be noted, firms employing 250 or 500 people could well be among the larger firms in the country. In much of the developing world, though, SMEs are under-represented. A critical missing ingredient often being capital.

New options are emerging for meeting SMEs' financial needs, including commercial banks moving 'down-market,' micro-credit institutions moving 'up,' and creative application of venture capital investing ideas.

Private investors-sometimes with collaboration from and in partnership with the public sector have a key role too. For example, in the case of firms facing high-risk, high-return scenarios, home-grown 'angel investors' can step in.

Donor support for traditional microfinance models has helped provide basic financial services to millions of poor people. But in order to help build dynamic competitive economies in developing countries, the time has come to pay greater attention to the potential of small and medium-sized commercial firms to promote economic growth.

### Illustration of the 'missing middle'

# Social Investing in Asia: What has Worked?

## Lessons from AVPN 2014 Annual Conference

Stacey Choe and Claude Ville-Lessard AVPN ([www.avpn.asia](http://www.avpn.asia))

*The Asian Venture Philanthropy Network (AVPN) is building a vibrant and high impact venture philanthropy community across the Asia Pacific region. AVPN has more than 150 members from 26 countries and has a Member Directory and listing of Events at [www.avpn.asia](http://www.avpn.asia). Its importance is bringing together a multiple sectors e.g. finance, business, the social sector and venture philanthropists. It has played a significant role growing venture philanthropy from practically nothing several years ago. See [www.avpn.asia/member-directory](http://www.avpn.asia/member-directory) for locations and membership in Asia.*

On May 15th, as she introduced her closing round-up to the main conference, Asian Venture Philanthropy Network's (AVPN) CEO Naina Subberwal Batra looked at the audience and smiled, "I think it's been a really exciting two days". Indeed, with 26 sessions, 88 speakers, 390 delegates, 244 organisations and 29 countries represented, the second annual conference had been a clear success. The energy level, the conversations and the rewards had been high, but this was not surprising. As Naina reminded the participants: "we are here all for one reason and one only: maximize social impact". This ultimate motivation in Asia, a place of such dynamic economic growth, drive, but also, unfortunately, increasing inequalities, merits to be reiterated yet again.



*Stacey Choe*



*Claude Ville Lessard*

**T**he AVPN Conference 2014, which was held over 3 days from 14th to 16th May 2014 in Singapore, was a great learning opportunity for many practitioners in the social investing field, and a helpful insight for investors from Europe and America in understanding the landscape of philanthropy and social innovation in Asia.

The central themes that underlie the conference already set the tone of the sessions, reminding everyone that venture philanthropy should not just be about funding, but also human and intellectual capital. This is an often overlooked point when working with funders, as too much focus is placed on grant size, or in the case of impact investors, the possible financial returns that they can get. The sessions at the conference highlighted

and reinforced how much technical expertise was required in this industry in order to ensure the efficacy of the investments and to maximise social impact.

The breakouts explored models of blended value, promoted co-investing, discussed ways to increase deal flow, and debated on methodologies of performing due diligence. Many of these were the usual headaches experienced across the array of grant-making foundations, impact investing firms or philanthropy advisors. Thus, it was also interesting to note that the solutions and the expertise required were applicable to the different organisations. What surfaced as most important were the professionalism that comes with market experience, plus the understanding of the social sector, which would allow the effective adaptation or application of models and concepts.

.....  
**...we are here all for one reason and one only: maximize social impact**  
 .....

As for the practitioners coming from out of Asia, one of the best things that the AVPN Conference offered was the three-in-one insight into Asia – allowing them to understand the stage of development of the sector in the region, the market size, and the key players.

Asia is still lagging behind its western counterparts in social investing even as it tries to leapfrog its way with borrowed models and concepts. However, it is also very much a misconception to pass judgment on this vast varied continent with a sweeping statement. The social sector has developed at different paces and investments are also at different stages of advancement in different countries. The opening plenary at once discussed what has and has not worked in Asia, with representatives focussing on India, Hong Kong, and Southeast Asia. The speakers were from Ford Foundation, Acumen Fund and RS Group from Hong Kong, which specialised in blended value investments, and was moderated by Crystal Hayling from Lien Centre for Social Innovation, based in Singapore.

What was also helpful for practitioners seeking to understand the local markets was the launch of a new report by AVPN, titled 'Getting Started in Venture Philanthropy in Asia'. Besides covering an overview on what venture philanthropy is about, there are five other separate reports on the legal frameworks in India, China, Hong Kong, Singapore and Japan. Working with the law firms of Clifford Chance, Drew & Napier and Nishith Desai Associates, the reports detail what every practitioner should know before venturing into the countries, in terms of fund set-up, regulations and considerations with regards to organisation structure and entity regulations.

What is ultimately the most beneficial to delegates at such an event could be the open sharing of their experiences, on what had and had not worked for them, and the lessons learnt in their journeys. These could be on implementing and adjusting their impact measurement, reaching out and finding the right local partners and investee organisations, or even understanding more about the local cultures and nuances of working with local communities.

AVPN offers the network and platform for such sharing across the different stakeholders. We are looking at developing more helpful services and resources for our members and the community, so join us in building this eco-system!

More information on the **AVPN Conference 2014** with session summaries, videos and photos can be viewed at [www.avpn2014.com](http://www.avpn2014.com). All reports on '**Getting Started in Venture Philanthropy in Asia**' can be downloaded for free at: [www.avpn.asia/startupo](http://www.avpn.asia/startupo)

*AVPN Conference 2014*



# Social Investing – from Hype to Impact?

Stephen J. Barnett, Beatriz Jambrina Canseco and Karl Richter ([www.euclidnetwork.eu](http://www.euclidnetwork.eu))

*Much is happening in the UK and in other countries. This article focuses on the European context where the EU has set as a priority social entrepreneurship and social investment. This is building of a long tradition associated with the social economy. Steps are being taken to ease cross border social investment. Euclid has played a strong role, along with others, in supporting this movement.*

Impact investment is blossoming. What started as a fad for idealists is gradually becoming a mainstream concept often discussed by fund management hotshots and company executives. The concept itself is certainly appealing. Investors are realising that they have the possibility to help solve some of the world's most pressing social problems and make a profit at the same time.

In the aftermath of the financial crisis, the old debate of whether financial markets can become a force for social good has been rekindled. For all of the buzz around it, the blend of investment thinking and social aims is hardly innovative. Some ethically responsible investors have long filtered their investments to ostracise arms-trading companies, cigarette-makers or hyper-polluting firms. Now, rather than simply excluding businesses through positive or negative screens, investors can target those explicitly set up to create a deliberate *positive* social impact that is measured with the same rigour as their financial returns.

During the past several years the world has seen a surge in the social enterprise and social investment movements – and some specific initiatives, such as social stock exchanges and social impact bonds. These new trends are to some extent a reimagining of the tradition of the social economy in parts of Europe for a new economic age. Impact investing may even come to be seen as an alternative means to pursue the aims of the Welfare State.

In this sense, the EU seems to have taken up the torch. Social entrepreneurship and the European social economy as a whole were identified as priority issues within the Europe 2020 strategy and the Social Business Initiative to support territorial, social and



*Stephen J. Barnett*



*Beatriz Jambrina Canseco*



*Karl Richter*

economic cohesion. The European Commission also supported the second Active Europe conference (Krakow, November 2011), which saw social bankers and alternative financiers from across Europe set out to design bottom-up recommendations on how the EU can most effectively support the social economy. Social businesses, they rightly claimed, struggle to find sufficient, stable funding.

**The regulation intends to streamline cross-border fundraising, as well as standardise compliance, transparency and reporting requirements for investment in social businesses. It will also make it easier for socially conscious investors to identify funds that focus on European companies contributing to smart, sustainable and inclusive growth.**

In that same meeting, a taskforce led by Euclid Network and FEBEA (European Federation of Finance and Ethical and Alternative Banks) was established to further develop the guiding principles into a working model for a European Social Investment Facility (ESIF). A communiqué addressed to Michel Barnier, Commissioner for Internal Market and Services, was also composed. Centred on the common industry principles that should underpin an ESIF to radically catalyse more social financing in Europe, this initiative showcased the value of bottom-up and industry-led engagement to inform policy. The work of the ESIF task force also helped to shape a new European Commission Group of Experts (GECES) on the Social Business Initiative.

The aim is to show how EU funds can be used to attract private capital for social investment. Some steps have indeed been taken in the right direction. The European Social Entrepreneurship Funds (EuSEF) regulation<sup>1</sup> created an optional ‘passport’ which should eventually allow managers of social entrepreneurship funds (those where at least 70% of the capital received from investors is spent in supporting social businesses) to market their funds across Europe. The regulation intends to streamline cross-border fundraising, as well as standardise compliance, transparency and reporting requirements for investment in social businesses. It will also make it easier for socially conscious investors to identify funds that focus on European companies contributing to smart, sustainable and inclusive growth.

Although progress has been made, much remains to be achieved. Unfortunately, information on the

much-needed, detailed regulatory framework to set the EuSEFs in motion is still to be released. Talks on the ESIF did help inform the European Investment Fund (EIF) when it established a Social Impact Accelerator (SIA) to pilot how the EU could use its funds to leverage in private capital for social investment. Operated by the EIF since May 2013, the SIA operates as a ‘fund-of-funds’ dedicated to investing in social impact funds which strategically target social enterprises across Europe. While it is still too soon to celebrate the success of the operation, and it will take some time until social entrepreneurs see actual money coming their way, there is reason enough to see the glass as half full.

Nevertheless, all this good work has not yet succeeded in tackling some of the most-pressing problems standing in the way of impact investment. The first of these is the blurred concept of ‘social enterprise’ or ‘social business’. Although the EU has adopted its own working definition<sup>2</sup>, practitioners still use both terms interchangeably or sometimes to mean different things. It is difficult to regulate a sector when no single definition for it has been agreed upon. Wendy Kopp’s Teach for America or Bill Drayton’s Ashoka would surely feature in a list of social businesses, but what about private universities or a doctor’s private practice? So far everyone seems to concur that a social entrepreneur’s main measure of success should not be wealth creation but mission-related social impact.

Which leads us to a second conundrum. Arguably the biggest obstacle to the creation of sustainable impact investment is the lack of a common measure of how much good has been done. In other words, how do you gauge how many lives have been impacted upon by a single investment? Billionaire philanthropists such as Bill Gates have focused on finding better metrics for the results of their programmes but no major breakthroughs have yet been made. The GECES group recently published its first paper on social impact measurement<sup>3</sup>, which now serves in the EU as a foundation for further work in the field. However, a practical toolkit for implementation is yet to be developed.

This explains why, in spite of this impact investment craze, many remain sceptical as to its effectiveness. There is a widespread view that impact investment tends to underperform the market. A glance at Muhammad Yunus’s Grameen Bank’s financial statements will prove that there are exceptions to the rule.

The assumption – generally accurate – is that to achieve the greatest social impact, it is often necessary

to take high levels of investment risk. But let's not forget that running a start-up, be its main aim social or not, is risky by nature. There is no need to point the finger only at those people with the innovative ideas to address major societal problems. The most reasonable policy is, then, to accept and manage that risk as you would with any other business. Better impact measuring techniques should help to remind investors that today's impact investment is as much about generating good returns as it is about the companies' social benefits.

Such techniques will also prove critical to weigh up the success of social impact bonds (SIBs), a public-private investment instrument that is now being tried out in a few locations. It is hoped that SIBs will be able to tackle some thorny social issues while keeping public budgets tight.

The concept started in 2010 in the UK with a prisoner-rehabilitation initiative in Peterborough, where the British government aimed at transferring the

risk of the programme from the public to the private sector. In a nutshell, public authorities will pay out only if the programme meets specified targets. Certain pre-determined milestones trigger the payments. There is of course the possibility that investors will not get their money back. On the other hand, if all works according to plan, they could earn a hefty annual interest, with the possibility of extra profits. In the meantime, the State, due to higher productivity, keeps its pockets fuller. While final results are not yet known, and SIBs probably need to become more like regular debt instruments, there seems to be reason for anticipation.

Evidently, such developments in Brussels will take time. But twenty-first century societal challenges such as an ageing population, fiscal constraints and rising pressure on natural resources require a multi-stakeholder approach and, above all, swift action. The European Commission should press ahead to make it easier for the rare breed of social entrepreneurs to succeed in their aims of making the world a better place.

<sup>1</sup> Published in the Official Journal of the EU in April 2013.

<sup>2</sup> "A social enterprise is an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities. The Commission uses the term 'social enterprise' to cover the following types of business:

- those for which the social objective of the common good is the reason for the commercial activity, often in the form of a high level of social innovation;
- those where profits are mainly reinvested with a view to achieving the social objective;
- and where the method of organisation or ownership system reflects their mission, using democratic or participatory principles or focusing on social justice" (Social Business Initiative; European Commission; 2011; 682 final; pp. 2-3).

<sup>3</sup> Proposed Approaches to Social Impact Measurement in European Commission legislation and in practice relating to: EuSEFs and the EaSI; GECES Sub-group on Impact Measurement; 2014.

# Filling a Gap in the Marketplace

**Danyal Sattar** ([www.esmeefairbairn.org.uk](http://www.esmeefairbairn.org.uk))

*Esmée Fairbairn has acted as a catalyst in mission related investing. Along with a few other trusts (e.g. Tutor Trust, LankellyChase Foundation, City Bridge Trust, Trust for London, Friends Provident Foundation) they have led the way filling a gap in the marketplace, supporting innovation. To date they have invested 3% of their assets in programme related investment.*

## Background

Esmée Fairbairn Foundation is a large charitable trust with £827m of assets, making grants of about £35m and £4m-£5m of social investments each year. We have a target commitment of £35 million to reach £26 million of drawn down social investments and have made over 80 investments to date, totalling almost £30m. Although we started making loans in 1997, the majority of our investments were made after the launch of our social investment approach – the Finance Fund – in 2008.



*Danyal Sattar*

## Why social investment?

**O**ur philosophy has been to focus on the mission first - the need or demand for investment from the charity or social enterprise, and the potential impact of the investment on that organisation, its beneficiaries and the wider sector. It is always that need and potential impact that drives our decisions and this has led us to do three things: to offer finance to charities and social enterprises as an alternative to or addition to a grant; to invest in intermediaries so that specialist teams would be available to serve the voluntary sector and draw in other funds alongside ours; and to help build a social investment sector so that the needs of charities and social enterprises could be better served in the long term. The result is a portfolio with a series of waves of investment which we have made in response to the needs of organisations working in our sectors of the arts, education, environment and social change.

**The first wave: 1997-2005.** During this time we aimed to meet the needs of charities for basic finance. Small to medium sized charities found it difficult to access mainstream bank finance. Banks were more used to dealing with small businesses, where they would take security over the director's house or other assets to lend against – not something the average charity trustee would see as part of their role. We invested in Investors in Society, which became Charity Bank, and in CAF Venturesome, so that they could provide straightforward loans to charities. As well as these intermediaries, we also made a handful of direct investments to charities, including Golden Lane Housing in their pioneering bond to support the purchase of property for adults with learning disabilities, and Cockpit Arts for their loan fund supporting the growth of designer-maker creative businesses.

**The second wave: 2005-2007.** As basic financial demand was better met, we started to be approached for a different kind of money. The lenders we supported were fine for asset purchase and cash flow, but what about long-term, patient capital, we were asked? What about the higher risk, sensible yet unproven income generating ideas? A different kind of money was needed. We spent two years piloting this area, working with Venturesome to work out what we might do.

**From this came our third wave, from 2008 to 2012,** during which we made the bulk of our social investments. In this phase, we moved from making mostly loans, to a portfolio where only a third of what we do is loans. Those loans might be secured, unsecured or subordinated; we also own bonds and offer quasi-equity facilities. We own industrial and provident society shares, private company shares, are limited partners in funds and are temporary land owners for biodiversity conservation up and down the country. We have also been working closely with a number of other trusts and foundations both to share our learning and experience and to co-invest. We have formed a network, the Social Impact Investors Group, to do this more productively.

## Our Role in Social Investment

We see the role of a foundation in the social investment world in three ways.

**First, to take the risk that the regular social investment intermediaries cannot.** A good example of this is Praxis Language Gym. Praxis is a well-established charity in east London, working with refugees and migrants. They are starting up a subsidiary business to teach English in an innovative way: using technology, face to face and classroom teaching to reach groups of migrants that are not normally reached by conventional English language classes. It is hoped that the new start-up will help both deliver Praxis's charitable mission and, if commercially successful, provide a stream of unrestricted funds back to the parent charity. While Praxis is a well established charity, which has set up one successful subsidiary business already, most social investors see start-up risk as a barrier. Some were willing to lend, but only to the parent charity. Bar foundations, no one was prepared to take the risk of lending to the subsidiary. Yet it is exactly this risk that foundations can take on, transferring the burden of the risk to those who can best hold it. Trust for London and we were able to take the risk. Of course we hope to invest wisely, with as much diligence and care as any other investor, and Praxis are still responsible as they too are investing in their own subsidiary alongside foundation investors.

**Secondly, to solve a structural problem for our grant-holders where there is a proposal or concept that can be tested through investment.** This is what we are doing with our Arts Transfer Facility. The hypothesis is that when a subsidised theatre has a hit production which it wants to transfer to a West End commercial theatre, any financial benefit it might receive from a deal would be very limited unless the theatre could put up cash towards the costs of the transfer at the start. We therefore provide a facility to allow the transferring theatre the chance to have a seat around the table, put up a stake, fundraise and generally buy a piece of its own transfer. In doing

this, we also hope to give the subsidised theatres a chance to work with commercial producers in a learning relationship.

We are doing something similar at a greater scale in the environment sector, working with three conservation organisations – the RSPB, Woodland Trust and the Wildlife Trusts – through our Land Purchase Fund. When a piece of conservation land comes up on the open market which one of these three organisations wishes to buy, we buy the land, immediately lease it on to the conservation organisation, and give them just under two years to fundraise to buy it back off us. As specialist and excellent conservation organisations, we have a high degree of confidence in their ability to identify appropriate opportunities and sites, execute the transactions successfully and fundraise quickly enough to buy the land from us. So far, we have made more than £10m in commitments and successfully completed a number of these transactions, securing important land for conservation up and down the UK.

**Thirdly, to help the social investment market develop.** We have supported new intermediary organisations, such as Buzzbnk, a crowd funding site which raises social investment as well as donations and Ethex, which showcases social investment opportunities to qualified investors and provides the bare bones of what a secondary market might look like. We have also backed new funds and provided funds to be invested by the new and emerging intermediaries. Though not large enough an investor to be a true cornerstone on these funds, we hoped that by adding a significant investment and our name and reputation we might be a help to their launch.

Since 2012 we have found ourselves in a new social investment landscape. The early intermediaries we supported, like Charity Bank which now lends over £50m to social sector organisations, and Venturesome or Bridges Ventures, are growing strongly and well. We also now have Big Society Capital as a wholesale funder and market developer to bring skills, expertise and funds at scale. Where in this changed context do foundations like us sit?

### Ways foundations can still make a difference

We keep mission on the table. There are diverse pressures on investors, charities and social enterprises. Foundation interests will always centre on the charitable objectives being achieved and it can be helpful, if not vital, to have an investor round the table who can hold that ground.

We can take below-market returns, if the social impact justifies it. Every year we invest £35m in grants in organisations who will ‘only’ give back a social impact. For us, the financial return of a social investment is a way that the funds come back to us to be reused and any surplus can offset costs, losses and inflation, or be applied to our wider grant-making. As such, we have the potential to hold a space for investors that is genuinely social first. There is a small pool of investors prepared to invest where the financial return is below market, but this is one place we see a continued need for social investment: funds which can meet the challenge of a social enterprise or charity’s growth where the social purpose cannot generate a fully commercial return. Our hope, and the early signs are looking positive, is that once the lead has been taken, and the risk of social investments have been demonstrated and understood, a slowly growing stream of funds from the commercial world can be drawn in.

We can also take reasonable and justifiable financial risks with our funding, in pursuit of our charitable objectives. Few other investors can take this lead. This gives us the capacity to be a catalyst, risk taker and leader.

Where next for Esmée Fairbairn and social investment? We have begun to capture what we have learnt and this has led us to focus more on our heartland – a little less on the intermediaries and building the social investment sector and a more on direct investments in the charities and social enterprises that resonate most closely with our mission – the Praxis, Global Action Plan, Wildlife and Woodland Trusts that work so hard to deliver impact on the ground.

# Impact Investing:

## Triodos Experience, Challenges and Trends

Whitni Thomas Triodos Bank. ([www.triodos.co.uk](http://www.triodos.co.uk))

*Triodos is a global pioneer of sustainable banking and impact investment. Its mission is to make money work for positive social, environmental and cultural change.*

*Impact Investing has the potential to unlock significant sums of private investment capital to complement public resources and philanthropy in addressing pressing societal challenges.*

*Impact investing can bring scale and response to societal needs by unlocking resources additional to traditional philanthropy.*

Triodos Bank has been at the heart of investing for positive social and environmental change for over 30 years, pioneering among other things investment in renewable energy and microfinance, both now recognised as asset classes in their own right. Here in the UK, we currently have more than £500m lent to social and environmental organisations. In 2008 we launched and managed the UK's first social enterprise investment fund, before concluding in 2010 that the market wasn't ready for this type of fund. Since 2011 we have focused on the capital needs of social and environmental organisations themselves and have raised more than £55m of investment for organisations like Cafédirect, Midlands Together, St Mungo's and Greenwich Leisure through bespoke capital raises. With the benefit of our long track record in impact investments, we've been asked to offer a few reflections on the UK social investment sector.

**Social investment is not the same as funding for the third sector.**

**H**arvey McGrath – the chairman of the Big Society Capital board – recently pointed out that social investment isn't a silver bullet for the third sector. Social investment indeed isn't right for many third sector organisations. Yet the general discussion around social investment continues to conflate it with funding for the third sector. The two are not the same. Agree with it or



Whitni Thomas

not, the discussion around social investment today – and especially impact investing – is mainly about social investors and their needs. These don't always match the requirements of the charity and the social enterprise sector.

Of course social investors aren't meaningful in isolation without the vibrant and ambitious social change organisations they invest in. Discussion of social investment should take much more into account the actual funding needs of social change organisations; otherwise the social investment sector will end up being a vacuous and overhyped term if this well-meaning money never finds a home. We certainly don't need another debate around terminology, but it is important to be clear that social investment is not shorthand for funding the third sector.

### **It's (still) tough to make the fund model work in the third sector.**

Funds can be an efficient way to allocate capital to a sector by entrusting an expert to do the job for you. Triodos itself is a fund manager with €2.5bn assets under management and we managed a social enterprise fund for two years before concluding that the pipeline wasn't there to justify an equity type social enterprise fund. At this point one can either hope for the market to come to you in time (the 'if you build it, they will come' school of thought) or adapt what type of finance one is offering to meet the needs of the target market. We actually chose to focus on the organisations seeking capital themselves and make them our starting point – and our clients – thus building our corporate finance advisory business.

There are inherent challenges to fund structures when one is trying to invest in a fragmented market, such as the third sector. Investment sizes inevitably drift upwards to mitigate transaction costs. Most social investment funds won't invest less than £250k and many would much prefer to invest in £500k to £1m chunks. The supply of investible social enterprises has improved since we were trying to invest but it is still limited especially at the larger end of the scale. The costs of running a fund even by a socially minded fund manager tend to be high as a proportion of the typically small size of social investment funds (£10m to £20m). Most management fees in this sector are somewhere around 3% p.a. which some investors or potential investors are becoming wary of. These fees, necessary to run a fund, inevitably push up the cost of capital from these funds, sometimes to a level which is or seems unpalatable for the social organisations.

The recent launch of two new funds focused on unsecured lending is refreshing as they should be a better match for a lot of the demand in the sector. However the return expectations of these funds will continue to make deal doing slow. Many of our charitable clients have an expectation and a business model that can only support a cost of capital in the 4% to 6% range. So in addition to finding mechanisms to get smaller deals done (sub £150k), we also need to find ways of making a different type of capital available for smaller, unproven organisations that would benefit from funding more akin to a repayable grant rather than a loan or quasi equity. Some leading lights in the sector have been experimenting with this for years and we need more of them. The challenge is how to build a sustainable business model for this type of intermediary.

### **Direct investment is making social investment accessible to 'everyday' investors.**

Over the last ten years, some of the more innovative charitable trusts and foundations have been instrumental in helping social enterprises and charities to grow by lending them capital in instances where banks deemed it too risky to do so. Social business angels have also played an important role in helping to get social organisations to the next stage of their growth. But what has been especially heartening in the last year has been the rise of the 'everyday' social investor. In 2013 we raised £18m of capital for two charities and one social enterprise and over half the amount raised came from individual investors.

In our experience, individual investors are willing to take a slightly reduced financial return for an investment perceived as relatively safe in a social organisation with a well-articulated social impact. Our investors don't seem as concerned about forgoing some financial return if they believe the investment is sound and the risk of capital loss is minimal. These are individuals who want to use some of their savings or investments to enable positive change and seek a sense of connection with what their money is invested in.

The beauty of direct social investments like charity bonds is that the starting point is the charity or social enterprise itself. We work with our clients to understand their business model and advise on what type of investment may be – or in many cases may not be – suitable and then do our utmost to raise the capital they need on the best terms possible. It isn't always economical to do direct capital raises of a small size so we are encouraged by the soon-to-be launched

Big Potential which we hope will replicate the success of the Investment and Contract Readiness Fund, while focusing on meeting the needs of smaller charities and social enterprises<sup>1</sup>.

**Social impact bonds can be powerful where they enable new interventions to take place.**

Payment by results commissioning and the social impact bonds used to finance the contracts are an intriguing development in the sector. Even though none of the SIBs have matured, much can already be learned about how to drive better commissioning, how to structure and run them. The challenge is that almost all SIBs are unique to an extent and setting them up is resource intensive. They are also vulnerable to shifts in government policy as the recent developments in the Peterborough SIB illustrate.

**Our investors don't seem as concerned about forgoing some financial return if they believe the investment is sound and the risk of capital loss is minimal. These are individuals who want to use some of their savings or investments to enable positive change and seek a sense of connection with what their money is invested in.**

The social investors we speak to find social impact bonds most appealing when they enable interventions which wouldn't happen otherwise; for example by speeding up the rate at which children are adopted. Many charitable trusts and foundations aren't as

interested in SIBs where they believe that they are effectively providing working capital for running social programmes which the government used to fund. This is quite an inefficient use of capital in any case, as the government can borrow at a much lower rate than the cost of capital of a typical SIB.

Social impact bonds are really at their best when they enable genuine innovation in service delivery particularly where they relate to preventive services leading to better outcomes for vulnerable individuals, while saving taxpayer money over the long run. We believe the market will continue to grow but it takes a lot of time, effort and coordination from various stakeholders for these programmes to come together.

**Social investment, what next?**

Social investment is attracting a lot of attention at the moment, which is welcome as we need new investors into the sector. Some of the pioneer social investors are starting to pull back as they feel like they have 'done their bit' to help grow the market. The increasing interest from mainstream asset managers is encouraging though there still is a gulf to bridge between their expectations of investment size, risk, liquidity and market conforming rates of return and the reality of what social investment products can and should offer. We need to continue to work to balance the needs of prospective investors with the type of capital that social change organisations need to access in order to continue to deliver tangible, lasting social impact.

<sup>1</sup> *The Investment and Contract Readiness Fund is a fund dedicated to helping charities and social enterprises acquire the skills they need to raise investment and compete for public service contracts.*

# Increasing Interest in Impact-Oriented Investment

Rodney Schwartz ([www.clearlyso.com](http://www.clearlyso.com))

*The article describes the societal change driving the change to impact investment and discusses where the funds are coming from. As Alison Hope articulates a role for philanthropy in her article, so does Rodney Swartz see a significant role for philanthropic grants and expert support. Of note Social Enterprise UK and the Big Lottery Fund have just published a useful guide (Social Investment Explained) to advise charities on how to get investment ready. However, it is important to note the Guide does narrowly define social investment to achieving financial returns of some sort in addition to a social return, thus leaving out other forms of social investment such as venture philanthropy and other forms of philanthropy investing for an impact.*

As we emerge from the crisis, there has been an increasing interest in impact-oriented investment. We have noticed this from high-net-worth individuals in particular, who are more and more frequently considering social impact investment as part of their strategy for philanthropy, and indeed as part of their strategy for making financial returns on their portfolio.



Rodney Schwartz

**T**his growth prompts two important questions. The first is around what is actually driving this trend and the second is about where this money is coming from for those for individual investors.

So why is this happening? Yes, the financial sector is being held to account for its impact much more, but the change in the financial sector is matched by a change in consumer attitudes too, and there is increasing evidence that the drastic public sector funding cutbacks have dramatically raised public consciousness about some of our social problems.

The first 25 years of my career were largely in finance and there isn't a single colleague with whom I speak who does not now accept on some level that "yes, perhaps we push things a bit too far?" – and that as a result there are serious problems that need addressing. Yet this increasing awareness is not just something that has appeared over the last few years. We can see from the growth in fair trade food products, for example, that the public's willingness to use its purchasing power to pursue ethical preferences has been prevalent for some time. There are other examples, such as the growth in Marine Stewardship Council, or the Who Made Your Clothes campaign that sprung up after the Rana Plaza

disaster last year. This expression of ethical preferences has entered the world of consumption and is seeping into the world of finance.

Over the past few years, there has been a dramatic shift underway in the world's financial markets. Prior to 2008 – and for at least three decades – investing has been dominated by a two-dimensional approach. In this world, investors sought to maximise risk-adjusted rates of return on capital; the two dimensions at play were risk or volatility and financial return. What appears to be the case is that we have entered the world of 3-D investing; a growing number of individual and institutional investors are starting to make conscious trade-offs between risk-adjusted rates of return on the one hand and social impact on the other.

The social, ethical and environmental benefits that are engendered by these investments are being consciously assessed and sometimes traded off against risk-adjusted rates of return. A good example of this is the Ethical Property Company, which has been issuing shares for the past decade or more - it rents out office space to social change organisations and runs its business in a highly socially and environmentally sustainable fashion. The shareholders who support this company value the positive social impact of EPC and are prepared to accept lower rates of return in order to achieve this. Indeed, in marketing documents, the company makes it very clear that investors will not get a market rate of return on the investments.

**So we know the trend is there, and that it is growing – but where does this money actually come from?**

The answer here is complex. We are regularly asked for straightforward answers about whether, for individual investors, this comes out of the 'philanthropy pot' or the 'investment pot' – and the answer is 'both'.

Many individuals we speak to are becoming increasingly aware of one feature of impact investment – that these deals are structured in a way that investors will normally get their capital back at the very least. For generous philanthropists who are attentive to the degree of social impact they receive, there is a growing awareness that social impact investment enables a recycling of funds that enable the philanthropist to use the money several times and generate greater social impact.

There are occasions when social enterprises generate more social impact than equivalent charities – think about The Big Issue and the superior leverage it has

been able to achieve as a magazine publishing and distribution business as opposed to just another homelessness charity. Of course, there are many cases where there is no feasible way to create a viable social enterprise in a particular area and charity is the only viable mechanism to generate a particular social good (such as disaster relief, for example) – but in the interest of getting money to stretch further there are other occasions where the entrepreneurial and socially impactful business can generate a far greater social return on capital.

**For generous philanthropists who are attentive to the degree of social impact they receive, there is a growing awareness that social impact investment enables a recycling of funds that enable the philanthropist to use the money several times and generate greater social impact.**

Sometimes people ask us if social investment is going to replace philanthropy, if it will make it obsolete. In such an early-stage market, it's impossible to tell just how far social impact investing might go – but there will always be a place for philanthropy. That might be through 'priming the pump' by providing capital to risky ventures that have not yet proven their model, or providing grants so that entrepreneurs can accurately measure their social impact, or even offering innovation funding for products – like Solar Suitcases – that need support to develop a market in developing countries. Acumen is a great example of this, where their work on market development in emerging economies has been absolutely key in laying the groundwork for later social investment.

Philanthropists are key to the development of social impact investing, but they are not the only players out there. Social investment can also come out of the investment pot.

Many of our clients have portfolios where they seek to generate a satisfactory level of returns. Some people worry that they will never make returns in impact investing. However, product innovation in such areas as clean tech and micro-finance has meant that investors can generate acceptable returns - and generate social impact essentially for free. Other areas are also emerging – such as social housing. For an increasing number of investors who are growing in their understanding and appreciation of social impact, this 'free social impact' has proven very attractive.

At ClearlySo we have seen our broad network of individual investors grow from 100 to well over 400 in the past two years. We knew that demand was growing, and we kept hearing from investors that they wanted to engage at a deeper level, to support early stage ventures, to use their influence and networks as well as their capital - so Clearly Social Angels (our most intensive and heavily-supported network) was born. Launched in March 2012, it now has almost forty angels who meet once a month, hear from entrepreneurs from exciting companies and invest in these businesses that generate social or environmental value. Angels invest in companies such as Playmob (a business that runs a platform behind smart phone gaming where money from in-app purchases goes to charities around the world) – and Exosect (a sophisticated technology that ensures pesticides directly target pests rather than plants or other insects, protecting environments and ecosystems).

It is challenging to be in an angel group making social impact investments. Although we guide them through the due diligence process, they have to know about the entrepreneur's plan to scale, measure and report on their social impact, how a company's social value must be locked in to its plans for growth, expansion and exit – as well as all the usual questions about commercial viability, marketplace positioning and valuation.

Of course, some investors and philanthropists who are just starting to explore social impact investing will tell you how difficult it is to find investment-ready businesses. To some extent, this is true. There are a lot of early-stage companies out there creating positive social impacts, but many of them are not yet ready for investment. That's where angel groups and intermediaries can help; they find the right businesses, they screen them, and they bring them to investors. The government has also invested in programmes like the £10m Investment Contract Readiness Fund, where businesses receive support from advisors like ClearlySo to help them become investment-ready. The businesses are out there, and they need angel capital to scale their impacts, but sometimes you'll need to partner up with others – other angels, other philanthropists, advisors or intermediaries – to find the right ones.

We are only just at the beginning of this exciting journey but it is great to see it being led by investors and philanthropists alike. Perhaps the crash, for all its damaging aspects, has a silver lining - it is forcing us to think much more deeply about the best ways of achieving socially positive outcomes we all desire.

# The Social Investment Business

## Innovation in Social Investment

Vinay Nair ([www.sibgroup.org.uk](http://www.sibgroup.org.uk))

*The social investment business is a pioneer in the field of social investment and capacity building in support of investment readiness. Over the years it has developed a complex set of investment vehicles. It takes a balanced approach supporting social enterprises and charities.*

### Starting as an experiment...

We started as an experiment. In 2002, the UK government asked us to manage a £3 million fund on their behalf, to test the feasibility of providing returnable finance to community based charities and social enterprises. It was considered a little outlandish at the time. And yet, if we fast forward to today, there is little doubt that these early-movers played a visionary role in putting down some of the building blocks for the social investment sector. We have now grown to be one of the leading social investors in the UK, with investments of more than £375million in over 1,100 charities, social enterprises and community organisations, supporting the development and regeneration of some of the most deprived communities around the UK. Our vision is to develop and channel finance to support these social sector organisations in developing a thriving civil society.



Vinay Nair



One of our core objectives is to play a transformational role in developing social investment opportunities in the UK in order to get more of the right funding to organisations delivering the impact. Historically, we worked with various government and institutional partners to manage funds that directly provided loans and grants to organisations around the country. In the last couple of years, as the sector has rapidly evolved, along with needs at the front-line rising rapidly, we felt there was a need – and an opportunity – to build on our history, reach and track record and take a more catalytic approach with our capital. In part, this has been to invest in other social investment organisations and funds in a way, where that investment brings in other investors, especially those who are newer to social investing. Through this approach we have created opportunities for significant multiples of funds available to charities and social enterprises.

The basis of this adapted strategy comes from the experiences we've had along our journey.

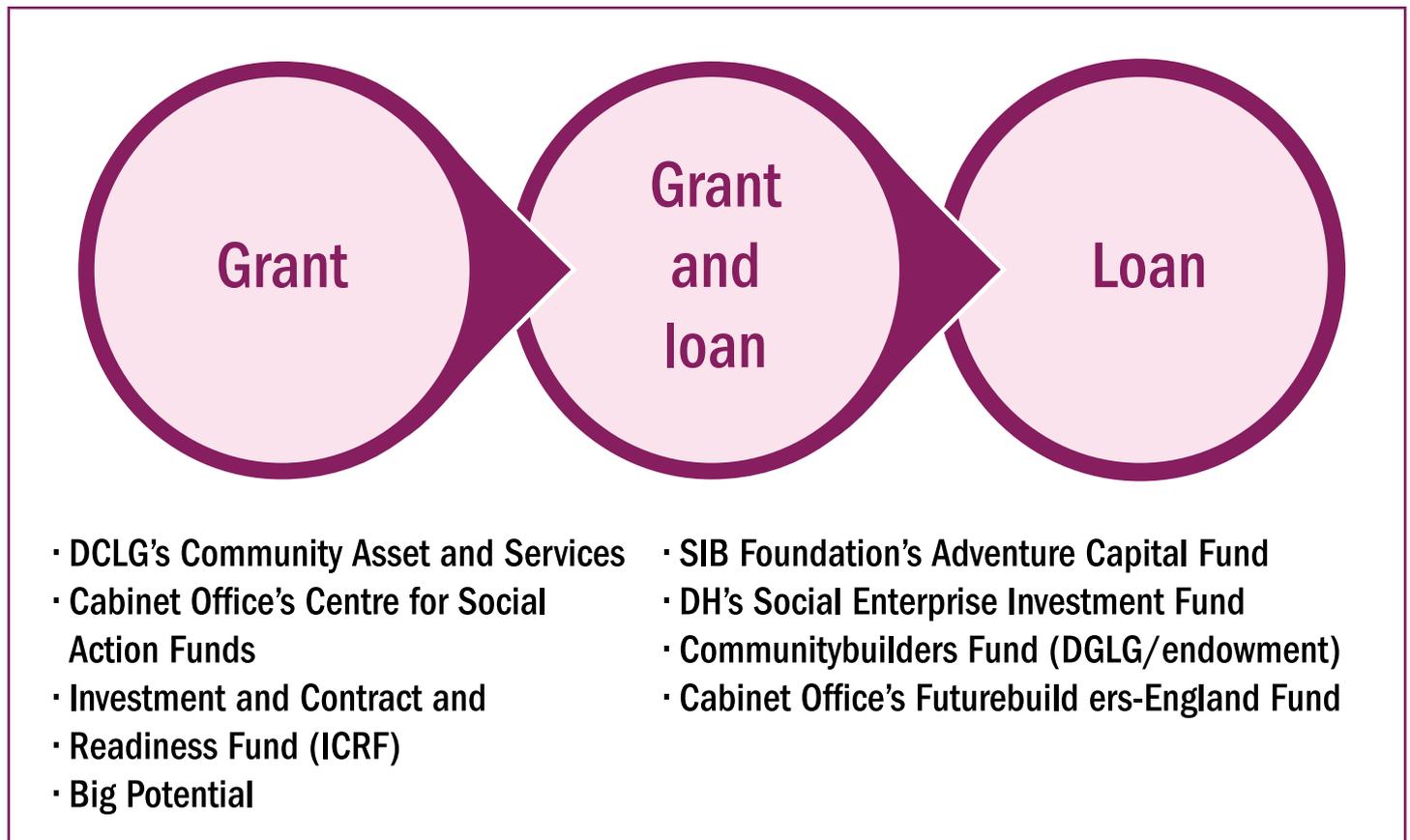
### The journey to one of the largest social investors in the UK...

“Wouldn't take nothing for my journey now.”

– Maya Angelou

The Social Investment Business is a product of coinciding interests between government and advocates for the community sector, starting life as small but highly influential community-investment pilot programme. We were launched in December 2002 as the Adventure Capital Fund, a £2.8 million, 12-month programme offering grants and loans to medium-sized, community-based organisations wishing to engage in social enterprise activity. This became a pioneering project that demonstrated for the first time in the UK that there was both a demand for loan finance among a group of charitable organisations that had hitherto been reliant on grant funding, and they were able to pay the debt back. The work shone a spotlight on the significant role that community-based organisations

Figure 1 – First 10 years



played in meeting the social and economic needs of their communities, and that their contribution was constrained by their financial and organisational fragility resulting from their reliance upon grant funding.

Since 2002 we have grown rapidly. Building on our track-record, we won a number of significant social investment fund contracts, including the Futurebuilders (England) Programme, the Department of Health's Social Enterprise Investment Fund (SEIF), and The Department for Communities and Local Government's Communitybuilders Programme. This portfolio of funds positioned the organisation as one of the leading social investors in the market, and was further enhanced when the Communitybuilders Fund was endowed to us.

Today, the social investment market is growing rapidly, stimulated by a range of government policies encouraging charities and social enterprises to take over the delivery of more services. Demand for finance outstrips supply and is forecast to reach £1 billion a year by 2015/16<sup>1</sup>. Access to finance is the single largest barrier to the growth and sustainability of social enterprises, according to a recent survey.<sup>2</sup> This is a striking development, given just 12 years ago investment into charitable organisations was relatively unheard of. Yet it also provides great weight of responsibility to respond to these front-line needs.

### How do we better match-up significant demand for funding with a growing supply

As it stands, stimulating investment is not simply a case of removing frictions to match demand and supply. The challenges are more complex, and we believe the role of philanthropy and grant 'subsidy' for the sector is still critical. Indeed, given this we recognise different approaches will be required to make most use of precious grant capital. Some may be, for instance, to fund earlier stage of social sector organisations, as spoken about elsewhere in this publication.

Our own approach has been to focus on getting organisations 'investment ready' through the management of two funds: *the Investment and Contract Readiness Fund (ICRF)* funded by the Office for Civil Society and *Big Potential* funded by the Big Lottery Fund. These funds help develop the capabilities they need to secure raise significant finance from other sources. We have had early success, as discussed in the interim report by BCG, '**Ready Willing and Able**' and are looking see this as a growth area for our work.

With ICRF and Big Potential, we provide grants to charities and social enterprises to specifically pay



Chopsticks

for dedicated business support (between £50,000 and £150,000) from a range of specialist providers, helping them to take on investment. As BCG cited, the £10 million ICRF has demonstrated that relatively small grant sums can have major results. The Fund has so far made grants worth £8.9 million to 94 social ventures to purchase specialist support, and eight of these, receiving £815,000 in ICRF grants, have raised investment or won contracts worth £34.9 million. This also shows that philanthropy/grants involved in social investing need not be (rightly or wrongly perceived as) soft; but, rather, play a catalytic role to prime the pump of the sector and enable more capital to flow to frontline organisations.

### Building towards a 'catalytic' investment strategy...

With our growing understanding of how philanthropy can leverage in additional finance, we are developing a broader strategy at the Social Investment Business to make catalytic investments which attract greater funding from other investors and potentially reducing the risks they face. We are working with philanthropic funders such as trusts and foundations, corporates' programmes, and high net worth individuals to design funds in which their money can stimulate multiples of investment for the causes they care about and make a much greater impact.

Our approach to growing the market for social investment comes at a time when there is global interest in using it to tackle difficult social issues. Britain is a world leader and the Social Impact Investment Taskforce is due to issue a report on how to develop the global impact investment market in September.

**Exploring more impactful partnerships from local government to the European Union...**

One of the other challenges we hear from so many front line organisations is the need for loans at a smaller investment size – from £50,000 to £250,000. This size can be difficult for many social investors as they struggle to make the ‘fund economics’ work with such investments sizes.

Our approach has been to explore partnerships with various organisations, including local government and the European Union to stimulate this part of the market. Earlier this year, we invested £1 million in the UK’s first Local Impact Fund in Liverpool, catalysing a matching £1 million investment from the European Regional Development Fund (ERDF), which will provide business support and unsecured loans of £50,000 to £250,000 to charities and social enterprises. By supporting organisations at this level, we are seeking to support the economic and employment benefits of the local sector, in addition to creating social impact.

This strategy builds on finding ways to support front-line organisations on their ‘ladder of finance’ (see Fig. 2) – so that we support organisations with the right type of finance along their journey.

To date we have received Expression of Interests in Merseyside with a total value of £1.95m, and have received Full Applications with a total value of £1.2m. We aim to commit the entire fund by December

2014 and disburse the funds by June 2015. This is a ten year fund with the first wave of investments being made in 2014 for up to 5 years and a second wave of investments being made in 2017-19 from the repayments on the first wave of investments.

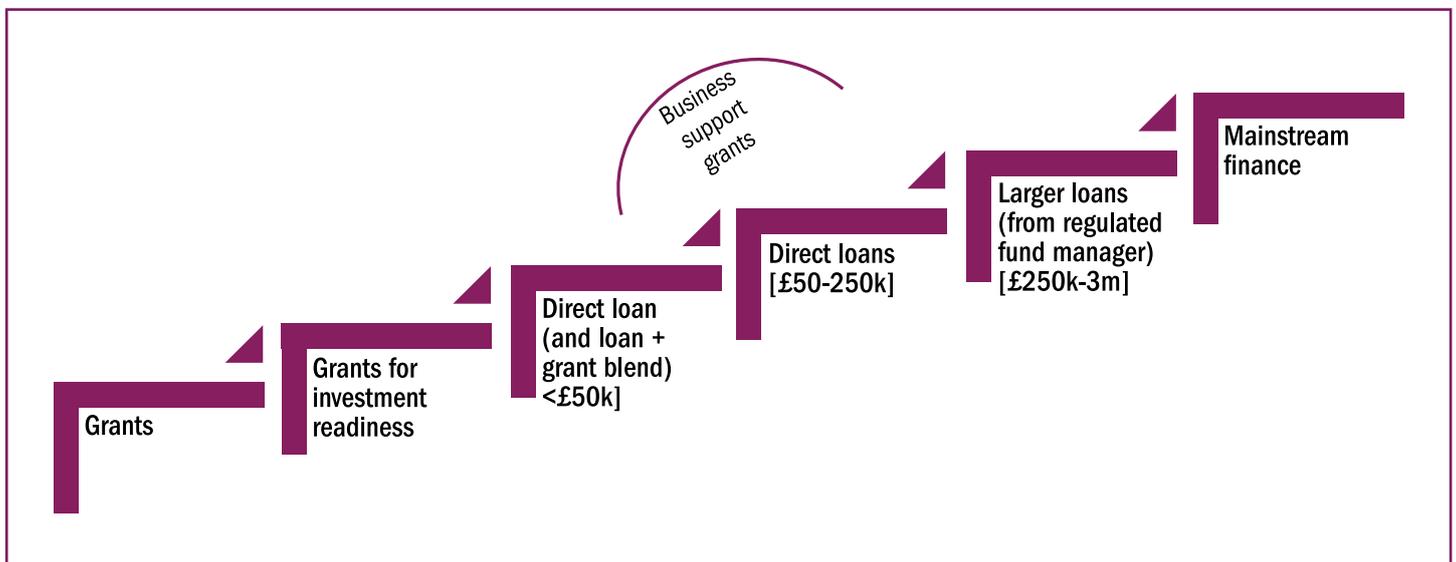
We are working in more than a dozen areas around the country now to develop more Local Impact Funds. The ERDF funding requires matched funding and, beyond providing the match ourselves, we have commenced speaking with local donors and investors committed to develop their local economy and services. We have early interest from local authorities, Clinical Commissioning Groups and other public bodies, institutions like social investors, universities and housing associations, and national locally-focused individuals.

**Creating a strategic partnership with Social and Sustainable Capital (SASC)...**

A further way to support the high demand for funding is to find ways to attract more private sector capital to the front-line.

Last year, we made a strategic investment into a new FCA regulated fund manager called Social and Sustainable Capital, itself a social enterprise, to help grow its activities. Through creating a formal partnership with SASC, we aligned our organisation, with history and experience in the social sector with a group of FCA regulated individuals with institutional

**Figure 2 – Ladder of Finance**



credibility in the commercial investment sector. This has proven a positive opportunity to bring new commercial investors into the social investment market.

We have committed £10 million of our endowment to SASC's first fund, the Community Investment Fund, catalysing a matching sum from Big Society Capital, with initial contributions of £3 million each. The fund expects will provide loans and equity investments of £250,000 to £1 million in community-based social ventures and will seek to generate a 5% net return. A second, larger fund, The Third Sector Loan Fund will be formally launched later in the year that will provide loans to the sector, to fulfil a robust pipeline of organisations seeking investment.

With much of the sector yet to engage with more complex products like Social Impact Bonds or quasi-equity, the money brought into the sector from SASC will be put into funds that absorb any complexity, in order to mainly provide simple, straightforward loan products for the sector; an area which builds on the SIB's strong experience.

The investment into SASC is part of a strategy to transform funding for charities and social enterprises by making catalytic investments which unlock new sources of finance.

We work closely with SASC to pioneer funds which appeal to investors with different motivations: philanthropists, who want their money to have maximum impact on the causes they care about may expect little or no return; socially motivated investors, who seek both a social and financial return; and mainstream financial institutions, who want to support positive social change while achieving security of investment and an appropriate risk-adjusted rate of return.



*Chopsticks*

### **Where to from here...**

We will continue to find new ways to develop and channel finance to support these social sector organisations in developing a thriving civil society. We will support these organisations directly, and also make indirect but catalytic investments to create more capital for the sector. Most importantly, we will continue to listen to what charities and social enterprises need and adapt our structures, solutions and products accordingly so that, as much as we can, the correct capital gets deployed to the most impactful and sustainable organisations.

<sup>1</sup> *The First Billion, Boston Consulting Group, September 2012*

<sup>2</sup> *The People's Business, Social Enterprise UK, July 2013*

# Big Issue Invest: Our Journey

Sarah Forster ([www.bigissueinvest.com](http://www.bigissueinvest.com))

*Big Issue Invest is one of a number of intermediaries, but with a special focus on relieving poverty. It grew out of The Big Issue as another means to support people and communities in their efforts to address unemployment, inequality and other issues related to poverty such as negative health outcomes and reduced educational attainment. Social performance is required reporting by investees.*

The Big Issue has always lived or died in the marketplace, depending on people to buy the magazine on the streets to both earn a revenue and provide a living for our vendors. Vendors buy copies for £1.25 and sell for £2.50. This marketplace culture runs through Big Issue Invest. They rely on raising private capital – from individuals, foundations and institutions – to provide the funding needed to invest in social enterprises, providing a financial and social return back to them. Their aim is to use the power of the marketplace to dismantle poverty and inequality – using good business to do great things. “Big Issue Invest was set-up to help tackle and prevent some of our biggest social problems. What we do is not charity. We invest in businesses led by socially minded entrepreneurs from all walks of life. We understand firsthand how good, smart business can do great things.” Nigel Kershaw OBE CEO, Big Issue Invest & Chair, The Big Issue

## The Need We Meet

Big Issue Invest (BII) is the social investment arm of The Big Issue, Britain’s well-known social business. The Big Issue was launched in 1991 as a business response to the social crisis of homelessness. It offers homeless people the opportunity to earn a legitimate income through selling The Big Issue magazine, thereby ‘helping them to help themselves’. The Big Issue has gone on to become the world’s most widely circulated street newspapers and recognised as a pioneer of social entrepreneurship worldwide.



Sarah Forster

**B**II’s mission is to provide finance to social ventures that help tackle poverty and inequality. Since start-up, we have raised and invested over £25 million in more than 300 social enterprises improving the lives of 1.8 million people in the UK’s poorest communities. As a social enterprise ourselves, we pay any dividends generated by our business to our parent company: The Big Issue.

## The Context

Despite a gradual recovery of the economy Britain today is a country of rising inequality and poverty. One in five people in Britain live in relative poverty and 8.4 million people (14%) live in absolute poverty. Over two million people in the UK are unemployed. Clearly, Britain has significant social problems to address and social needs to be met. At the same time, both government expenditure and the charity sector continue to face significant constraints.

Social enterprises sit between charity and mainstream business. We believe that social enterprise

and social investment are part of the solution to tackling poverty and inequality. Social entrepreneurs set out to tackle problems that are hard to solve for people and places with the greatest need by developing sustainable business models with clear social objectives. Ensuring that social entrepreneurs have access to the finance and support they need for success is critical.

### Key Elements

Since start-up in 2007, our journey has involved seeking to achieve three key objectives which are challenging and require managing tensions between social and financial goals:

- Design simple financial products that suit the needs of social enterprises at different stages of development
- Design financial products that are appealing to a range of socially-minded investors and offer both financial and social returns
- Build our own business as profitable business driven by our social mission

The first and core business of BII is Lending. We provide loans from £50,000 to £250,000 to trading charities, community organisations and other social

enterprises that can demonstrate their ability to use a loan productively and repay it. In 2012, we merged with The Social Enterprise Loan Fund, which operated in the same market to scale-up our lending operation and increase its financial viability and national outreach. Mergers and acquisitions are very rare in the social sectors but we believe they are key to increase the scale and effectiveness of social enterprises and charities.

We then recognised that some of the best social enterprises needed longer-term, more risk-taking growth capital to scale-up their operations not fixed interest-bearing, term loans. We also wanted to expand our sources of capital and attract private social investors. Hence, in 2012, we launched a Social Enterprise Investment Fund LP. This is the UK's first commercially structured social investment fund offering debt, quasi-equity and equity to social enterprises up to £1.5million. The Fund successfully raised £9.25 million from foundations, individual investors and corporates. It is now 45% invested in 16 social enterprises and we have started making distributions to our investors.

BII's track record of entrepreneurship, innovation and new product design continued with the launch of the Corporate Social Venture programme in 2013.



This is designed to help meet the demand for finance from early stage social ventures. The majority of our demand comes from early stage businesses led by social entrepreneurs at the proof of concept or early business development stage. This programme raises capital from the government and corporates and provides a combination of risk capital finance up to £50,000 and intensive corporate business mentoring for this early stage market.

Social investment require investors willing to take on a risk/return profile that goes beyond traditional investment models – one that is long-term and brings social value creation – not just the potential for financial gains – into the investment decision-making process. They exist but demand from socially-driven investors is not as high as we'd like. We spend a lot of time helping raise understanding and awareness of social enterprise and social investment.

However, the next step on our journey was to design a product suitable for the mainstream market and design a product that met the risk, return and liquidity demands of the mainstream market. We partnered with Threadneedle Asset Management Limited and in January 2014, the Threadneedle UK Social Bond Fund was launched as the first fully regulated social investment product offering daily liquidity with a dual objective of achieving both corporate bond returns and positives social outcomes. The fund invests in corporate bonds in socially beneficial sectors: affordable housing, education, employment and training, financial inclusion, transport and utilities and the environment. The aim is to invest up to 10% in charitable and social sector bonds. BII now acts as the Social Advisor to the Fund.

### Looking Ahead

We have big ambitions. We aim to become the most recognisable, trusted, and effective social investment organisation in the UK. However, we can't do it alone. To effectively grow BII, we continually look for individuals and organisations to partner with that share our values and recognise the important role that business and finance plays in changing peoples' lives for the better.

Currently, we are focused on three main concerns:

- Launching more products for the mainstream retail and institutional market that attract a following of socially-minded investors building on the success of the Threadneedle UK Social Bond Fund.

We're a small organisation looking to achieve a large sea change in how business and finance relates to wider societal issues from the bottom-up, led by social entrepreneurs, for social entrepreneurs.

- How to develop an offer to encourage more individuals to support social enterprise development. We're thinking of a mix of grant and investment that is appealing from a financial, tax and social perspective and provides the right mix of risk finance and capacity-building support to build sustainable, high social impact social enterprises.
- Building specialist social investment funds that are focused on tackling specific social problems, such as financial inclusion or health and social care for disadvantaged individuals.

# Key Facts on Mission Investing

by **Steven Lawrence and Reina Mukai** ([www.foundationcenter.org](http://www.foundationcenter.org))

*This paper reprinted with permission from the Foundation Center in New York City gives a good overview of mission investing (program-related investment) in the US. It reports on a survey of around 1200 foundations with '\$215B in assets; of which '168 foundations with \$119.2B in assets.... engage in some form of mission investing'.*

*The Charity Commission supports programme related investment providing guidance. Others in the sector feel that this should be an important element of a charities investment strategy. See the article by Danyal Sattar on Esmée Fairbairn's approach to social investment as part of its approach to programme related investment.*

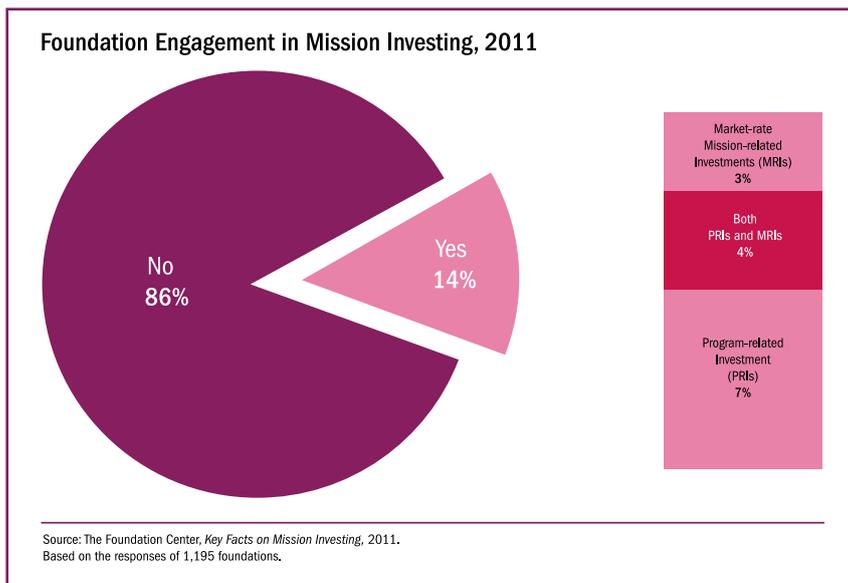
U.S. foundations made grants totaling an estimated \$46 billion in 2010 but held assets totaling more than \$600 billion. To realize the full philanthropic potential of their resources, some grantmakers have suggested that foundations should invest their assets in ways that are consistent with and support their charitable missions. The impact of the recent economic downturn on foundation giving and the budgets of nonprofit organizations has only served to strengthen these calls.

Yet 'mission investing' is not new. For more than forty years, a small number of foundations have been making program-related investments (PRIs). These investments, which often take the form of loans, loan guarantees, or equity investments, are derived from a foundation's assets but count toward its charitable distribution requirement. Generally, these investments yield below-market-rate returns for the foundation.<sup>1</sup>

More recently, there has been an increased focus on marketrate mission-related investments (MRIs). These investments may broadly support foundations' programmatic goals but do not count toward a foundation's charitable distribution requirements. However, while the Foundation Center has tracked foundations' use of PRIs for more than 15 years, this report is the first to collect aggregate information on the extent to which foundations are making use of MRIs.

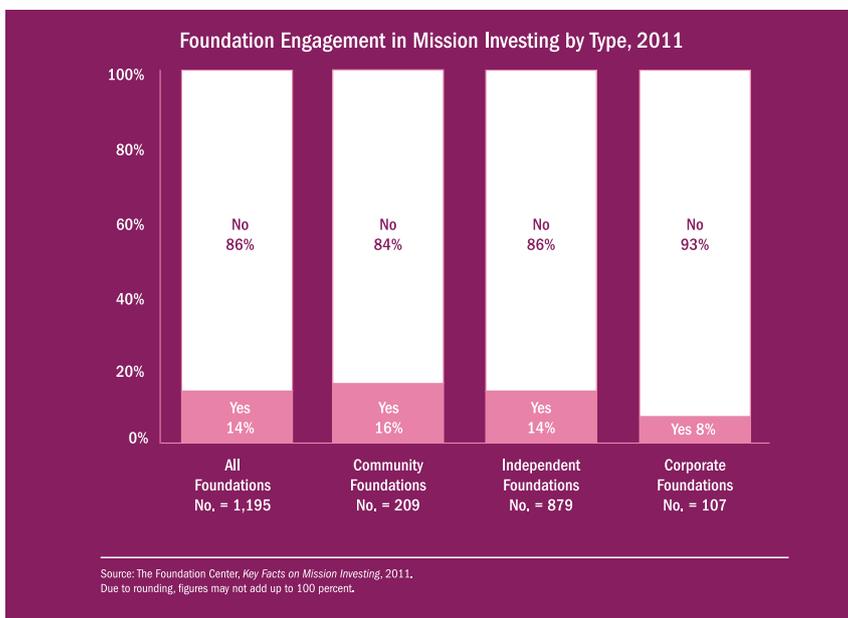
To benchmark the level of foundation engagement in mission investing and the types of investment vehicles being used, the Foundation Center included a series of questions on the topic in its January 2011

Foundation Giving Forecast Survey. Close to 1,200 independent, corporate, and community foundations with approximately \$215 billion in assets responded. Of these, 168 foundations with \$119.2 billion in assets indicated that they currently engage in some form of mission investing. Following are key findings from the survey.



### How common and formal is mission investing among foundations?

- About one-in-seven surveyed respondents (14.1 percent) currently engage in mission investing, including program-related investments (PRIs) and/or market-rate mission-related investments (MRIs).
- Among those foundations that engage in mission investing, half hold PRIs, 28 percent invest in both PRIs and MRIs, and less than a quarter (22 percent) hold only MRIs.
- Foundation involvement in mission investing varies by foundation type, with community and independent foundations being more likely to hold mission investments than corporate foundations.
- By foundation size, larger foundations are far more likely to hold mission investments. About one-third (32 percent) of respondents that reported total giving of \$10 million or more indicated that they hold mission investments, compared to 16 percent for those foundations that had total giving between \$1 million and \$10 million and 7 percent for those foundations that awarded less than \$1 million in giving. This finding may reflect in part the specific expertise required to make PRIs, which smaller foundations may not have the time or resources to access. Given time and resource constraints, smaller foundations may also be less aware of and/or likely to seek out opportunities for putting their assets into market-rate mission-related investments.
- Among foundations that hold mission investments, less than half (46 percent) have a formal investing strategy and/or policy statement in place.



### Market-rate Mission-related Investments

The following section focuses exclusively on survey responses from 82 foundations that make market-rate mission-related investments (MRIs)—nearly half of respondents that reported any mission investments. MRIs are defined as investments that broadly support foundations’ missions and programmatic goals while seeking market-rate returns.

#### What share of foundation assets are held as MRIs?

- The share of foundation assets held as MRIs varies considerably. Just over one-quarter of the 82 foundations (26 percent) have chosen to commit more than 50 percent of their assets to MRIs, although a majority of these foundations had less than \$25 million in total assets. But most foundations reporting MRIs

are taking a more conservative approach. About half of these foundations hold 5 percent or less of their assets as MRIs, with one-fifth of respondents holding less than 1 percent.

- Among the asset classes of MRIs held by surveyed foundations, the largest shares were in fixed income, public equity, and/or cash equivalents.

#### How long have foundations been making MRIs?

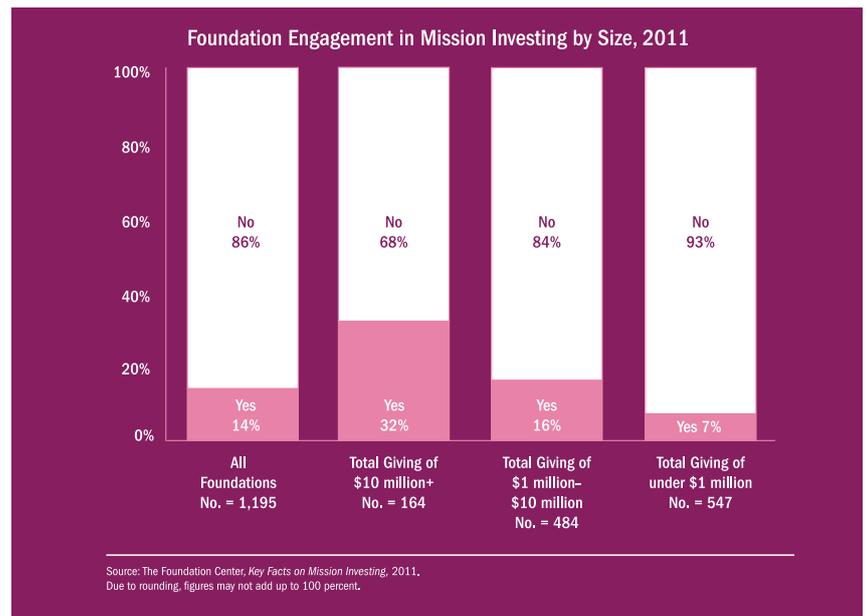
- The majority of foundations have been making MRIs for five years or less, with just over half of these foundations starting within the last two years. Conversely, roughly one out of four foundations have been making MRIs for more than 10 years. Of these, 9 percent indicated that they have been doing so for over 20 years.
- Despite speculation that the economic crisis—and its impact on foundation giving—might encourage more foundations to consider making greater mission-related use of their assets through MRIs, it appears to have had a minimal impact to date in this arena. Only two of the 23 foundation respondents that started making MRIs within the last two years did so in response to the impact of the economic crisis on their assets. Nonetheless, the persistent economic malaise may encourage at least a few additional funders to consider MRIs.

#### Mission Investing: What's in a Name?

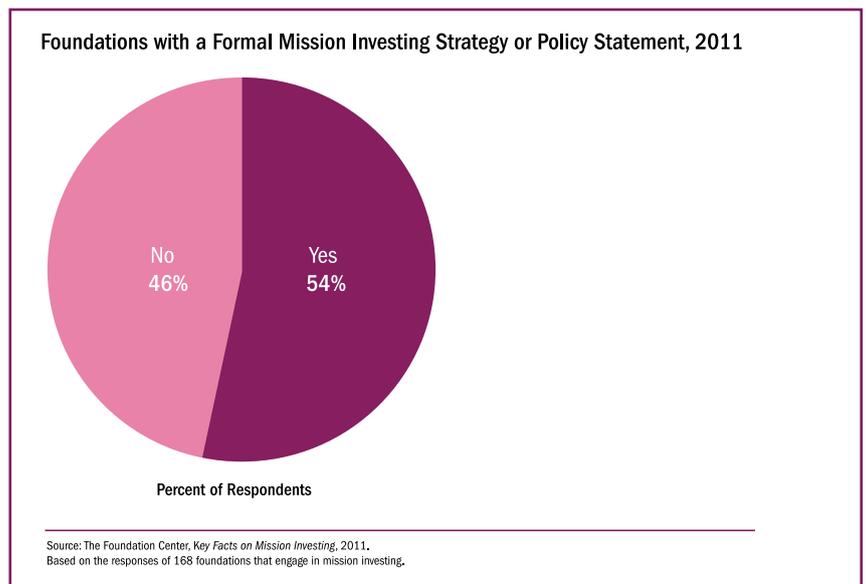
Using foundation assets to provide a public benefit has been called many things over the years: mission and mission-related investing; social, socially responsible, and responsible investing; environmental, social, and governance investing; and impact investing. There are differences in terminology and methodology, but the goal remains the same: to use foundation assets—as distinct from grants budgets—to achieve a public benefit while obtaining market- and below-market-rate returns in different asset classes remains the same.

#### Investing As If The Future Mattered

Stephen Viederman, former president of the Jessie Smith Noyes Foundation, has launched a crusade to create harmony between the 'purpose' of a foundation and its investment practices. In a special report for the



#### Key Facts on Mission Investing



Capital Institute, *Investing As If The Future Mattered*, Mr. Viederman outlined several of his key arguments:

- A foundation's responsible investing strategy should be guided by its broader purpose to benefit the public.
- Fiduciaries have an obligation to seek competitive returns that also complement the foundation's purpose and/or mission.
- It is a myth that social investing equates to financial underperformance.
- Philanthropy's 'Bermuda Triangle'—composed of the board and investment committee, investment office, and foundation consultants—often has little or no knowledge of responsible investment practice and tends to ignore the topic entirely or reinforce negative biases against it.

- Using vocabulary that everyone can understand will help to open up discussion about changing investment strategies. To read the full report, visit [www.capitalinstitute.org/forum/braintrust/stephen-viederman](http://www.capitalinstitute.org/forum/braintrust/stephen-viederman).

**About More for Mission**

More for Mission: The Campaign for Mission Investing seeks to challenge foundations—private, community, and corporate—to increase the % of their endowments allocated to mission investments and to have them help other foundations to do the same. The approach is to align foundation investments with their mission while maintaining longterm targeted financial returns. The Campaign aims to help foundations build capacity so that they have the tools to be able to better align their investments with the mission of the organization.

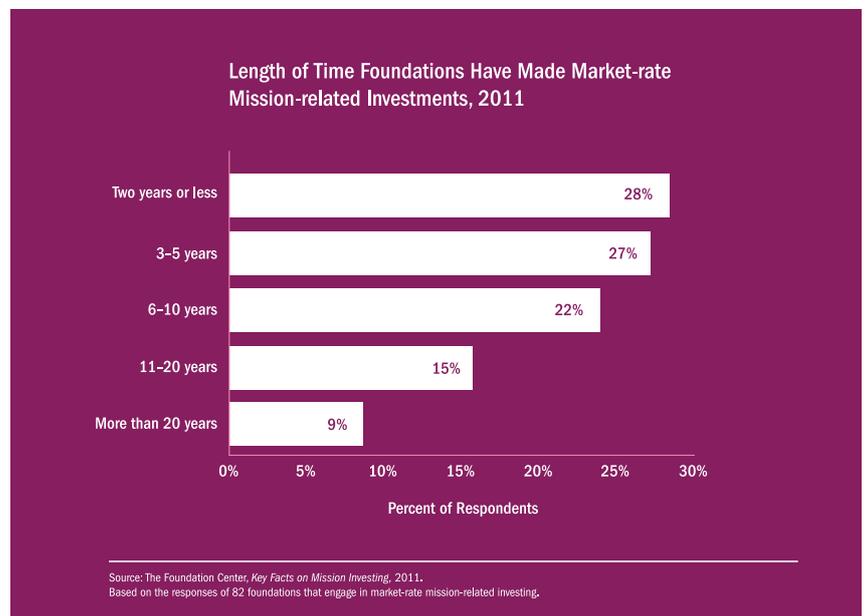
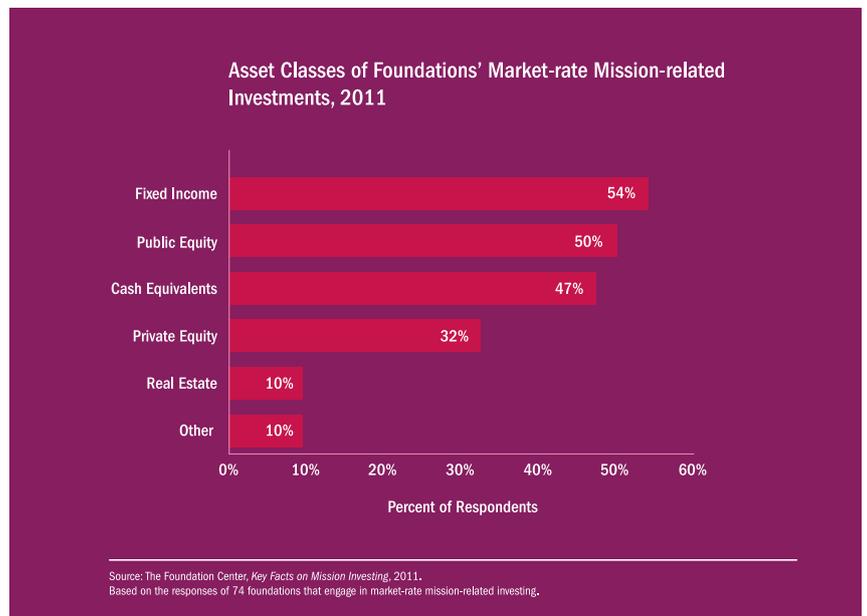
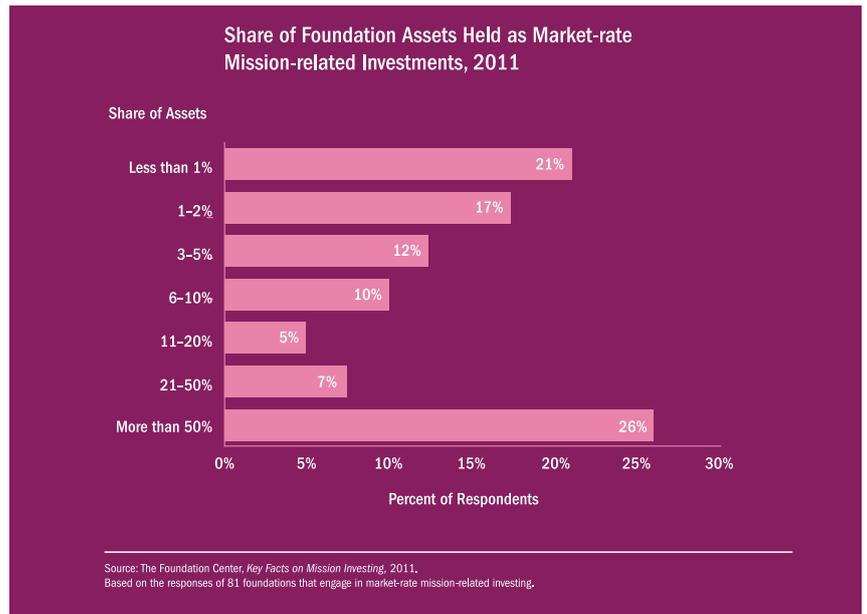
The Campaign includes a Leaders Circle that is comprised of 63 foundations and a Members Circle of 33 foundations, cumulatively representing approximately \$39 billion in total assets. The More for Mission network actively promotes the campaign and provides a variety of resources to support its growth. For more information on mission investing or More for Mission, visit [www.moreformission.org](http://www.moreformission.org).

**About the PRI Makers Network**

PRI Makers Network helps foundations expand their use of programrelated investments to achieve their philanthropic goals. Through their participation in the PRI Makers Network, members develop the skills, tools and connections they need to build successful social investment programs. To learn more visit [www.primakers.net](http://www.primakers.net).

**About the Foundation Center**

Established in 1956 and today supported by close to 550 foundations, the Foundation Center is the leading source of information about philanthropy worldwide. Through data, analysis, and training, it connects people who want to change the world to the resources they need to succeed. The Center maintains the most comprehensive database on U.S. and, increasingly, global grantmakers and their grants — a robust, accessible knowledge bank for the sector. It also operates research, education, and training programs designed to advance knowledge of philanthropy at every level. Thousands of people visit the Center’s web site each day and are served in its five regional library/



learning centers and its network of more than 450 funding information centers located in public libraries, community foundations, and educational institutions nationwide and around the world.

Steven Lawrence is director of research and Reina Mukai is senior research associate at the Foundation Center.

**Source for all data:** The Foundation Center

For more information about this report, contact [communications@foundationcenter.org](mailto:communications@foundationcenter.org)

<sup>1</sup> For the latest statistics on foundations' program-related investments, see [foundationcenter.org/gainknowledge/research/pdf/pri\\_2010.pdf](http://foundationcenter.org/gainknowledge/research/pdf/pri_2010.pdf). Foundations may also make 'recoverable grants,' which require repayment but are made from a foundation's grants budget. These investments are reported as grants, rather than PRIs, on the 990-PF return that foundations file annually.

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# Working for Third Sector-led Social Investment and the Common Good

Senscot Discussion Paper ([www.senscot.net](http://www.senscot.net))

*Scotland has a vibrant social entrepreneurial environment. Senscot, in this discussion paper, is critical of the marketization of social investment suggesting an alternative model that they conclude fits the third sector ethos. Reprinted with permission.*

*This Discussion Paper was written and researched by Laurence Demarco and James Henderson and published by Senscot to promote further discussion.*  
**ay 2014**

## 1.0 Introduction

In August 2012 Senscot circulated a discussion paper<sup>1</sup> expressing concern about the direction of social investment in the UK, particularly the growing emphasis on investor profit. This paper updates the discussion in the light of subsequent events and new thinking. The third sector generates much of the social capital which holds our society together, and it has an ethos quite distinct from either the state (public) sector or the private sector and market economy (section 2). To flourish our sector requires a flow of investment which understands and respects its mission and values: investment which is both patient (long-term) and bold, tolerating the inherent risk of innovation.

**A**s rehearsed in the earlier 2012 paper, Senscot believes that the style of social investment promoted by the UK Government – through Big Society Capital (BSC) and others – was designed by people unaware of both the nature and needs of our sector. This prediction has proven more or less correct, and there is a growing realisation that the payment of dividends to private investors is contrary to the ethos and realities of our sector's work: in effect, it's not going to happen (section 3).

Our 2012 paper also expressed surprise at the lack of resistance to the clumsy attempts of merchant bankers to marketise the third sector in England. Fortunately, there is now evidence from the past year that the fight-back is underway, and of the potential for new third sector-led initiatives (section 4). So we conclude by asking if – in the light of specific recent developments – a *Scottish model* of financing the third sector, and supporting the common good, is now emerging as an alternative to market-led thinking.

## 2.0: The fundamental importance of the third sector

2.1 A *distinctive sector*, what we now know as the third sector, has its origins in the charities, mutuals and voluntary organisations which flourished in the 19th century. Motivated by the compassion and solidarity of ordinary citizens, these initiatives provided respite from the extraordinary industrial expansion and harsh social changes generated by the market economy. Although to some degree ‘parked’ by the growth of state provision in the 20th century, the third sector has continued to change and thrive: witness, since the 1970s, the growth of the community sector; from the 1980s, the advance of community and social enterprise; while, the 2000s brought the increased emphasis on contracted public service delivery through the third sector. The social value of all this activity is explicitly endorsed by the state, with legislation affording fiscal benefits, and organisations eligible for this status are regulated – a distinctive sector<sup>2</sup>.

2.2 *Third Sector values and culture...* given the diversity of the third sector, a single agreed statement of values and approaches seems neither likely nor useful. However, in 2007, the Third Sector Network in England drafted eight ‘values and principles’<sup>3</sup>, from which we have extracted four broad narratives as a framework for supporting discussion of third sector values:

- Social justice and the protection of the planet as prerequisites of all activity;
- The Common Good will always trump individual gain;
- Independence from both the state and private sector interests;
- Democracy, accountability and transparency – are embedded traditions.

Taken together, these third sector values identify a space which is sometimes also referred to as ‘civil society’; the realm of the citizen, free to act outwith the control of the state or the constraints of market forces. Activity which, in 1948, Lord Beveridge described as one of the distinguishing marks of a free society.<sup>4</sup>

2.3 *The common good...* we are concerned here to assert the importance of the third sector and its contribution to the functioning of our society. The philosopher Michael Sandel, in his 2012 book *What Money Can’t Buy*, expresses concern that we, in the West, are moving from a market economy to ‘market societies’ which tolerate gross inequalities, and where the pervasiveness of market-based thinking comes to corrupt our commitment to human social values. At its core, third sector activity is the expression by millions of volunteers and activists of their concern for all in our society and our common future. The assumption that this spontaneous goodwill should be subjected to market forces is the fundamental error underlying government policy. Be in no doubt, the UK Government is trying to marketise both public and third sectors, and we need to talk about this.

## 3.0: Marketising the third sector as current UK Government policy

3.1 There has been nothing covert about the UK Government’s aspiration to finance the third sector through profit-seeking private investment. The founding chair of BSC, Ronald Cohen, became cheerleader, and spoke of making social investment a new ‘asset class’ for international capital markets – a market, he claimed, of massive scale. He warned us we would need to change, most controversially by being prepared to pay dividends to investors. The third sector, as a value-driven and asset-locked entity, was replaced by the language of ‘social sector’, and deemed to embrace profit-driven companies with ‘social’ elements. Cohen spoke of a new ‘paradigm’ which would unleash the vast wealth of money markets to tackle social ills.<sup>5</sup>

3.2 *Marketisation and the public sector* ... simultaneously in England, the privatisation of the public sector has been gathering momentum, with ‘sweetheart’

deals for giant, outsourcing corporations like G4S, Serco, A4e, Capita and Atos.<sup>6</sup> The spread of ‘payment by results’ contracts further favours the target-driven, economies of scale and culture of the corporate sector over the third sector. Social impact bonds (SIBs) were introduced with much fanfare as a vehicle to enable private capital to gamble on the success of social ‘interventions’ – with the state paying dividends according to outcomes. The Coalition UK Government has continued to promote SIBs as a key vehicle for opening social investment to the private finance markets, with BSC to play a key role within this.<sup>7</sup>

- 3.3 Yet the recent birthday celebration of BSC was a surprisingly muted affair. The organisation is more modest now, more realistic. Chairman Cohen has gone, and with him the overblown rhetoric about a multi-billion asset class; while new Chair Harvey McGrath recognises that social investment is not a ‘silver bullet’ for all third sector organisations. If you read the small print of their 2013 annual report, you will learn that the total money that has reached frontline organisations by the end of 2013 was only £13m<sup>8</sup>. We also learned this month that the much vaunted inaugural Peterborough SIB will not be extended into a planned third phase.<sup>9</sup> The SIB model, overcomplicated and over expensive<sup>10</sup>, survives only on a UK Government funded life support system.<sup>11</sup> Yet if the UK Government policy for social investment can be seen as failing, those of us who seek to replace it must recognise why it is so, and seek alternatives.
- 3.4 Firstly, and much to its credit, the culture of the third sector rejects the idea of profit from working with people in distress, and we should not underestimate the effect of this embedded resistance.<sup>12</sup> But leaving moral discomfort aside, the overarching reason for the failure of government policy is the mismatch between the types of investment required and what’s been offered. The research has consistently shown that BSC’s supply of finance-led social investment simply doesn’t match the needs of community-based social enterprise and third sector organisations for a mix of small scale (up to £100k)

grants and patient capital, often as unsecured investment.<sup>13</sup>

- 3.5 *The new reality ...* current BSC Chair Harvey McGrath recently told a Westminster Civil Society All Party Group (May 2014) that products of ‘blended capital’ – a mixture of grant funding and loan – are better suited to third sector needs, with social investment as a ‘subset’ for the minority<sup>14</sup>. Interviews by social enterprise commentator David Floyd with former BSC Chief Operating Officer Caroline Mason (November 2013), and Chief Executive Nick O’Donohoe (February 2014) confirm that – after a two year detour – this penny has dropped.<sup>15</sup>

#### 4.0: Seeking third sector-led approaches: resistance and new horizons

- 4.1 The lack of explicit challenge to the UK Government’s social investment strategy has been disappointing – particularly from third sector leaders. Yet, there has now been some criticism of the general privatisation of the public sector: SEUK’s 2012 report *The Shadow State* has established the dangers of the corporate invasion of public service delivery and the curtailing of opportunities for the third sector;<sup>16</sup> whilst Cooperatives UK and the TUC have similarly clarified their concerns about the abuse of public service ‘mutualisation’ as a vehicle for privatisation.<sup>17</sup>
- 4.2: The current thinking of Locality has been particularly encouraging with, firstly, (then) Chief Executive Steve Wyler arguing (May 2013) that BSC and others are seeking to redefine social enterprise, through the language of the ‘social sector’ and social impact investment, in order to normalise the role of for-profit, private organisations within the social economy.<sup>18</sup> Most recently, Locality’s report<sup>19</sup> on ‘the diseconomies of scale’, and an advocacy for a ‘local-by-default’ approach to the provision of local services, is now showing how a very different language can be developed: one no longer concerned for targets and economies of scale that appeal to the corporate sector and market investment. Locality’s emphasis is on working with people to understand their purposes and needs, and to develop

their strengths, through locally-based approaches. Early days for such thinking, but an alternative approach concerned for third sector roles and values is coming into view.

4.3: *In Scotland*, the Scottish Government is generating a policy landscape more receptive to third sector values and third sector-led development. The Government Economic Strategy 2011<sup>20</sup> clearly establishes the third sector and social enterprise as key partners in working for more equitable economic development – with over £190m being committed to support its Enterprising Third Sector Action Plan between 2008-2014 (Scottish Govt website – various). Its approach to public service reform – given public spending cuts and changing demographics – has not been to turn to the commercial markets and privatisation, but instead to recognise the role of preventative approaches and the third sector. One particular commitment has been through ‘public social partnerships’ in which public and third sectors work together with local service users to design suitable services; once piloted and evaluated, these can then be commissioned through an open tendering process.<sup>21</sup> Further, the Scottish Government has side-stepped SIBs and is choosing, for instance, to invest £8m in the (Scottish) Social Growth Fund, which is enabling Social Investment Scotland to provide loan products responsive to third sector needs.<sup>22</sup>

4.4: *The Scottish Community Re-investment Trust (SCRT)* ... Senscot is now involved in the development of this Trust which is concerned to make the Scottish third sector less reliant on investment from either the state or the commercial sector, so giving it more control over its own future. The investible assets of Scotland’s third sector have been calculated to be in the region of £4.25bn<sup>23</sup>, and 10% of this amount (£425m) would be sufficient to justify a new third sector banking institution, while even 1% (£42.5m) of strategically placed deposits would transform our sector’s influence and role. Yet these third sector deposits are mainly held in financial institutions that have little understanding or interest in

our sector’s mission. At the same time, all our research (and that of others) confirms that the sector’s development is being restricted by the lack of suitable investment, particularly relatively small amounts of risk or patient investment.<sup>24</sup>

4.5: The intention, therefore, is to create the SCRT with a stated mission: *to establish an intermediary owned and controlled by the Scottish third sector that seeks both to harness our sector’s collective assets and expertise and to provide a family of financial services relevant to our sector’s needs.*<sup>25</sup> The Trust will:

- provide opportunities for third sector organisations to invest in and support the development of the wider third sector;
- support the development of suitable financial services and products, and promote financial literacy and increasing financial expertise within the third sector;
- progress its plans through its commitment to third sector values and ethos, and in collaboration with the sector through its Board, membership and networks.

4.6: *Working for Third sector-led investment* ... the SCRT’s vision is of a mutualised framework, wherein financially robust organisations with substantial reserves, can elect to ease the supply of risk seed capital to the next generation of social innovators. No-one disputes that our sector controls the financial resources to implement this strategy, but there is a question about its will to do so: can our thousands of disparate organisations feel sufficient shared identity to act with collective purpose? This is a big question but one, Senscot feels, deserves to be asked.

The third sector is experiencing a shift in its political and economic environment. Potentially, it may be undergoing a significant transformation in its shape, its role and its relationship with both public and private sectors. By failing to effectively harness our own substantial resources, our sector is more exposed than necessary to the vagaries of political ideology and ‘market fundamentalism’. If we can commit to work together – we ourselves can determine the future.

- <sup>1</sup> Note: view Senscot 2012 Social Investment paper at: [www.senscot.net/view\\_art.php?viewid=12660](http://www.senscot.net/view_art.php?viewid=12660).
- <sup>2</sup> Note: Rory Ridley-Duff and Mike Bull's (2011) *Understanding Social Enterprise: theory & practice* explores the development of the third sector in the UK. Steve Wyler's (2009) *A History of Community Asset Ownership* – view [www.locality.org.uk/resources/history-community-asset-ownership](http://www.locality.org.uk/resources/history-community-asset-ownership) – and John Pearce's (1993) *At the Heart of the Community Economy*, look more closely at the development of community social enterprise.
- <sup>3</sup> Note: view details of Third Sector Network's thinking at: [www.navca.org.uk/news/view-article/values](http://www.navca.org.uk/news/view-article/values).
- <sup>4</sup> Note: see for instance Barry Knight's article in the Fabian Society report *Beveridge at 70*, view at: <http://www.fabians.org.uk/publications/beveridge-at-70/>
- <sup>5</sup> Note: see, for instance, Ronald Cohen's 2014 speech *Revolutionising Philanthropy – Impact Investment*, view at: [www.cass.city.ac.uk/\\_\\_data/assets/pdf\\_file/0003/209775/LM-CLP\\_Sir-Ronald-Cohen-Jan-14.pdf](http://www.cass.city.ac.uk/__data/assets/pdf_file/0003/209775/LM-CLP_Sir-Ronald-Cohen-Jan-14.pdf).
- <sup>6</sup> Note: see, for instance, Zoe Williams' 2012 report *The Shadow State for Social Enterprise UK*, view at: [www.socialenterprise.org.uk/uploads/files/2012/12/the\\_shadow\\_state\\_3\\_dec1.pdf](http://www.socialenterprise.org.uk/uploads/files/2012/12/the_shadow_state_3_dec1.pdf).
- <sup>7</sup> Note: see, for instance, the UK Government aspirations within its web-information on SIBs, view at: [www.gov.uk/social-impact-bonds](http://www.gov.uk/social-impact-bonds), and BSC's aims for SIBs and related market structures in its *Annual Report 2012*, view at: [www.bigsocietycapital.com/sites/default/files/pdf/BSC\\_AR\\_AW\\_forwebsite.pdf](http://www.bigsocietycapital.com/sites/default/files/pdf/BSC_AR_AW_forwebsite.pdf).
- <sup>8</sup> Note: BSC Annual Report 2013 (p41) notes that in total commitments to £148.9m for 30 investments had been made at 31 December 2013, with 19 investments of £47.9m having been signed, and £13.1m drawn down, view at: [www.bigsocietycapital.com/sites/default/files/BSC\\_AR\\_2013.pdf](http://www.bigsocietycapital.com/sites/default/files/BSC_AR_2013.pdf).
- <sup>9</sup> Note: the Peterborough Prison offenders project will now be further funded through the UK Government's 'Transforming Rehabilitation' programme, view Civil Society article (May 2014).
- <sup>10</sup> Note: the Yunus Social Business Centre at Glasgow Caledonian University's recent paper on SIBs (McHugh, et al. 2013) establishes a wide range of technical and policy concerns; whilst even the more supportive Social Market Foundation (Keohane, Mulheirn & Shorthouse, 2013) recognises their complexity and set-up costs.
- <sup>11</sup> Note: the UK Government has now announced backing for Youth SIBs worth £30m (May 2014): [www.gov.uk/government/news/30-million-boost-to-improve-the-lives-of-britains-most-vulnerable-young-people](http://www.gov.uk/government/news/30-million-boost-to-improve-the-lives-of-britains-most-vulnerable-young-people).
- <sup>12</sup> Note: various research reports from 2012 and 2013 have highlighted this culture clash: Duffy (2012); Gregory, Hill, Joy & Kean (2012); Baker & Goggin (2013); Gregory (2013).
- <sup>13</sup> Note: various research reports and commentaries from 2012 and 2013 establish this clash between third sector demand and BSC/social investment supply: see the four reports in Note 12 above; Henry & Craig (2013); Davison (2013); Davison & Heap (2013); see also Senscot 2013 report in Note 23.
- <sup>14</sup> Note: view at: [www.thirdsector.co.uk/news/1294363/Social-investment-is-not-silver-bullet-sector](http://www.thirdsector.co.uk/news/1294363/Social-investment-is-not-silver-bullet-sector).
- <sup>15</sup> Note: see David Floyd's interviews with: Caroline Mason at: [www.beanbagsandbullshit.com/tag/caroline-mason](http://www.beanbagsandbullshit.com/tag/caroline-mason); Nick O'Donohoe at: [beanbagsandbullshit.com/2014/02/28/report-from-emerging-market](http://beanbagsandbullshit.com/2014/02/28/report-from-emerging-market).
- <sup>16</sup> Note: see Note 5 above for details.
- <sup>17</sup> Note: see Cooperatives UK and TUC news release and report at: [http://www.uk.coop/pressrelease/tuc-and-co-operatives-uk?utm\\_source=Linx+293+-+29+August&utm\\_campaign=linx293&utm\\_medium=email](http://www.uk.coop/pressrelease/tuc-and-co-operatives-uk?utm_source=Linx+293+-+29+August&utm_campaign=linx293&utm_medium=email).
- <sup>18</sup> Note: see Steve Wyler's blog (13.05.13) at: <http://locality.org.uk/blog/powerful-engine-pieces-lying-floor/>
- <sup>19</sup> Note: see Locality's report at: [www.locality.org.uk/our-work/policy/diseconomies-scale](http://www.locality.org.uk/our-work/policy/diseconomies-scale)
- <sup>20</sup> Note: Scottish Government Economic Strategy 2011, view at: [www.scotland.gov.uk/Resource/Doc/357756/0120893.pdf](http://www.scotland.gov.uk/Resource/Doc/357756/0120893.pdf)
- <sup>21</sup> Note: see *Public Social Partnerships on the Ready for Business* website: [www.readyforbusiness.org/programme-offering/public-social-partnerships](http://www.readyforbusiness.org/programme-offering/public-social-partnerships)
- <sup>22</sup> Note: Scottish Government and BSC have provided £8m each to establish a £16m growth funded to be managed by Social Investment Scotland, view details at: [www.socialinvestmentscotland.com/news-and-events/16m-investment-scotlands-third-sector/](http://www.socialinvestmentscotland.com/news-and-events/16m-investment-scotlands-third-sector/)
- <sup>23</sup> Note: data from SCVO's *State of the Sector 2014* report, view at: <http://www.scvo.org.uk/wp-content/uploads/2014/04/SCVO-Sector-Stats-2014.pdf>
- <sup>24</sup> Note: view Senscot and the Scottish Community Banking Trust 2013 report for market research in Scotland: [www.senscot.net/view\\_art.php?viewid=16013](http://www.senscot.net/view_art.php?viewid=16013).

# The Social Stock Exchange: An Example of an Impact Authentication Process

Pradeep Jethi The Social Stock Exchange ([www.socialstockexchange.com](http://www.socialstockexchange.com))

*The Social Stock Exchange is a membership platform which authenticates organisations which have publicly traded securities (equities or debt) as being high social or environmental impact. Its objective is to identify a universe of investment opportunities from which impact investors can choose.*

*The Social Stock Exchange Impact Report is a key component of the admissions process and is prepared by an independent social impact specialist. It covers five key themes:*

- 1. The social or environmental purpose of the company and the impact it will deliver*
- 2. Who benefits as a result of the company's social impact*
- 3. How a company's products, services, and operations deliver that social impact*
- 4. How a company involves and consults with all its stakeholders*
- 5. What evidence a company has of its social impact and how that is collected, measured and reported*

We know that social impact investors – someone who invests for social outcomes alongside financial returns – are increasingly looking for good investments and plan to commit \$200-650bn over the next decade. We know that there are a huge number of potential investment opportunities out there – the fact that there are 1700 clean tech companies currently listed around the world shows the potential of the market.



*Pradeep Jethi*

**H**istorically, measuring impact has been a major stumbling block in the social investment process. If you are an impact investor looking to invest, the single biggest hurdle to that money finding its way to organisations is the absence of a way to measure the social impact. A company merely claiming impact is insufficient; the impact investor needs a degree of rigour and proof - and a process that surrounds this.

The Social Stock Exchange's (SSX) admissions process and mandatory reporting requirements provide one way that investors are able to make informed decisions about companies against stated objectives and verifiable, published evidence.

Through a robust process that includes the assessment of a company's eligibility for admission by an independent Admissions Panel and the mandatory publication of an Impact Report, we hope we have created a credible platform for capital markets investors to assess a company's social and environmental credentials, whilst also taking key financial performance criteria into account. How do we ensure that happens?

The SSX's methodology is to have a stringent Admissions Process that follows four stages:

1. The first is that an applicant company submits a basic application form that is put to the SSX's Admissions Panel for first stage of (non-binding) approval. This includes a statement about the social issue or problem that the company's product or service addresses.
2. If the company passes that test, the second step is the production of an Impact Report. The Impact Report is prepared under the supervision of an expert organisation, which has a background in the methodology of impact measurement and reporting. Example organisations include PWC, Deloitte, CAN Impact, Investing for Good, the SROI Network and many others. This expert organisation works with the applicant company to develop and assess the social or environmental metrics relevant to the company's business area or sector. The expert takes on the role of developing the key reporting requirements, assessment, and verification.
3. The Impact Report requires 6 key areas to be addressed;
  - a. CEO commitment to social/environmental value
  - b. The context in which the impact is delivered
  - c. The beneficiaries
  - d. How business activities are key to the delivery of the impact
  - e. Assessment of stakeholders
  - f. Evidence/Outcomes (key performance indicators)
4. The completed Impact Report is put to the SSE's Admissions Panel to judge the company's suitability for admission – and the admission is made on the basis that clear evidence of delivery of social or environmental impact is being made as a direct result of the company's product, service or business process. The investor, in turn, receives the benefit of due process, expertise, rigour, and independence: he or she can put trust in the expert's diligence.

The SSX's Admissions Panel is made up of experts from social investing and impact reporting and measurement. It is chaired by a member of the SSX who does not have a voting capacity. Furthermore, the Panel reviews the company's social or environmental metrics which the company must re-state on an annual basis – this ensures that companies are not

just jumping through a hoop in a one-off and that they are upholding the values and impacts as long as they are members of the SSX. There is a suspension and striking-off mechanism for companies who exhibit mission drift, or any other failure to maintain the delivery of social or environmental impact. Again, the investor benefits from a rigorous mechanism that they can review on an on-going basis alongside a company's financial performance.

In addition to providing objectivity, verification, and year-on-year updates for investors the process of producing an Impact Report can have additional benefit for companies that undergo the rigour of a thorough reporting process.

Halosource plc, one of the SSX's first admissions and makers of water purification products, had never really done anything like this before. The senior management team was initially wary of completing a Report to a demanding month-long timescale. But leadership came from CEO Martin Coles who pushed the initiative through and gave one or two senior executives the mandate to produce the report with the help of one of the SSX's expert organisation, because he believed that the metrics would help inform better business practice and product roll-out.

As Mr Coles revealed, the emphasis on outcomes was something that he felt his business needed to start thinking about: "We were always able to place a value on the number of lives saved through the number of our filters sold, but the impact reporting process gave us a new appreciation as to the outcomes of a saved life in, say, an Indian village, in terms of that person or persons ability to continue on into schooling, work, and economic output in regions where these are real long-term developmental issues."

On the other hand Places for People, a social housing organisation, found the Impact Report preparation process a very straightforward one and were able to complete the work within a week. Their Head of Sustainability, said: "Places for People is a social housing organisation and we have a long history of capturing and reporting data on our social impact. However, we had never utilised this type of reporting framework before and the emphasis on outcomes for our beneficiaries was really instructive for our business."

The SSX's Impact Report offers common headings so that investors can scan for impact across businesses and sectors. The use of the network of expert organisations that undertake the measurement reporting and assessment helps to ensure commonality, and we hope this will drive a degree of standardisation

across the impact investing world and provide a common or public good for investors who invest for a social or environmental 'dividend'. Indeed, we are one of the few organisations in the social finance arena who mandates social impact reporting as an absolute condition of entry before being considered a social impact business.

The International Integrated Reporting Council (IIRC) recently published (Dec 2013) its framework on how to embed non-financial indicators into a mainstream annual report for companies over a certain size. We might see a scenario in the not too distant future in which impact reporting is part of the everyday, part of the mainstream, and which offers a more rounded account of a company's activities.

# Ethical Investment:

## An Overview Including Challenges

Claudia Quiroz ([www.quiltercheviot.com](http://www.quiltercheviot.com))

*Ethical/ Socially Responsible Investment is personal; values based investment seeking to make a difference on some societal issue whilst achieving a return on ones investment. It assumes monetary decisions make a difference and as stated in the article below in many cases the returns are competitive with other forms of investment.*

*In addition for certain institutions a lack of ethical investment policies and actions can result in a risk to reputation. To succeed an organisational ethos reinforcing risk management must be in place. It should not just be seen as a financial activity and it should not be reactive in nature.*

Ethical investment has come a long way since the mid eighteenth century, when the Religious Society of Friends (Quakers) prohibited members from participating in the slave trade.

**E**thical investment - also called sustainable investment, responsible investment and socially responsible investment (SRI) - is more popular than ever.

Definitions vary but a simple one is anything that reflects the values of the investor - for example, environmentally-friendly technology or social loans for local communities.

About £12.2 billion is invested in UK green and ethical retail funds, according to Ethical Investment Research Services.

Ethical investment used to be a matter of avoidance. Investors would tell their advisers to avoid putting their money into things such as tobacco, alcohol or arms companies.

But as the market has matured, investment strategies have become more active and less passive.

Investors are picking technologies or industries, such as electric cars, energy-efficient agricultural equipment, or making energy from waste, that make a positive contribution to environmental or social issues.

The attractions for financial advisers and their clients are financial as well as ethical.

Sustainable investment funds generally performed better financially than their mainstream counterparts, according to research published in August 2013 by Moneyfacts.

The average ethical fund delivered returns of 24% over a year, compared with the 18% growth displayed by the average non-ethical fund, the research found.

The Quilter Cheviot Climate Assets Fund has returned 39.9% from launch in March 2010 to March



Claudia Quiroz

2014. This compares with the IMA Mixed Investment 40%-85% Shares Sector delivering 32.47% over the same period (Bloomberg).

Which types of ethical investment offer the best potential returns for investors?

Five areas stand out: energy efficiency (or low carbon energy); food; health; resources and water.

These technologies are growing fast and have typically produced good returns for investors over the past few years.

### Energy Efficiency

The global population is growing faster than at any other time, with about 800 million more people expected in the next ten years and six out of ten living in urban rather than rural areas.

The energy-efficiency sector – which includes improvements in buildings, such as insulation and lighting, and transport efficiency, such as railways and electric vehicles – is growing at around 10% annually (International Energy Agency / IEA).

It's expected to reach around \$1trillion (c.£592 million) by 2020 (Source: Bank of America's Thematic Investing Team)

Transport is growing fast, thanks to strong demand for products such as catalytic convertors, which convert carbon monoxide poisonous gases from car exhaust systems into carbon dioxide.

Demand for this and other green transport technologies is set to increase as governments pass legislation requiring vehicles to reduce pollution.

Lighting is another bright spot for ethical investors. It accounts for 16% of electricity consumption in the UK and 19% globally. Efficient lighting, such as compact fluorescent or LEDs (light emitting diodes), which use less energy than traditional 'incandescent' lighting, is becoming the norm

China will continue to play a vital role in the auto industry value chain. There are already more automotive assembly plants in China than in any other country in the world.

### Food

As the global population rises, farmers are having to produce more food.

In the developing world, people are eating more protein – a dietary shift that will further increase pressure on farmers to produce more.

Using less energy can help farmers improve output and cut costs. Energy-efficient machinery can help.

For farmers, a 20% cut in energy costs can be the equivalent of a five per cent increase in sales, according to the UK's Carbon Trust, a publicly funded body that helps businesses cut emissions.

Agriculture is a very thirsty industry. It is currently consuming more than two thirds of the world's fresh water. When growing cereal crops, farmers using conventional ways of irrigation can waste up to 40% of the total water withdrawals, particularly in developing countries.

Better irrigation of farmland - for example, using technology to schedule irrigation and keep soil at the right moisture - can reduce the amount of water that's wasted and reduce costs.

### Health

Better drugs and medical treatments are helping people live longer. Meanwhile, governments are putting pressure on drug-makers to lower the price of drugs.

To become more competitive, pharmaceutical companies need to focus on cost effective healthcare and targeted therapies.

These trends make healthcare an attractive market for sustainable investments. Companies providing vaccines, generic drugs no longer in patent (which are much cheaper than branded drugs) new therapies to combat obesity and treat diabetes may be worth investing in. Technology is changing healthcare and creating investment opportunities.

Robotic technology to help doctors do keyhole surgery is becoming more common. So is software allowing hospitals to create electronic-patient records.

The benefits of electronic medical records are obvious: if you're treated in a different hospital, maybe in a different country, your doctor can quickly view your medical history, including any medicines you're allergic to.

Electronic patient records can reduce medical errors. And fewer errors can reduce the risk of hospitals being sued for malpractice -- a major concern in countries including the United States.

### Resources

It may not be the most glamorous of industries but waste disposal is thriving. Using and managing resources, recycling them and disposing of them in an environmentally-friendly way can reduce carbon emissions.

Some companies are finding ways to produce energy from waste - for example, extracting methane (a greenhouse gas) from landfill waste and turning it into

electrical power.

In the UK alone, recycling food waste for energy and agriculture would save £17 billion a year, avoid the emission of 27 million tonnes of greenhouse gases and power 60,000 homes, according to research published in November 2013 by waste recycling company ReFood.

## Water

Whether it's piping it, pumping it, measuring it or checking it is safe to drink there is plenty of liquidity in the water sector. A growing number of companies are offering solutions to preserve and conserve water for business and households.

Behind-the-wall cisterns for the residential and commercial sectors can reduce water flush volume by about a third. Smart meters, meanwhile, can reduce water consumption and improve water usage. They're becoming more common, especially in Europe.

Investors should also keep an eye on 'reverse osmosis' desalination technology, a process for converting salt water to drinking water. It has great potential but may not provide as big returns on investment compared to more established forms of environmentally-friendly technology.

Sustainable investment generates attractive investment opportunities when one understands the global changes taking place with regard to consumer preferences, government spending, energy and food supply-and-security, and the general need for a cleaner and more efficient economy.

In my opinion, shares in renewable energy companies typically haven't performed well in the past five years or so but this is only a small part of the ethical investment sector. A broad investment portfolio can help offset dips in some industries and help investors make good returns with a clean conscience. For example, First Solar Inc. has returned -48.09% (Bloomberg) in the last 5 years as at 31st July 2014.

## How does this fit within the 'spectrum of social investment'?

Social investment, as we understand it, covers investment in any business that has a direct impact on the communities in which the business operates. For example, investing in a chain of small supermarkets that only employs workers who live in close proximity to the stores and sources fresh groceries only from local suppliers could be classified as a social investment.

The business creates wealth directly in the community in which it operates. In a way there is a strong focus on how the enterprise does business and

earns the right to operate - improving the lives of the chosen demographic.

Sustainable investment covers investment in any business that has a direct impact on improving environmental and demographic challenges around the world, independently of the operation or sourcing location of the enterprise.

For example, investing in companies with technologies, products and services to reduce water shortages or improve the imbalance of food supply and demand. In a way there is a strong focus on what the enterprise does - marketing products and know-how to resolve environmental and urbanisation challenges.

## Any challenges?

Over the years we have found that investors were concerned that there was a price to pay for sustainable investing. There was a misperception that the performance of sustainable investment funds would be worse than an unconstrained (mainstream) fund.

However, our own record suggests such a performance penalty does not exist. The Quilter Cheviot Climate Assets Fund has returned +39.80% from launch in March 2010 to July 2014. This compares with the IMA Mixed Investment 40%-85% Shares Sector delivering +34.16% over the same period.

Most of the fund offerings within the sustainability space are mainly equity-only strategies. These have had significant volatility over recent years, as most of their holdings are high beta stocks. These kinds of funds do very well during an economic upturn, but badly in a downturn.

As such, many investors still associate environmental or sustainability markets with high volatility and poor returns.

By taking a mixed-asset approach we, at Quilter Cheviot, aim to smooth the volatility of returns over the economic cycle and offer a decent dividend yield. Additionally, some investors would associate sustainable investing with the solar sector for example, which has had poor performance from 2008 through 2013 due to changes in government subsidy policy, as well as an increased competitive threat to western solar companies from privately owned firms in China.

However, the companies involved in solar power generation are a negligible part of our investable universe. Also, as we only invest in profitable established businesses with attractive valuations, we avoided the solar sector altogether during that period.

# Taking Advantage of Social Investment Tax Relief

Luke Fletcher, a Partner at Bates Wells Braithwaite ([www.bwbllp.com](http://www.bwbllp.com)), and Gavin Francis, Director and Founder of Worthstone ([www.worthstone.co.uk](http://www.worthstone.co.uk))

*At a recent Philanthropy Impact Roundtable discussion one of the participants, as a result of the establishment of the Social Investment Tax Relief, created a controversy by questioning whether there should be tax relief on donations and social investment. Members of the audience and other panel members provided an alternative view providing a business case for the continuation and enhancement of tax reliefs on donations and social investment.*

*The Social Investment Tax Relief is an attempt to level the playing field between donations and social investment. This article describes this new tax relief, benefits, how investors can take advantage of the relief, issues and its implications for financial advisors and wealth managers.*

## Introduction

Social investment tax relief ('SITR') is a new form of tax relief for individual investors who invest into community benefit societies, charities and community interest companies.

Individuals investing into these qualifying organisations are able to offset 30% of the value of the investment from their income tax bill. This is a serious incentive which could have a big impact on investment behaviour and investment flows into the social sector over time.

Guidance has already been released by HMRC showing how SITR will operate. At the time of writing, it is anticipated that the Finance Bill will receive Royal Assent in July 2014.

## Policy Context and Aims

When I (Luke) was seconded to the Cabinet Office in 2011-2012 to advise on the law, regulation and tax treatment of social enterprise, we looked at the possibility of introducing a new tax relief for social enterprise and how it might be structured.

Our analysis showed very clearly that the tax system disincentivised investment into social enterprises. On the one hand, Gift Aid incentivised giving to charities. On the other hand, specific tax reliefs – enterprise investment scheme and venture capital tax reliefs – existed to encourage investment into small and medium sized companies limited by shares. However, there was no incentive for investment into social sector organisations, many of which are unable to issue equity or access SME tax reliefs. A level playing field was needed.

One of the key questions we had to consider was "how can a new relief for social investment be



Luke Fletcher



Gavin Francis

‘ringfenced’ to avoid abuse?”. I was an advocate for the idea of ringfencing the relief by reference to charities, community interest companies and community benefit societies, which we described as ‘regulated social sector organisations’, as they are regulated and exist for public or community benefit and so the risk of abuse or fraud is generally much reduced. This is the form of ringfencing used by SITR, alongside other eligibility criteria and conditions.

### SITR in Outline

SITR is available for investment in newly issued ordinary shares and qualifying debt instruments of charities, community interest companies and community benefit societies.

The relief is targeted at small and medium sized social enterprises: only social enterprises with less than 500 full-time equivalent employees and less than £15m of assets are eligible.

The key principle is that the investment must not be protected from the ordinary risks of investment, as the intention is to encourage investors to provide risk capital. This means that ordinary shares must carry no preferential rights to participate in capital or income and debt instruments must be unsecured and must rank after all other debt obligations. To receive the relief, investments must be paid up in cash in full when the investment is made.

Investors and connected parties must not own or have voting rights in more than 30% of the social enterprise investee and must not hold any office or employment with the investee.

Investments must be for a minimum of three years and, due to State Aid rules, social enterprises are only currently able to raise up to approximately £290,000 of investment.

There are a number of other conditions designed to limit tax avoidance and abuse.

### The Benefits to Investors

If all the conditions are met, individual investors are able to offset 30% of the value of each qualifying investment against their income tax liability in the year the investment is made.

There are also capital gains related reliefs. No capital gains tax is payable on any capital gain from an SITR investment. In addition, if an individual has a capital gains tax liability from other investments in a given tax year, the liability can be deferred by investing the gain in an SITR qualifying investment, so that tax is only

payable when the SITR investment is realised.

Individual investors can invest up to £1m in more than one social enterprise. Importantly, the £1m limit is independent of any investments made under other tax reliefs.

### Relationship to Business Property Relief (BPR)

An important point to note from a financial planning perspective is that Business Property Relief (BPR) applies by coincidence to SITR qualifying share investments as it does to Enterprise Investment Scheme (EIS), although not to SITR qualifying debt investments.

Why is this important? In my (Gavin) experience, when advisers are putting in place long term planning for individuals the following points are considered:

1. **The characteristics of the type of investment.** Bonds apart, direct investment for social impact investments are by their nature long term investments (lack of liquidity; needs of social enterprise for patient capital to meet its objectives), so it is a significant advantage that IHT (or any capital tax for that matter) may not be charged on the investment.
2. **Keeping the choices presented as straightforward as possible.** Currently, advisers view direct social investments as better suited to wealthier individuals and to a proportion of their investable wealth. BPR may present a further motive to invest, but the typical profile of a BPR investor is an older investor. Social investments will be considered alongside EIS or other investments, which qualify for BPR, and the opportunity to invest in social enterprises using SITR will therefore be assessed by financial advisers on an equivalent basis.
3. **The need for intergenerational planning.** Social investments lend themselves well to embedding a family culture of productive investment and can be seen as a way of educating the next generation on the true worth of wealth. Some investors access social investments via a family trust. In such cases, it is a family matter and there is engagement with the next generation. This way the investment does not need to be sold at probate but can follow ownership on to the next generation without IHT being chargeable and reducing the value of the investment by

40% - and the capital is able to stay with the social enterprise.

In summary, BPR provides a further motivation for social investment. It helps establish a position of 'fairness' in that participation in social enterprise is not eroded through taxation, the investment is retained for the social enterprise and for the investor (and/or succeeding generation) and greater engagement between investors and social enterprises is possible.

### Model Agreements

At BWB, we are in the process of creating a form of loan agreement which is specifically designed for SITR investments. It will include warranties and undertakings on the part of the investee to comply with the conditions applicable to SITR, including with respect to obligations such as the requirement for the investee to use all the investment monies for the purposes of the relevant qualifying trade within 28 months of the date of the relevant investment. We will create a similar form of shareholder agreement for equity investments.

Over time, we will probably see a number of model forms of agreement developing in the marketplace for SITR-qualifying debt and equity investments. One key question will be the extent to which investees will be willing and able to indemnify investors against the risk of loss of the tax relief due to a breach on the part of the investee of one or more of the qualifying conditions. On the one hand, it is a principle of the relief that investees should not protect investors from the ordinary risks of investing. On the other hand, investors will want protection from the risk that a tax liability could arise as a result of the investee unnecessarily breaching one of the qualifying conditions. This is likely to be an issue for negotiation.

### Financial Advisers, Wealth Managers and SITR

As a new tax relief, SITR is of particular interest to financial advisers and wealth managers. However, advisers and managers who are considering recommending or making a SITR investment on behalf of clients will need to consider the 'suitability' of the investment.

The Financial Conduct Authority is focused on ensuring that regulated investment advisers are placing the interests of the client first and foremost. This means that advisers and managers should make sure that the whole advice process centres around the needs and objectives of the client.

To ensure compliance, it is essential that the process of advice starts with the adviser fully understanding a client's ambitions and goals. In thinking about wealth, this process has traditionally centred around exploring the goals a client has with regard to:

- (a) first, meeting the client's own and their family's lifetime cash flow requirements; and
- (b) second, the other things the client may wish to acquire with any surplus.

We take the view that it is important for 'conventional goals' to be satisfied and accounted for before thinking about wider objectives that clients may wish to consider. Having prioritised conventional goals, enhanced questioning is required with regard to other ambitions clients may have which may focus on society, the local community and the environment.

Put simply, clients will often have social goals as well as financial goals, a fact which has been expressly acknowledged by the Financial Conduct Authority in its statements. If financial advisers and wealth managers wish to offer a truly holistic and independent service, clients will need to be given the opportunity to explore and express any latent social goals. At Worthstone, we have developed (in conjunction with a behavioural finance expert in this field and a number of financial planning firms) a 'client values' process which helps an adviser elicit these latent goals from their clients.

### Conclusion

SITR has the potential to attract many more individual investors to give social investment a go. It is also a nudge to investment advisers to understand and recommend investments in social enterprises to clients. Many individuals will be attracted to the fact that it is possible to make a positive difference when investing, with the potential for a positive return too.

In short, SITR gives investors a new reason to invest in social enterprise and provides the opportunity for more social impact bang for the buck than ever before. The Government has already committed to apply to Europe to enlarge SITR and allow enterprises to raise more investment under State Aid rules. In the meantime, all eyes are on the early adopters.

# Impact Measurement:

## Saving Impact Investment from Investment Folly

**Rohan Martyres** ([can-invest.org.uk](http://can-invest.org.uk))

*There are many approaches to measuring impact. The Social Impact Analysts Association [www.siaassociation.org](http://www.siaassociation.org) has played a significant role in bringing together social impact analysts. They have free online resource signposting current information about the measurement, analysis, assessment and evaluation of social impact and social value worldwide. See the next article for a list of some of the approaches to impact measurement. The author, Rohan Martyres, works for CAN Invest, a social investment intermediary. They also provide impact analysis and reporting services.*

We all know of individuals who amass surplus capital through skill, persistence or luck, and then squander it on folly, be it temporary pleasure with little enduring meaning, or the eponymous building that serves no tangible purpose.



**Rohan Martyres**

**T**his risk also applies to impact investment. How do philanthropists know if they have entered the fool's paradise of believing they are making a real difference when they are simply frittering away their hard earned cash? The answer is simple: impact measurement.

Social impact measurement is the discipline of understanding and reporting on the social, environmental and other changes effected by organisations for their stakeholders. But before outlining what good impact measurement involves, it's worth considering the wider context for impact investors.

### What Drives Impact Investment?

At the most basic level, impact investment acknowledges that investors have non-financial interests and they live by a set of values that are traditionally left out of investment decisions.

The first issue, then, is to identify the investment opportunities that best align with each investor's values and interests. It may be that she or he is interested in a particular social issue or impact area (health, education, employment, crime, the arts, and so on), or in supporting particular groups of individuals (youth, elderly, families, ethnic minorities, and so on), or even a particular geographic area. Whatever the case, being clear on where the investor's passions lie is a critical first step before more detailed looking at specific organisations, impact interventions, business models, and funding requirements.

This process of clarifying objectives is analogous to

how ‘finance only’ investors sieve through the almost bewildering universe of potential investments by first clarifying their financial objectives, time horizons, and investment strategy.

But there’s one point at which the processes for impact investors and finance investors diverge. Whereas the financial investor typically seeks a return on one metric, risk-adjusted return, the impact investor introduces an additional requirement: social return. This is where impact measurement comes in.

### The Role of Impact Measurement

CAN, is a charity trading as a social enterprise and a leading UK impact advisor. We regularly receive requests from both impact investors and prospective investees for support. Investees typically want independent impact audits to help them secure investment, and more importantly to improve their impact performance. Investors, meanwhile, seek frameworks to help them with impact due diligence and spotting good impact investments, and also to understand and enhance their own impact as investors.

So what makes for good impact measurement? When considering an organisation’s social return, good impact measurement will assess the major changes (or ‘outcomes’) it achieves from multiple perspectives. Unfortunately, this isn’t often done, so to help you get ahead of the curve, the table below provides some of the key factors that impact investors should consider. These aren’t only relevant to investees – the truly enlightened impact investors will apply these points to themselves as well!

### Impact Measurement in Investment Practice

So much for the theory. How is impact measurement applied in practice? Impact investment is a frontier market, so there is little systematised understanding of how it operates in practice, and the role played by impact measurement. But that is changing. For instance, the Social Impact Analysts Association (SIAA), a leading global association for organisations and individuals interested in the theory and practice of impact measurement, has commissioned two

**Table 1. Some key dimensions to good impact measurement.**

CONSIDERATION	KEY QUESTIONS	GOOD PRACTICE IN IMPACT MEASUREMENT
INTENTIONALITY	Which end-outcome(s) is the organisation ultimately seeking to achieve? Are planned outcomes accompanied by any unintended consequences?	Identify and measure unintended and negative outcomes
STAKEHOLDERS	Beyond end users and funders, who either affects or is affected by the organisation? For each stakeholder group, how do the organisation’s outcomes rank in order of importance or value?	Identify the most important sub-categories of end users that explain variances in impact (e.g. grouping by age, gender, income, family situation, duration of intervention, or something else)
CAUSALITY	How exactly do the organisation’s activities deliver the end-outcomes? What are the interim outcomes that need to occur as part of these ‘casual chains’?	Identify which interim outcomes are most required for different end-user sub-groupings
SUSTAINABILITY	In what specific ways does the organisation leave a legacy by embedding outcomes that will persist long after the organisation has exited? And in what ways does it create a culture of dependency?	Identify how long it takes for key outcomes to subside or ‘drop off’ after activity ceases
CONTEXT OF CHANGE	What else needs to happen in society or from other organisations for outcomes to be achieved? Can the organisation take full credit for outcomes, or must it be partly attributed to others?	Identify the extent to which key outcomes ‘would have happened anyway’, by comparing impact for the user group with that of a comparator or control group

evaluation experts based at UCLA to research how impact measurement is used in the context of impact investment (disclosure: I co-convoked the SIAA working group that commissioned the research).

**How do philanthropists know if they have entered the fool's paradise of believing they are making a real difference when they are simply frittering away their hard earned cash? The answer is simple: impact measurement.**

Our findings are not due out until later this year, but the interim insights are interesting. The UCLA team (Professor Christie and Dr Vo) have found distinct differences between processes used in different countries, and have identified several, interacting factors that affect how impact measurement is used in investment practice. These factors include:

1. The primary reason for measuring impact (e.g. to maintain accountability, improve effectiveness, inform change management, or justify/secure investment)
2. The way impact is measured (including different types of valuation, experimental methods, interpretive inquiry and/or descriptive analysis)
3. The standards used to demonstrate credibility of measurement (technical, stakeholder, policy, and/or market)
5. The users of measurement information (e.g. investors, investees, beneficiaries, policy makers)
6. How measurement information is used (including different types of reporting and different types of decisions), and not least
7. The context in which the investment occurs (the investment deals, programs, policies and environmental/social needs being addressed)

SIAA and our UCLA team will be disseminating the full findings of our research, including case studies of the use of impact measurement, once the project is completed later this Winter. But if there's one key insight to take away at the moment, it's that impact measurement can be used in a wide variety of ways to ensure that impact investment is truly impactful.

#### **A Key Outstanding Issue: Comparability**

I mentioned that one of the benefits of clarifying an investment strategy is that it can help shrink the universe of investment choices available to the impact investor. But strategy does not by itself make investment decisions. For example, if the impact investor has narrowed their area of interest to, say, pre-school education initiatives for children from families below the poverty line in Detroit, there are a lot of interventions out there and different sorts of outcomes possible. This means that decisions are still necessary, and this raises the issue of opportunity cost,

and why one should invest in a particular intervention, organisation or set of outcomes over others.

The standard approach would be to compare the different investment options against a fixed set of metrics. In impact investment, this would require a standardised set of metrics to assess and compare the outcomes that different organisations and interventions can achieve. This is no easy thing, as revealed by Sir Ronald Cohen's G8 Taskforce on social impact investment. Some members of the relevant taskforce sub-committee initially had ambitions to create a standardised set of impact metrics to allow for direct comparisons. However, after months of deliberation and input from a range of experts worldwide, the group is instead proposing a common set of 'principles' that define not the outcome to be measured but the process of impact measurement. This is no mean achievement, but the broader issue of comparability of outcomes and interventions remains.

Several organisations including CAN are developing frameworks that can help investors address the 'apples and oranges' question, and compare different outcomes across different metrics rather than against a single, common metric. But investors will likely need to stay tuned for a little longer before practical solutions are offered to this and other challenges currently facing impact measurement.

There is enough dynamism and progress being made that I can confidently predict that impact measurement will soon be mainstream, and operating not just in impact investment but all forms of investment. But in the meantime, philanthropists who are ahead of their times are already using impact measurement – as preventative medication to inoculate themselves from investment folly and help give them the foresight to make truly impact-led investments.

### **Tips for becoming a truly impact-led investor:**

1. Identify the specific issues you are interested in, and educate yourself on how organisations currently measure efforts to address them.
2. Consult with prospective investees on how impact measurement can best be used within the impact investment process.
3. Minimise the amount of data and information you demand from prospective investees if it does not directly help them enhance their impact.
4. Invest in organisations' ability to track impact performance, and use the resultant information to help them (and others) experiment and improve their interventions.

# Good Intentions Are Not Enough: Evaluation is Essential

Stephen Tall ([www.educationendowmentfoundation.org.uk](http://www.educationendowmentfoundation.org.uk))

*This article addresses programme evaluation utilising rigorous methodological approaches including randomised control trials to evaluate the effectiveness of their interventions.*

*Other approaches to measuring impact can be seen in the following examples (this is not a comprehensive list, just a sampling):*

- Social Impact Analysts Association [www.siaassociation.org](http://www.siaassociation.org). They have free online resource signposting current information about the measurement, analysis, assessment and evaluation of social impact and social value worldwide.
- The SROI Network [www.thesroinetwork.org](http://www.thesroinetwork.org), is a social enterprise that encourages and advocates for measuring social return on investment – a monetary evaluation of the value of an organisation's interventions.
- New economics Foundation [www.nef-consulting.co.uk/?s=evaluation](http://www.nef-consulting.co.uk/?s=evaluation) has reports on its site covering outcome evaluation and impact assessment.
- New Philanthropy Capital [www.thinknpc.org/](http://www.thinknpc.org/) studies on impact on its web site.
- EVPA report on social impact strategies in banks – [evpa.eu.com/blog/2014/03/new-evpa-publication-social-impact-strategies-for-banks/](http://evpa.eu.com/blog/2014/03/new-evpa-publication-social-impact-strategies-for-banks/)
- Inspiring Scotland VP organisation [www.inspiringscotland.org.uk/media/11731/An-Independent-Research-Report-Inspiring-Scotland.pdf](http://www.inspiringscotland.org.uk/media/11731/An-Independent-Research-Report-Inspiring-Scotland.pdf)
- LSE paper (the paper mentioned in relation to the distinction between social investment vs impact investing) [files.lsecities.net/files/2013/10/Measuring\\_Impact-full-length-Oct-20131.pdf](http://files.lsecities.net/files/2013/10/Measuring_Impact-full-length-Oct-20131.pdf)
- Pro Bono Economics [www.proboneconomics.com](http://www.proboneconomics.com) evaluation of services and programme including 'An assessment of the potential savings from Barnardo's interventions for young people who have been sexually exploited.'
- Bridges Ventures <http://bridgesventures.co/category/news/> see Bridges web site for a description of the social investment funds and reports including Bridges Impact report A Spotlight on our Methodology.
- Nesta's standards of evidence paper [www.nesta.org.uk/publications/nesta-standards-evidence](http://www.nesta.org.uk/publications/nesta-standards-evidence)

*The EEF was founded in 2011 by lead charity The Sutton Trust, in partnership with Impetus Trust, with a £125m grant from the Department for Education. To date, more than £9.5m has been pledged by a range of organisations to help extend the reach of the work the EEF is funding.*



Stephen Tall

Good intentions are not enough. Let me give you an example. A programme called ‘Scared Straight’ was developed in the USA in the 1970s to deter juvenile delinquents and at-risk children from criminal behaviour by bringing them into contact with adult inmates to make them aware of the grim realities of life in prison.



**E**arly studies showed astonishingly high success rates, as much as 94 per cent, and the programme were readily adopted in the UK and other countries. However, none of these evaluations had a ‘comparison group’ showing what would have happened to the participants if they had not taken part. When tested through Randomised Controlled Trials it was discovered participation in ‘Scared Straight’ resulted in higher rates of offending behaviour than non-participation: “doing nothing would have been better than exposing juveniles to the program”.<sup>1</sup> Yet it continues to be championed by some British police forces despite the clear evidence it actively increases crime.

What this illustrates is the importance of ‘the counter-factual’ - i.e., what would have happened otherwise? This is a crucial question for philanthropists, all of whom will have greater calls on their generosity than they can possibly meet. Inevitably this means there is an opportunity cost in making a donation: whatever money you give to one charity is, of necessity, money denied to another.

All philanthropists are acutely aware of this responsibility. But how many can confidently say their decisions to fund one charity over another are always based on sound evidence? And how many, when making their donation, also seek to ensure the work they are supporting is being robustly evaluated to ensure it is doing the good everyone hopes it will? Put bluntly, how do you know your money is not being used to fund another ‘Scared Straight’, a programme developed with the best of intentions, but which inadvertently did harm to the young people it aimed to help?

At the Education Endowment Foundation (EEF) we begin with the existing evidence. In our first three years, we have awarded grants for 87 different projects – often co-funded with partners – working in some 2,400 schools and involving more than 500,000

pupils. Our grant-making is informed by the evidence in the Sutton Trust-EEF Teaching and Learning Toolkit, a synthesis of more than 10,000 high-quality research reports, that what we are trialling will raise the attainment of the pupils involved, and that it will make a particular difference for those from low-income backgrounds.

For example, the evidence in this Toolkit is that ‘feedback’ (how children’s effort and activity can best be focused to achieve their goal) can deliver high impact for low-cost. We have, therefore, funded eight projects that will give us a much better understanding of what effective feedback might look like in the classroom.

Though the EEF backs only those projects we think have the best evidence of promise that they will raise children’s attainment and narrow the gap between rich and poor, it is inevitable that not all will work out as well as we hope. We appoint independent evaluators to make sure that neither we (as the funders) nor the delivery organisation (as the grantee) are conflicted. Working collaboratively, we design trials which aim to give the project we are funding the best chance of success in the ‘real world’ environment of English primary and secondary schools; but, crucially, which will also subject the project to a robust test so we find out if its good intentions are matched by pupils’ progress.

Too often, impact evaluations are little more than ‘before and after’ studies which will make claims such as “children’s performance increased by 67% as a result of our work”. The statistic might sound impressive, but it doesn’t tell us whether the improvements would have happened in any case: it doesn’t answer the counter-factual. After all, it’s quite possible the attainment of those children might have improved more under business-as-usual conditions or if a different intervention had been tried instead. We just don’t know. In our heads we accept that ‘correlation

does not imply causation', but it's amazing how often we are willing to suspend scepticism and follow our hearts when offered such false confidence, even if it isn't justified by the evidence.

The independent evaluations the EEF funds aim to build the evidence – both quantitative, mostly Randomised Controlled Trials, as well as qualitative – of 'what works' in improving educational attainment. All will be reported in full and in public so that schools and policy-makers can make use of the findings in their own work.

We hope the EEF's work will have widespread relevance. For example, we are currently helping design and fund four trials which will test within 8,000 schools how evidence can best be used to improve teaching. Which works best: face-to-face instruction or access to websites? Twitter chats or posting information booklets to schools? Professional development sessions or research conferences aimed at teachers? The trials will provide some answers to these questions, bringing us closer to building a system that can cost-effectively keep teachers informed about research and help them achieve the best possible outcomes for students. There are, we think, implications here for others involved in sharing effective practice in many other areas of social policy.

By no means everything the EEF does is about large-scale Randomised Controlled Trials. With Durham University, we have written an online DIY Evaluation Guide for teachers and schools. This introduces the key principles of educational evaluation – in particular the use of comparison groups – and provides practical advice on designing and carrying out small-scale evaluations in schools. It is intended to help teachers and schools understand whether the interventions they are developing are effective within their own school context.

This gets to the heart of the EEF's mission. Our role is to support schools testing new ways of boosting the attainment of their pupils, especially the most disadvantaged. But this comes with two important professional responsibilities: for us, as funders, but also for our grantees, as practitioners. First, that this should be 'informed innovation', innovation that builds on what we already understand from existing evidence. And secondly, that these new approaches are robustly evaluated so we find out if what we hoped to see happening is what is actually happening. In other words, that our good intentions are leading to good outcomes for children.

#### **A fair test to find out if Chess in Schools raises attainment**

Can learning to play chess improve children's ability to develop thinking skills and boost their attainment? That's the question being asked by one of the 87 trials the Education Endowment Foundation (EEF) is funding.

Delivered by the charity Chess in Schools and Communities, the programme involves children in Year 5 (ie, 9-10 year-olds) being taught chess by accredited coaches for one hour a week over 30 weeks during normal school time.

There is good evidence to suggest this might make a difference to attainment: a Randomised Controlled Trial (RCT) in Italy found that learning chess can have a positive effect on pupils' progress in Mathematics. However, we cannot simply assume the same gains will automatically apply within the English school context.

The EEF has, therefore, appointed academics from the Institute of Education, University of London, to carry out an RCT – one of 74 RCTs we are funding – designed to estimate intervention impacts by creating equivalent groups, one of which will receive the intervention and the other of which will not.

The charity has recruited 100 primary schools from a range of locations: 50 will receive chess coaching during the evaluation and the other 50 (who will act as the 'comparison group') will receive it two years later. In this way, all the children will receive coaching in chess, but the evaluation will be able to estimate the difference the programme has made to pupils' academic progress as measured by their performance in Key Stage 2 tests. An online survey, in-class observations and interviews with teachers will be used to test the feasibility of the Chess in Schools programme.

The evaluation report will be published in 2016.

<sup>1</sup> See Laura Haynes, Owain Service, Ben Goldacre and David Torgerson: 'Test, Learn, Adapt: Developing Public Policy with Randomised Controlled Trials' (Cabinet Office - Behavioural Insights Team, 2012), p.17.

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/62529/TLA-1906126.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/62529/TLA-1906126.pdf)

# Encouraging and Evaluating Young Philanthropy

Andy Thornton The Citizenship Foundation ([www.citizenshipfoundation.org.uk](http://www.citizenshipfoundation.org.uk))

*Many philanthropists have made the journey from casual to strategic givers. Most can critically assess the likely impact of causes they support without losing the passion of the giving. But could this be taught in schools as part of the process of becoming an informed citizen? And if so, how would you evaluate the impact of someone trying to make it happen? The Citizenship Foundation are asking, and starting to answer those questions.*

Picture this: a room full of primary school teachers are beginning their 'Go-Givers' training ([www.gogivers.org/training](http://www.gogivers.org/training)). They're going to learn how to help their pupils understand the work of charities, inspiring empathy and compassion along the way. But where to start? These teachers all know what charities do. They have seen the Go-Givers materials and understand why over half of English primary schools have signed up to use them.



*Andy Thornton*

**W**e ask teachers to identify a 'golden moment' in their childhood where they woke up to the great paradox of giving. Can they pinpoint when they first that warm glow from the act of losing something yet feeling better for it?

The teachers get it quickly. They can readily summon it up and share such a moment with their colleagues. It's an experience that unites, and the room grows in energy as they recognise that part of their new task is to pass on the 'golden moment'.

By extension we might say that philanthropists have turned that golden moment into a 'golden lifetime'. Yet as strategic givers they demand evidence of the social impact that their investment has made. To create a more effective philanthropic culture the teacher needs to help pupils make a connection between the giving and the efficacy of the giving, because giving in order to feel good doesn't always change the world for the better.

This is why our primary and secondary school social action programmes Go-Givers and Giving Nation [www.g-nation.org.uk](http://www.g-nation.org.uk) have two clear aims: to support children and young people's choice to give, and also



*Giving Nation examples*

to understand the connection between the donation and its effect. To do this learners need both action and reflection, helping them to discern how to be confident that their giving makes a difference. This turns the fun into fulfilment: touching head as well as heart.

But how can we be confident that we have achieved that? How can we evidence it?

When I started our Giving Nation secondary school programme in 2002 I embarked on a tour of larger UK charities to understand their approach to young potential donors. The dominant mind-set was exemplified in a candid statement from the nation's largest: They did not invest in young donors because the return on investment could not be guaranteed over a time-frame that reassures them it's been money well spent. Put simply, they can't measure it.

And for this reason they left young people out of their work.

After 12 years Giving Nation is now used in around 650 secondary education settings. The programme usually takes place during class time. Each class becomes a mini-charity for around 5 weeks. Students are thrown in at the deep end with £50 to start helping a cause they care about (start-up money they give back for next year's classes). But they have to decide who, how and what to do. We give them guidance, resources, parameters, on-line tools. Their teachers are on hand.

We measure the effect. For example by the end of it 93% think giving money to charity is a good thing; 87% believe we should all try to help those who are worse off than ourselves; 74% said everyone should give a little time to others on a regular basis; 72% would like to give their time to help others if there was an opportunity.

But that's not social impact – it may just be short-term attitudinal change.

We'd rather use this evidence around the net effect. Last academic year we supported over 70,000 young people to design, deliver and evaluate their own student-led social action projects. In sum they benefited 1,800 good causes. From £80,000 of seed-grants young people added passion and entrepreneurial spirit to raise more £400,000 while volunteering 350,000 hours outside of the classroom. In short; for every £1 we entrusted to a young person, they raised £5 for good causes and volunteered 5 hours outside of school. And by coincidence, Giving Nation can be delivered for as little as £5 per student because it happens where they are already in the process of learning and are ready to work together: school.<sup>1</sup>

So how would we translate that into social impact calculations? We would say it happens in two dimensions: firstly the scheme is effectively 'cost neutral' to wider society. Money invested in young people's engagement is converting into money going out to valuable charity projects: streamed in the direction that young people feel a concern about. And secondly, precisely because that money flows through their hands it arouses young people's interest and investment in social issues, triggering connections they might not have otherwise made. They've understood causes of social need, learned to identify what unsettles them and articulate why it matters to their peers such that they turned £1 into five using their spare time. That has to be an indicator that some kind of light bulb has gone on, though we can't know how 'golden' the moment was.

Our research into Go-Givers work in primary schools is not only thorough, but this year is undergoing a Cabinet Office-funded Randomised Control Trial to show the many collateral benefits that it brings. By having 20 'matched' control schools we will probe those who participate for indicators relating to growth in attainment, character, skills, empathy, understanding, motivation and identification with those around us. We would be happy to share the results with Philanthropy Impact.

But here's why we're a little circumspect on that. Last year we also had outside researchers look at the attitudinal changes that Go-Givers effects in 10 - 11 year olds. Through pre- and post- activity questionnaires

*Giving Nation*



we discovered significant changes in positivity towards helping others. But in fact, for this age group the baseline is high. So we'd end up with 89% of them declaring "I think it is important to share what I have with other people"<sup>2</sup>, but the baseline was 85%. No big shakes when starting from such an enthusiastic base, perhaps.

In fact there was only one indicator that shifted really significantly and it went up by 15% as a result of taking part in the Go-Givers Make a Difference Challenge. This difference was a rise in how many agreed with this statement: "Our community is being harmed because people don't care enough about each other".

In other words, they started the project thinking that people cared, but when they got involved with the community they had a disappointing awakening alongside their golden moment. Somehow the light in others wasn't as bright as they had believed even though it didn't dim their own enthusiasm - that indicator went up.

This is the territory the Citizenship Foundation occupies. We can't always tangibly identify a single measure of the social impact that the young people who participate our Go-Givers and Giving Nation programmes bring about, but we can demonstrate tangible changes they have brought about in their community e.g. a park in London that's now open through their campaigning; a bridge that has been refurbished where they were once scared to cross; a children's hospital full of new toys - endless small gestures that add up to a thousand golden moments.

Our proposition is that you can help nurture and measure the social impact of philanthropy by school students by supporting their educational journey. However, any has to go further than '£1 in = X community impact out' approach.

We think our methodology around measuring social impact and value for money is compelling but it could be argued that the institutional science is stretched to the limits with second tier activities. The Cancer Research UK ROI model of 'Prove it or Dump it' win the day for many bigger donors but is not right in every case. Visionary philanthropy which marries rigorous evaluation with a more human approach, unbounded by the absolutes of that science, is what is needed.



*Giving Nation*

<sup>1</sup> [http://www.citizenshipfoundation.org.uk/lib\\_res\\_pdf/1736.pdf](http://www.citizenshipfoundation.org.uk/lib_res_pdf/1736.pdf)

<sup>2</sup> <http://www.gogivers.org/files/D2E0EB68-155D-0101-34662E43F7A5FAAC.pdf>

# Charity in Business

by **John Baker and John Pepin** ([www.aperio.ca](http://www.aperio.ca))

*Social entrepreneurialism has a long and vibrant history in Canada. It addresses definition and outlines best practices; why and how charities should and can establish commercial oriented earned income or social enterprise activities. Much of the content is applicable to charities in the UK. Note there is also overlap in definitions. This article, one chapter of 'Excellence in Fundraising in Canada Volume II', scheduled for release in the autumn of 2014, is reprinted with permission of the publisher, Civil Sector Press <http://hilborn-civilsectorpress.com>*

## Introduction

For many, the terms charity and business might seem somewhat contradictory. In the Canadian context, a charitable organization is one that benefits the public within the four pillars recognised within the income tax act – that is: (i) alleviation of poverty; (ii) the advancement of education; (iii) the advancement of religion; (iv) or other purpose that benefits the community. Business, on the other hand, is an organization that trade goods and services to consumers – with an implied motivation of profit. Social enterprise combines the two above.

**T**here exists, however, some convergence between charity and business that has led to new terms and concepts including:

- **Social entrepreneurship** – building upon the definition of entrepreneurship provided within Chapter 18, Entrepreneurial Fundraising (the pursuit of opportunity without regard to resources currently controlled), social entrepreneurship is the pursuit of social change (the opportunity without regard to resources currently controlled). It should be noted that this is only the authors definition as there is no general agreement on specific definitions.



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- **Earned income** (and earned income activity) - Imagine Canada defines earned income as the sale of products, services, processes, expertise and intellectual property for monetary return.
- **Social enterprise** – while there is no common definition though for the purposes of this chapter, Social enterprises are “businesses whose primary purpose is the common good. They use the methods and disciplines of business and the power of the marketplace to advance their social, environmental and human justice agendas”<sup>1</sup> -Social Enterprise Alliance, USA.

Venturesome<sup>2</sup> proposes three social enterprise models, defining them from a social impact perspective. These include: (i) enterprise activity that focuses on maximising profit, with the profits going to support social ends (‘profit generator model’); (ii) enterprise activity with social impact, with a balancing of commercial activity with social mission (‘trade-off model’); and (iii) an enterprise activity that has a social impact generating financial returns that grow as the social impact grows (‘lock-step model’).

- **Social purpose business** – used interchangeably with Social Enterprise.  
Another aspect related to this convergence is social investment; defined as being the supply of finance and non-financial support with the objective of strengthening an organization’s social, economic, environmental or cultural impact whilst potentially seeking a financial return on capital and/or community or organisational financial sustainability and viability. Venture philanthropy may be categorised as a form of social investment seeking a social return at the same time as attempting to achieve organisational and/or community sustainability and viability. Investing for financial gains alone would not fall within this definition.
- **Venture Philanthropy** – often also referred to as ‘high engagement giving’ - is continuously evolving in practice and definition. Venture philanthropy is defined as:  
‘Capital and human resources invested in charities and social enterprises by various types of investors in search of a social return on their investment; involving high engagement over many years with

fixed milestones and tangible returns and exit achieved by developing alternative, sustainable income’.

This chapter will provide some background to this convergence and highlight best practices that will assist in navigating successfully the convergence of Charities in business. As suggested in Chapter 18 on Entrepreneurial Fundraising, this convergence is the natural extension of the entrepreneurial spirit inherent in the voluntary sector.

### Historical and current context

In its most recent survey of the sector, Imagine Canada reports that somewhere between 55 and 77% of voluntary sector organizations engage in earned income activities. These earned income activities range from fee for service models to membership dues to a full range of market-based activities. The larger the organization (by budget size) the more likely the organization engages in some form of business activity and most engaged in running more than one. While earned income is an important part of the revenue mix, it is not the dominant form of revenue for the voluntary sector.

Canadian voluntary sector organizations operating business and conducting business like activity have been common for many years going back well into the last century – Good Will Industries, Salvation Army and Girl Guides of Canada have been engaged in business-like activity for a very long time. While not a new form of revenue for voluntary sector organizations, reduced government funding, increased competition for fundraising dollars/grants and a general increase in the numbers of voluntary sector organizations competing for revenue, there is an increasing interest in entrepreneurial activities.

Of note in the UK a number of charities have fully owned subsidiaries (trading companies) with a small minority establishing a holding company (share capital), the holding company creating a number of profit generating mission related businesses. This has led to some charities taking their intellectual capital and experience re-packaging it and selling to a completely different market place such as the corporate sector.

The resulting increase in interest has encouraged the development of new terms and practices within the sector. Some of the terms that dominate discussion include:

- Social entrepreneurship
- Earned income
- Revenue diversification
- Social enterprise

- Social innovation
- Social purpose business
- Social return on investment
- Social finance
- Impact investment
- Social franchising

This chapter will discuss some of these concepts and offer best practice observations for the fund raising professional who might advise a voluntary sector organization as they seek to embark upon or grow entrepreneurial activities. And while definitions are an interesting point of discussion and debate, a limited amount of this chapter will be dedicated to these definitions. The root concepts in this discussion (business, enterprise, entrepreneurship, innovations, return on investment, finance etc) are somewhat well understood and defined. The art lies in the application of these concepts to address social issues - what ever these social issues may be.

## The case for entrepreneurship in voluntary sector organisations

### 1. What is social entrepreneurship?

As the overarching concept, social entrepreneurship may include starting an earned income business, but this does not need to be the only definition. Entrepreneurship is really an attitude, rather than an activity. Social entrepreneurial organizations have a different style of leadership from traditional voluntary sector organizations. Social entrepreneurs are consumed by delivering the maximum social return on the investment, as measured by their community vision and specific mission, and they deliver this value through an attitude that sees market change as an opportunity.

Social entrepreneurs create, but not in order to blindly follow the latest 'treat-of-the-week' trend. Creation is analyzed relative to criteria deeply integrated with an organization's strategic plan. Finally, while social entrepreneurs are consumed by their mission, they are not consumed by their ego, and they actively seek partners in their quest to improve their community.

So yes, social entrepreneurship often does include the creation of earned income ventures, but not all earned income is social entrepreneurship, and not all social entrepreneurs operate earned income ventures. This chapter talks a lot about issues facing earned income ventures, but we urge you to not consider these concepts in isolation. Social entrepreneurship is the application of entrepreneurial attitudes to voluntary

sector organizations.

Studies in the UK have indicated that:

- Social enterprises are recession-busters
- Social enterprises are optimistic
- Social enterprises are profitable
- Social enterprises vary widely in scale
- Scale is important
- Profit reinvestment for social goals is a reality
- The scope of operations is mainly, but not universally, very local
- The public sector is a key customer

### 2. Characteristics of social entrepreneurs

Being entrepreneurial does not necessarily mean starting or owning a business, or even operating a commercial venture. As mentioned within the introduction, entrepreneurship is the pursuit of opportunity without regard for resources controlled. Entrepreneurship exists in very large and mature organizations, and it can also be absent in start-ups. It can be found in non-profits without any earned income, and it can be missing in for-profit companies. We like to define entrepreneurship as an attitude towards change. The following are elements of this attitude:

- **See change as the norm and as healthy.**  
Entrepreneurs thrive in a changing marketplace. They do not fear change – they embrace it.
- **Be responsive to and embrace change.**  
More to the point, an entrepreneur exploits change and is able to benefit from it. Entrepreneurial organizations respond to change by providing better solutions for their clients.
- **Always search for change.**  
Being able to respond to change requires that you discover it early, or lead the change. Entrepreneurs monitor their customers, suppliers and competitors for new developments, needs and solutions. Entrepreneurs also monitor other sectors and industries to get ideas.
- **Be client focused.**  
Ultimately change is about the client. The organizations most able to leverage change, whether in the for-profit or non-profit sector, are those who think about change from the perspective of their customers.
- **Shift resources from lower to higher areas of productivity.**

An entrepreneur manages the use of resources carefully. If you offer a portfolio of products or programs, constantly evaluate which are the most effective either in terms of profit and/or in terms of mission effectiveness. Entrepreneurs are not afraid to stop poor performing programs and move resources to high performing ones.

- **Take calculated risks.** Contrary to popular belief, entrepreneurs do not seek risk. Entrepreneurs, especially social entrepreneurs, should act to reduce unnecessary risk. However, if the potential is strong, entrepreneurs are willing to take calculated risks to achieve extraordinary results.
- **Create something new.** Entrepreneurs push boundaries to create new solutions for their clients.
- **Strive for transparency.** In order to be effective at allocating resources, strive to be transparent in everything you do. To make entrepreneurial decisions, you need to have good information and controls.

### 3. Benefits of social entrepreneurship

A social entrepreneurial approach is the most effective way to stimulate innovation in and income in the voluntary sector e.g. social enterprises create unrestricted funds while fulfilling a charity's mission. Reasons are noted below. Please keep in mind that this list is for the broad concept of social entrepreneurship, rather than the specific application of earned income ventures.

- **Encourages the evaluation of resource effectiveness.** True social entrepreneurs are consumed by the concept of social return on investment, or perhaps even 'mission return on investment'. Social entrepreneurship means always considering whether resources are most efficiently allocated to addressing the social problem the organization is created to address. Nothing is sacred, except the vision/mission itself.
- **Reflects and responds to a dynamic market environment.** Social entrepreneurship recognizes that organizations are part of a system and a marketplace that is changing. Social entrepreneurs thrive as markets change.
- **Encourages innovative solutions.** The processes encourage new approaches to old

problems. The processes suggested following describe a way to discover new initiatives and opportunities, and screen these opportunities so that the most effective are pursued.

- **Reduces barriers.** Traditional organizations face and create many barriers. Entrepreneurial approaches reduce these barriers, especially barriers towards: Realizing financial value, reating new initiatives, partnering with others and rewarding success.
- **Leads to organizational sustainability.** Entrepreneurial approaches encourage organizational sustainability.
- **Encourages holistic approaches.** Social entrepreneurs look at root causes and systems – not just isolated issues. Although a social entrepreneur may directly only contribute to addressing one component of a social problem, they are acutely aware of their role in the system and partner with others to address solutions from a holistic perspective.

### 4. Benefits of generating earned income

Most commonly when people speak of social entrepreneurship they are thinking earned income and more recently social enterprise. While social entrepreneurship is the broader concept, commercial activity and earned income remains the dominant forms of the entrepreneurial attitude. As a subset of social entrepreneurship, generating earned income is distinct from fundraising. Consider the following benefits of integrating commercial activity into a voluntary sectors organizations revenue mix:

- **Diversifies funding sources.** An organization that is reliant on a few funders is vulnerable to changes in market conditions or 'hot issues', particularly when funds primarily come from government or foundations. A diversified funding base provides insurance.
- **Funds overhead.** It can be difficult to fund the development of a strong management team and support tools, despite their importance to organizational effectiveness. Earned income is unrestricted income and can be used for administration.
- **Funds innovation.** An organization that generates its own funds can afford to experiment with riskier (but potentially revolutionary) approaches to social change.

- **Supports unpopular causes.**  
Earned income can fund the mission of an organization that does not have a strong donor constituency.
- **Creates an entrepreneurial spirit.**  
The rigor and spirit of building a business can also be applied to building strong social programs.
- **Enhances understanding of clients**  
A business must be customer-centric to survive. Developing a business is a source of feedback about customer needs.
- **Tests social value**  
A test of whether you have created value is asking someone to pay more than it cost you to create a product or service.
- **Adds skills and competencies to the organization.**  
Marketing, financial, managerial and research skills can also be applied to core social mission delivery and organizational development.
- **Enhances the profile of the organization.**  
Strong social businesses make news and attract the support of new funders and collaborators.

## 5. Risks

There are risks to be managed through the process of setting up and developing a social enterprise. Generic risks from an organisational perspective include:

- **Process risks** – Dedicated resources/ investment, support of the champion, and a systematic approach are essential.
- **Experience** – Developing a culture of business is important so commercial decisions are made using commercial criteria.
- **External conditions** – Competitive issues must be addressed.
- **Core mission** – ethos and services must be protected throughout the process.
- **Focus** – Confusion of ends may occur, understanding and balancing the financial return with the social return should be considered.
- **Legal** – an inappropriate legal structure may work against achieving the ends of the social enterprise, so choose carefully.

## Best practices – Charity in business

### 1. Strategic Planning

Being entrepreneurial requires a deliberate effort from the Board, executives and staff of voluntary sector organizations. In many organizations, acting in a business-like fashion can threaten established organizational culture, norms and values. Preparation, with an emphasis on building a robust strategic plan, enables an organization to fully realize its potential while protecting and supporting its core culture and values. The strategic plan provides a framework for decision-making that guides the choices you make in developing and running your organization in an entrepreneurial fashion.

There are numerous strategic planning processes used by voluntary sector organizations that will assist in building business activity. A good strategic plan should create an organizational direction that reflects the changing environment and the goals of the organization within that environment. At its core, the planning process should consider the link or purpose of entrepreneurial/ business activity within the overall intent of the organization. Further the success of entrepreneurial activity is linking the strategic plan to the day-to-day activity of the organization through annual business plans that clearly state the annual objectives, resource implications and workflow relationships.

Too often voluntary sector organizations are unable to answer the following questions:

- Where, specifically, is entrepreneurial/ business activity contemplated and supported within the strategic plan?
- What is the specific purpose of the entrepreneurial/business activity as it relates to the mission of the organization?

If an organization is unable to answer these simple strategic questions, entrepreneurial activity will be without a strategic sponsor – an orphaned and under-resourced activity within the broader organization.

### 2. Good Process

As a voluntary sector organization embraces entrepreneurial activity, it becomes important to use processes that are effective at selecting and developing ideas that are then supported by the organization. Effective process has the following characteristics:

- **Simple.** A good process does not need to be complex. Indeed, experience has been that complex rating systems rarely provide an answer that is different from a simple 1-3 scale.
- **Not onerous.** If you want to encourage entrepreneurship, you cannot stifle it

through onerous process. A process should be justifiable and fair, but it should also be quick. Generally, the level of due diligence required should increase as you become more comfortable with an opportunity. At the earliest stages, the bar should be set relatively low to allow an opportunity to be considered further. There will be an opportunity for more rigor after some priorities have been set.

- **Fair and transparent.** Transparency prevents second-guessing and encourages

commitment. Agree to the process and criteria up-front, then live by it.

- **Continuous (works outside of schedule) Innovation comes at inconvenient times.** There should be a mechanism to consider ideas outside the formal process.
- **Provides feedback.** The contributor of an idea should be able to find out its status and why it was accepted or rejected.
- **Recognizes resources and limitations.**

## Important elements of a business plan in addition to the content:

### Determine who the business plan is for

- Oneself, to get a clear focus re one's own thinking as well as for monitoring and controlling future progress.
- Team, to involve them, gaining commitment.
- External funders or investors, the plan providing a case for support and investment.
- Internal funders, to persuade senior executives or the trustees to support you.
- Shareholders, members or boards, to reinforce confidence of them in you and the plan.

### Evaluating a Plan

When a management's business plan is assembled, there are a number of yardsticks that can be used to evaluate it. These include:

- Having a clearly articulated strong business case
- Is there a market need? What is the extent of that market today and into the future (including an understanding of the industry and the specific market segment you are addressing)?
- Do you have a product to meet the market need? Who are the competition and how do you stack up against the competition? What is your unique selling point (USP)?
- How does the business work – the business strategy and the business model?
- Do you have the people to make it work in terms of the mission related activities as a commercial-type enterprise?
- How do the finances stack up – profit and loss over a three to five year time frame, cash flow, investment needs and return on investment (social and financial)?
- Is the financial investment available to support the initial start-up costs and cash flow needs?
- Comparison of objectives and projected performance with other companies and social enterprises - Does the plan make sense in the light of what others have achieved in similar businesses?
- Profile of financial projections - Does the time to breakeven make sense? Are the margins realistic? Do the terms of business and working capital requirements tie up with each other?
- Sensitivity to and impact of variations in plan - What shocks and variations can the plan withstand before the business is in difficulty?
- If the business requires external capital does its profile fit with a recognisable source of capital?
- Parallel motivation and objectives as between potential investors and management - Do the management and potential investors agree on the issues of major importance? Would the potential investors understand the business and will management and investors be able to communicate when things go wrong? Does the pattern of likely funding requirements fit with the profile of potential investor? Has management actually invested in the business demonstrating their own commitment to the plan?
- Has the management assembled a team that incorporates the experience to develop the business profitably in its chosen market? It must be clear that the management team will make the transition to good performance in the private company sector.

The process needs to be doable in your organization. The level of rigor should in part depend on the amount of time available.

- **Encourages creativity.** Out of the box thinking should be encouraged. Have a forum (such as brainstorming) for outrageous ideas.
- **Respects intuition, bound by logic.** There is a balance that needs to be maintained between intuition and logic. Intuition is incredibly powerful in the early stages of idea generation and screening. It needs to be respected. But at some point, the idea needs to be able to be justified through the logic of clear criteria.

### 3. The Idea

If you put a group of people familiar with an organization or its clients in a room for 30 minutes, they can easily generate dozens of ideas for initiatives that might be applicable. This is true whether looking for strategic initiatives, business ideas, or fundraising concepts. Yet the hard reality of entrepreneurship is that the majority of new ideas fail. This following offers how the most compelling new initiatives might be identified.

The starting point of any business development process should be brainstorming and freewheeling. While there may already be a few ideas worthy of consideration, process is stronger when all ideas are put on the table first. Even if you are already pretty clear about what you want to do, brainstorming (and subsequent screening) provides a check. If an idea is really that strong, it will do well in the screening exercise. A good brainstorming and screening process protects the organization from second-guessing after a decision has been made. It gives confidence that the full range of alternatives was fairly considered. A good process will identify opportunities likely to be successful and that share the following characteristics:

- It is consistent with the social mission
- Meets a defined customer need with a specific competitive advantage
- Leverages the assets of the organization
- Can be developed into a credible business plan
- Risk can be managed and an exit plan can be defined
- Has growth opportunities
- Can be piloted on a small scale to reduce and does not have high fixed costs

Once selected, long-term success of any opportunity is then dependent upon running the initiative with

a strict eye on the business outcomes defined within the business plan (guidelines are available through numerous web sites noted at the end of this chapter).

### 4. Marketing

Some studies have claimed that the difference between business activities that succeed and fail is primarily one of implementation, rather than the product. In particular, sales and marketing are critical to developing a sustainable business model within voluntary sector organizations. These are unusual concepts for voluntary sector organizations that must be understood by them as they embrace entrepreneurial activity.

The key marketing concepts include:

- **Identify a target customer segment.** Be specific. What are the characteristics of your customer? How do you identify who they are? How big is this segment? What are their primary needs?
- **Develop your position within the segment.** What need will you address within the segment? Why will your target customer gain from buying your product?
- **Develop a product strategy.** How will you differentiate your product from the others within the segment? What will be your competitive edge – price, quality, service accessibility?
- **Develop a pricing strategy.** How will you price reference to the prevailing market rate and to the value that you are creating for customers? What do you want your price to say about your product (cheapest, best quality, best value)? It is not about how much it took to make the product but rather what is the customer prepared to pay for the product. Too often voluntary sector organizations seek to compete on price.
- **Develop a promotional strategy.** What is the best mechanism to raise awareness of your product within your segment? How will your target customer find out about your product? Options might include broad-based advertising, web-based advertising, referrals, trade shows or partnerships. Relying on mission to sell is not a promotional strategy.
- **Develop a sales strategy.** What sales channels will you use to sell your product into your segment? How will your customer connect with your product and purchase it?

Options might include a direct sales force, a distributor, other third parties, retail stores or e-commerce. Choose the channels that your segment is most likely to buy from. When possible, leverage others who are already talking to the target customer about the problem the product addresses.

## 5. Human Resource Considerations

Human capital is the single most compelling challenge in entrepreneurial activity within the voluntary sector. Entrepreneurial skills and business competencies are specific to those engaged in business and some argue are difficult to learn within the voluntary sector. Sound human resource strategies that clearly identify skill and competency gaps within the business activity will guide the organization to filling the gaps. Hire those that have business sensibilities and knowledge – and then teach the social context/outcome. While the reverse is possible – it is far more difficult.

## 6. Structuring the Venture

Capital structure refers to the governance, legal form, and ownership of the business idea. Traditionally, the sector views the business activity from strictly not-for-profit or for-profit structure perspective and a strategic concern. Success in business activity might better consider these structures as tactical concerns – responding to the question – what capital structure best serves the business intent/outcomes of the activity? This section explores several topics related to capital structure.

### a) Some legal guidelines

- **There is usually a way to make it work.** With appropriate legal advice, almost anything can be achieved from a business perspective. There is generally a way to structure a venture that is legal, transparent, ethical, and risk managed.
- **Get advice from legal counsel.** The issues, however, are complex and specialized. Without legal advice, an organization may set itself up for future problems. Almost any business can be run by voluntary sector organization when properly structured, but a poor structure can jeopardize tax-exempt status or put the organization at significant financial risk.
- The right time to get advice is after you know what you want to accomplish. Legal counsel works best when business

objectives are clear, capital needs are identified, business operating parameters are developed and risks are identified. Until these questions are answered, legal advice will have limited utility.

There are some general legal principles that should be kept in mind as the venture is developed. These are generalizations only and should not replace legal advice.

- Commercial income generated by a non-profit/charity that is directly related to the mission is generally acceptable. Raising money is not the mission – what matters is the nature of the activity itself.
- If properly structured, the typical worst-case scenario for a commercial activity is to create a for-profit subsidiary and pay taxes on profit.
- Ownership and anything that looks like ownership is not generally possible in a non-profit structure. If ownership/shares offers are necessary for the success of the activity, a for-profit/share capital structure is the only viable form.
- Transparency and simplicity is generally a good strategy. There is no need to get complex in structure – it is better to be clear.

**NOTE – This analysis is not intended to be legal advice and any decisions on corporate structure should be made with the assistance of a qualified lawyer.**

### b) For-profit vs. non-profit

Voluntary sector organizations, particularly those based on earned income, often struggle with the question of what legal structure is the most appropriate (for-profit, not-for-profit, charity or a hybrid). In many cases, there is not a regulatory requirement to be one or the other, and the question is more strategic. Legal structure is an operational decision, which is driven by the business plan. Form follows function, rather than the other way around. At the core of this decision is the type of capital that is required to fund the business plan of the organization.

Becoming a non-profit closes the door to the capital markets and market mechanisms for rewarding performance. Raising large amounts of capital can be much easier in a for-profit environment than through grant writing and fundraising. For-profits also give the potential to sell a successful spin-off and immediately capture the financial value. Non-profits

cannot be sold. On the other hand, being a for-profit makes the government a financial partner without a corresponding investment. And few philanthropists will give money outright to a for-profit without the tax advantage of a donation status. Another consideration of a for-profit is that investors seeking a financial return may force the organization to compromise on its mission at times; however there are a number of mechanisms that may be used to maintain control over the enterprise and its mission and ethos including: clear decision making rules in a shareholders agreement; the articles designed to make it difficult to change the objects and ethos of the social enterprise; Board representation; etc.

#### i. Reasons to spin-off a subsidiary

In many cases, there is not a regulatory requirement to spin-off commercial activity as a for-profit company. CRA permits some commercial activity in the non-profit structure. While not necessarily legally required, there are some good business reasons to consider creating a separate for-profit for your business:

- **Avoids management distraction.** The business can be run to maximize profit. The non-profit can be run to maximize social benefit. Neither management team is distracted from their primary purpose.
- **Reduces bureaucracy.** A small independent venture can be nimble and focused. A small program in a big charity can be forgotten.
- **Aligns talent, both at the management and Board levels.** Managing a charity requires a different skill set than managing a business. A separate business can attract a Board of experts in the industry.
- **Achieves transparency and simplicity.** Donors or investors can support the organization that is the right fit for their needs. Regulators have a clear picture of each organization.
- **Shields the voluntary sector organization from business risk.** As the owner of a separate corporation, the non-profit can limit its potential loss to the initial investment it makes. Outside investors can be sought to further limit risk.
- **Enables investment in the business.** A for-profit has more options for raising investment capital since it can offer

ownership.

- **May be sold to investors, employees or another company.** A separate business can be sold outright as an exit strategy.

A for-profit subsidiary is not appropriate for all business concepts. There are some downsides. The benefits should be weighed against the following:

- Some infrastructure will be duplicated, leading to extra expenses.
- Mission-related business activity may be tax-free if structured in the non-profit.
- A for-profit cannot directly accept charitable donations.
- Social focus may be lost. A for-profit has a fiduciary duty to shareholders.

#### ii. Financing

Funding innovation does not need to rely solely on donations or cash reserves. This section explores non-traditional financing options, other than earned income, grants, events and contributions. Depending on the capital structure, access to other forms of funding may be:

- **Venture philanthropy.** Philanthropists are increasingly using the strategies of venture capitalists to make their donations more effective
- **Shares.** A for-profit company can sell shares to venture capitalists, angels, employees, other charities, foundations, and association members or the donor base. Social venture capitalists evaluate their investments from a social and financial lens.
- **Distributor / Partner investment.** A business partner may make an investment to help the partnership succeed.
- **Licensing / Franchising.** Funds can be raised and the required investment reduced by selling intellectual property through licensing or franchising agreements.
- **Bank loans / Other debt.** Non-profits increasingly borrow money from banks and suppliers, or even issue bonds. This is appropriate for projects that have a predictable long-term cash flow structure.

- **Guarantee Pledges.**

Some innovative organizations ask a supporter to pledge assets as security on a loan or as a down payment on a mortgage. The guarantee enables access to financing that the organization may otherwise not qualify to receive, and the donor can expect their assets to earn a market return before being returned.

- **Program-related investments (PRIs) (CRA CG 014 dated 26 July 1012).**

A PRI is not an investment in the conventional financial sense. While PRIs may generate a financial return, they are not made for that reason. A PRI usually involves the return, or potential return, of capital (funds or property) within a set period of time, but this is not a requirement. A PRI may also yield additional revenue for the investor charity (such as interest), but the yield of additional revenue can be below market rates.

- **Corporate partnerships / Cause-related marketing.**

Building strategic partnerships with companies can lead to financial and non-financial benefits. The best deals leverage the strategic plan of both partners to create unique value. Similarly, 'affinity' deals work best when there is a strong strategic fit.

- **Planned giving / Legacy vehicles.**

Some planned giving vehicles offer the donor cash flow before their death. Strategic use of planned giving can change the donor/recipient relationship.

- Reinforces benchmarking and performance measurement.

A portfolio plan answers the following questions:

- Where are we now?
- Where do we want to be?
- What will it look like when we get there?
- What do we need to do?
- When do we need to do it?

It provides a process for keeping the enterprise portfolio vibrant, diversified and balanced; for planning and priority setting including criteria to:

- Evaluate existing enterprises re which ones to grow/invest in; maintain and defend because they are profitable but further significant investment may not achieve greater returns; or wind down because they are no longer achieving acceptable social and financial returns.
- Identify cross marketing opportunities.
- Plan resource allocation (effort, finances, expertise, staffing) for new enterprises to add to the portfolio.
- Develop and implement exit strategies.
- Evaluate and prioritise new enterprise ideas (see box below for an approach to encourage enterprise idea generation with an organisation).

### Current and future developments/trends

Imagine Canada reported in 2003 through its National Survey of Nonprofit and Voluntary Sector Organizations that:

- Big organizations are getting bigger.
- Larger organizations are more dependent on government funding.
- Resources although not declining may remain inadequate.
- Capacity problems may prevent many from fulfilling their mission.

Recent developments include government retrenchment (reduced government funding), increased competition for philanthropic dollars and a general increase in the number of organizations are causing voluntary sector organizations to seek more business-like alternatives to addressing their issues.

Some argue that the Canadian expectation that Government step in where markets fail has caused Canada to lag others in developing the alternatives that will better support the voluntary sector. Certainly

## 7. Portfolio Planning

It is important to develop a social enterprise trading portfolio investment plan for organizations that have more than one enterprise. This type of planning:

- Supports informed decision making about strategic investment, reducing investment risks.
- Improves enterprise portfolio performance, creating greater enterprise value and returns.
- Provides a transformational vision supporting change and growth.
- Develops a clear enterprise portfolio growth action plan with a clear milestone driven change management plan.

Canada lags United Kingdom and United States in specific innovations that may better support entrepreneurial and business activity in the voluntary and social enterprise sectors. Emerging conversations include:

- New legal forms
- Social Finance
- Social Return on Investment
- Integrated fundraising

These are briefly discussed below.

### 1. New legal forms

Some argue that there are insufficient legal forms (current legal forms include share capital companies, non-share capital companies, charities etc) in Canada to properly support the development of business activity with the voluntary sector. International examples of emerging legal forms include Limited Liability Low-profit Corporations (L3C USA) and Community Interest Corporations (CIC UK). Verifiable audit process like B Corps (USA and Canada) are also emerging.

Given the complex nature of federal and provincial responsibilities associated with business incorporation there are a number of regional conversations ongoing but none yet have moved to the development of any new legal forms.

For the most part, voluntary sector organizations 'find a way' to achieve business outcomes that support their missions through existing legal forms.

### 2. Social return on investment (SROI)

Somewhat immature in Canada, there are some early pioneers in the practice of measuring SROI including Social Capital Partners in Toronto, Atira Property Management Service in Vancouver and Inner City Renovation/Community Ownership Solutions out of Winnipeg.

SROI is an attempt to quantify the social value being generated by an organization as a function of an investment made in that organization. The concept is intended to provide an evaluation strategy to determine which organizations and programs are delivering the 'best' social returns. This approach is gaining popularity as competition for charitable dollars continues to increase and social organizations recognize the need to report on the social value of their work.

There is no common metric for all social outcomes but rather a diverse set of tools designed using a common set of principles:

- **Involve stakeholders.** Stakeholders should

inform what gets measured and how this is measured and valued.

- **Understand what changes.** Articulate how change is created and evaluate this through evidence gathered, recognizing positive and negative changes as well as those that are intended and unintended.
- **Value the things that matter.** Use financial proxies in order that the value of the outcomes can be recognized.
- **Only include what is material.** Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact.
- **Do not over claim.** Organizations should only claim the value that they are responsible for creating.
- **Be transparent.** Demonstrate the basis on which the analysis may be considered accurate and honest and show that it will be reported to and discussed with stakeholders.
- **Verify the result.** Ensure appropriate independent verification of the account.

### 3. Social finance

Social Finance is the emerging field encouraging the use of private capital for public good. The conversation is somewhat more mature in the United Kingdom – while the conversation has just begun in Canada. Sponsored by the Government of Canada, recent consultations include the gathering of concepts that should be considered within the emerging field of Canadian social finance. The resulting government summary identifies some fifteen current programs worthy of further study ([www.esdc.gc.ca/eng/consultations/social\\_finance/report/index.shtml](http://www.esdc.gc.ca/eng/consultations/social_finance/report/index.shtml)).

Concepts in social finance include such tools as Social Impact Bonds (SIB). The SIB is a bond offering generally backed by government where the-like financial returns offered is linked to those who invest in programs designed to address measurable social return – like recidivism, youth unemployment and homelessness. Private investment in the bond is encouraged by government guaranteeing a specific return contingent upon specific social returns being met. If targets are not met, no return on the investment is made.

Any number of provinces are also entering the consultation/pilot project phase of social finance development. [www.Socialfinance.ca](http://www.Socialfinance.ca) is the preferred reference for these developments.

SDONOR/ SOCIAL INVESTOR	PITCH	RESULTS
<p><b>DONOR A (A TRADITIONAL PHILANTHROPIST)</b></p>	<p><b>CASE FOR SUPPORT APPROACH USING TYPICAL CHARITY LANGUAGE</b> Case for Support</p> <ol style="list-style-type: none"> <li>Mission – what you want to achieve</li> <li>Introduction/overview summarising the main points</li> <li>The needs you are meeting <ul style="list-style-type: none"> <li>Use statistics, case studies, authoritative sources</li> <li>Give a sense of urgency, importance and potential impact</li> </ul> </li> <li>How you will meet the needs – describe the project(s)</li> <li>Why support the charity? <ul style="list-style-type: none"> <li>Organisational credibility, USP, accomplishments, impact, and other donors</li> </ul> </li> <li>Detailed budget</li> <li>Who's involved – Board, staff, partners, donors</li> </ol>	<p>Tax efficient donation</p>
<p><b>DONOR B (A SOCIAL INVESTOR DONOR)</b></p>	<p><b>BUSINESS CASE APPROACH USING SOCIAL INVESTMENT LANGUAGE</b> Taking a social investment approach with no financial return to the donor/ social investor; the social investor seeking a societal return on their investment (outcome, impact, social return on investment)</p> <p>Business Case</p> <ol style="list-style-type: none"> <li>Problem/market need</li> <li>Your solution <ul style="list-style-type: none"> <li>Description of the service/enterprise, activity and business model</li> <li>Unique Selling Point (USP)/competitive difference</li> <li>Strategy and people to make it work</li> <li>Finances</li> </ul> </li> <li>The ask: investment needed (money/resources)</li> <li>Societal returns: financial return on investment (FROI)/Social return on investment (SROI) (triple bottom line)</li> <li>Your organisation – you are a winner (effectiveness/impact, financial stability, successes, other social investors)</li> </ol>	<p>Tax efficient donation</p>
<p><b>DONOR C SIMILAR TO DONOR B; HOWEVER, THE DONOR, A GROUP OF DONORS OR CORPORATIONS AND THEIR EMPLOYEES WISH TO GET INVOLVED E.G. VENTURE PHILANTHROPY TYPE MODEL. THEY ESTABLISH OR CONTRIBUTE TO A FUND(S) WHICH ARE AN IN-HOUSE SEMI-INDEPENDENT FUND CO-MANAGED BY THE SOCIAL INVESTORS AND THE CHARITY; AND FOCUSED ON AND INVESTING IN THE CHARITY</b></p>	<ul style="list-style-type: none"> <li><b>BUSINESS CASE APPROACH USING SOCIAL INVESTMENT LANGUAGE</b></li> <li><b>OUTLINES WAYS THE SOCIAL INVESTOR MAY ENGAGE</b> Venture philanthropy is defined as: Capital and human resources invested in charities by various types of investors in search of a societal return on their investment. Venture philanthropy involves a high engagement over many years with fixed milestones and tangible returns/impact and exit achieved by developing alternative, sustainable income. As social investors, venture philanthropists seek the most efficient use of their money in achieving a desired social goal. Like venture capitalists, venture philanthropy investors seek to maximise their return by adding value beyond the monetary contribution through the contribution of expertise and strategic guidance.</li> </ul>	<p>Tax efficient donation and donor expertise applied over a number of years</p>
<p><b>PERSON D, THE SOCIAL INVESTOR SEEKING A FINANCIAL RETURN FOR THEMSELVES ALONG WITH ACHIEVING A SOCIAL IMPACT</b></p>	<p><b>SOCIAL INVESTMENT IS DEFINED AS THE SUPPLY OF FINANCE AND NON-FINANCIAL SUPPORT WITH THE OBJECTIVE OF EITHER STRENGTHENING AN ORGANISATION'S SOCIAL, HEALTH, ENVIRONMENTAL, ECONOMIC OR CULTURAL IMPACT (SEE DONOR B AND C ABOVE); OR, ACHIEVING THE ABOVE WHILST CREATING A FINANCIAL RETURN FOR THE SOCIAL INVESTOR. INVESTING FOR FINANCIAL GAINS ALONE WOULD NOT FALL WITHIN THIS DEFINITION.</b> There are three basic categories of social investors:</p> <ul style="list-style-type: none"> <li>Wholesalers who fund intermediaries</li> <li>Intermediaries: retail funders who invest in charities and social enterprises</li> <li>Investees: charities/social enterprises who receive the investment</li> </ul>	<p>Tax Efficient investment in the charity's social enterprise activities or into a social venture capital investment fund (i.e. the charity's intermediary fund)</p>

#### 4. Integrated fundraising campaign - combining a major donor/social investment

Voluntary sector organizations, when wishing to raise significant sums of money often embark on a major donor campaign – a traditional approach that uses a case for support to attract donations from high net worth individuals, corporations and trusts; these usually in the form of tax efficient donations. Some institutions like universities may raise investment funds for specific commercial ventures. These two approaches are usually separate activities; generally not leveraging relationships with each other.

An integrated fundraising campaign brings the two together, combining traditional major donor approaches with social investment making it an integrated campaign – the campaign funding/investing in investable propositions, that is, lists of items that the charity is raising funds for e.g.

- Programme/service quality enhancement, growth, and new service development to meet emerging or unmet needs; capital campaigns; research.
- Social enterprises new product development and growth; supporting external partners/key stakeholders.
- Creating an infrastructure that will support greater organisational effectiveness, efficiencies and growth.

This approach allows for the leveraging of relationships, cross marketing and upselling. In the simplest terms there are different approaches to different donors, depending on their perspective. For example:

In order to achieve the above it is important to be investable ready, creating a social entrepreneurial context and address organisational readiness issues.

#### Conclusion:

While at risk of becoming the latest ‘flavour of the month’, entrepreneurial activity within the Canadian voluntary sector appears to be accelerating. The concepts mentioned within the chapter are the subject of numerous regional and national studies and initiatives – and the subject matter can easily fill a volume of its own. Within the limits of this chapter, an attempt has been made to provide some context and some frame of best practice for the fundraising professional to consider – it is simply an introduction. The material is by no means exhaustive – there are consulting professionals and academics involved full time in the study and application of these concepts. The essence remains the delicate balancing social and business outcomes.

#### General Tips

- Strategic Planning is important - without it business and entrepreneurial activity will struggle.
- Entrepreneurial activity will change the culture of an organization – accept it and prepare for it
- The discipline of multiyear planning that connects the strategic plan to the day to day life of the voluntary sector organization is essential.
- Use robust processes to develop and screen business ideas – it reduces risk.
- Recognise that good ideas can come from anywhere and at the most inconvenient times – be ready with process.
- Marketing (customer) perspectives are key – charge for value created in comparison to the competition.
- Hire business people that understand the industry or activity that you are pursuing.
- Form follows function – first understand the intent and plan for the business – then get legal advice.
- Seek to understand the social return involved in the business activity - what social outcome is produced at what price.
- Find new financing tools.
- Consider creating an integrated fund raising campaign.

#### Resources/Case Studies

While there is no central resource for case studies of business activities within the voluntary sector in Canada, the most robust in North America is Centre for Advancement of Social Entrepreneurship <http://caseatduke.org/knowledge/casestudies/index.html>.

In Canada, there are a few resources that discuss the concepts mentioned within this Chapter.

- <http://tricofoundation.ca/wordpress/category/canadian-social-enterprises/> The sponsors of The Social Enterprise Award, Trico Foundation provides a lengthy list of Social Enterprise case studies.
- <http://innoweave.ca/en/resources>. Social Enterprise examples include St John's Bakery (Toronto), Have Culinary Training (Vancouver). Social finance case studies include Atria Property Management Services (Vancouver) and The Centre for Social Innovation (Toronto)

Charities in business can provoke the extremes of debate – on the one hand some claim that the secret is for voluntary sector organizations to be more business like. On the other - if only businesses were more socially minded we could solve all the world's problems. The truth and the future lies somewhere between.

## Resources

### 1. Selected websites

- Aperiio [www.aperio.ca](http://www.aperio.ca), the website includes a number of our own publications, templates, a current list of links and books, and case studies of social entrepreneurs.
- Social Enterprise Canada [www.socialenterprisecanada.ca](http://www.socialenterprisecanada.ca) is the network for Social Enterprises nationally and contains a full range of resources for enterprise activity within the voluntary sector.
- Social Finance Canada [www.socialfinance.ca](http://www.socialfinance.ca) offers a collection of resources material and conversations respecting the current issues around social finance in Canada.
- Social Enterprise Alliance [www.se-alliance.org](http://www.se-alliance.org) is a network of support connecting entrepreneurial non-profits with learning opportunities, technical assistance and resources to further their efforts.
- Government of Canada  
[http://www.esdc.gc.ca/eng/consultations/social\\_finance/report/index.shtml](http://www.esdc.gc.ca/eng/consultations/social_finance/report/index.shtml) summarizes the recent federal consultations
- New Profit Inc. [www.newprofit.org](http://www.newprofit.org) is a venture philanthropy firm committed to the practice of venture philanthropy and the evolution of a new market for social change. Its goal is to effect large-scale social change by applying venture capital practices to philanthropy.
- The Roberts Enterprise Development Fund [www.redf.org](http://www.redf.org) is a venture philanthropy firm focused on building job and training social enterprises in the San Francisco area. It has published several guides and reports for social entrepreneurs, and is considered the leading expert on Social Return on Investment (SROI).
- Social Returns [www.socialreturns.org](http://www.socialreturns.org) provides educational and financial support for non-profit enterprise through its business plan competition. Social Returns was inspired by the Partnership for Nonprofit Ventures, which is no longer active, but still hosts a website with significant resources <http://www.ventures.yale.edu/>
- Community Wealth Ventures [www.communitywealth.com](http://www.communitywealth.com) has a directory of non-profit organizations with business ventures and has published a number of reports offering an overview of social enterprise in the United States, including essays, case studies, practical lessons, and survey results for organizations seeking to diversify their revenue streams.
- Center for Social Innovation <http://csi.gsb.stanford.edu> is the publisher of the outstanding Stanford Social Innovation Review and also offers other resources of interest to the field.
- Canadian Social Entrepreneurship Foundation [www.csef.ca](http://www.csef.ca) supports social entrepreneurship in Canada.
- Social Edge [www.socialedge.org](http://www.socialedge.org) is a resource for social entrepreneurs.
- Peter F. Drucker Canadian Foundation  
<http://www.druckerinstitute.com/drucker-nonprofit-innovation-award> celebrates and shares innovative practices found in non-profit organizations in Canada.
- Canadian Social Economy Hub – Centre Canadien d'économie sociale  
<http://socialeconomyhub.ca/> is a portal for resources impacting the social economy in Canada.

## Resources (continued)

### 2. Selected Associations

- Canadian Social Entrepreneurs Network
- Réseau de développement économique et d'employabilité [www.rdee.ca](http://www.rdee.ca)
- Canadian Community Economic Development Network  
<http://ccednet-rdec.ca/en/node/11605>
- Chantier de l'économie sociale [www.chantier.qc.ca](http://www.chantier.qc.ca)
- Fondation de l'entrepreneurship [www.entrepreneurship.qc.ca](http://www.entrepreneurship.qc.ca)
- Canadian Society of Association Executives – Société Canadienne des directeurs d'association  
[www.csae.com](http://www.csae.com)
- Association of Fundraising Professionals [www.afpnet.org](http://www.afpnet.org) Local chapters across Canada, including Association des professionnels en gestion philanthropique (QC) [www.apgp.com](http://www.apgp.com)
- Imagine Canada <http://www.imaginecanada.ca>
- Canadian Community Economic Development Network – Le réseau Canadien de développement économique communautaire [www.ccednet-rdec.ca](http://www.ccednet-rdec.ca)
- Pan Canadian Community Futures Network – Réseau pancanadien des sociétés d'aide au développement des collectivités [www.communityfutures.ca](http://www.communityfutures.ca)
- Voluntary Gateway – Portail communautaire [www.voluntarygateway.ca](http://www.voluntarygateway.ca)

### 3. Selected references

- Bornstein, David, *How to Change the World: Social Entrepreneurs and the Power of New Ideas*; Oxford University Press
- Brinckerhoff, Peter, *Social Entrepreneurship: The Art of Mission Based Innovation*; Wiley
- Oster, Massarsky, Beinhacker, *Generating and Sustaining Nonprofit Earned Income*; Jossey-Bass
- Pepin, John, *A Guide to Revenue Diversification for Directors of Non-Profit Organizations*; Canadian Society of Association Executives
- Shore, Bill, *The Cathedral Within*; Random House
- Steckel, Simons, Simons, Tanen, *Making Money While Making a Difference*; High Tide Press
- Steckel, Richard, *Filthy Rich: How to Turn Your Nonprofit Fantasies into Cold, Hard Cash*; Ten Speed Press
- Boschee, Jerr, *The Social Enterprise Sourcebook – Profiles of Social Purpose Businesses Operated by Nonprofit Organizations*; Northland Institute
- Boschee, Jerr, *Migrating from Innovation to Entrepreneurship: How Nonprofits are Moving toward Sustainability and Self-Sufficiency*; The Institute for Social Entrepreneurs
- Dees, J. Gregory; Emerson, Jed; and Economy, Peter. *Enterprising Nonprofits: A Toolkit for Social Entrepreneurs*; Wiley
- Dees, J. Gregory et al., *Strategic Tools for Social Entrepreneurs: Enhancing the Performance of Your Enterprising Nonprofit*; Wiley
- Larson, Rolfe, *Venture Forth! The Essential Guide to Starting a Moneymaking Business in Your Nonprofit Organization*; Amherst H. Wilder Foundation (Wilder Publishing Center)

<sup>1</sup> <https://www.se-alliance.org/what-is-social-enterprise>

<sup>2</sup> *Three Models of Social Enterprises: Creating social impact through trading activities*

<https://www.cafonline.org/charity-finance--fundraising/borrowing/social-investment.aspx>

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The topics covered in this section include:

- 2013 SIAA conference: is impact measurement the highway to hell?
- Building the social enterprises of the future with hybrid funding
- Glass half full or glass half empty?
- Going for gold? Active Philanthropy publishes a different book on impact investing

# 2013 SIAA Conference

## Is Impact Measurement the Highway to Hell?

**Martial Paris** (Posted on December 12, 2013)

The annual conference of the Social Impact Analyst Association (SIAA) took place in Paris on 10 December. SIAA was founded in 2011 to 'build an active international community of social impact analysts'. The conference theme, which attracted over 100 participants, was 'Beyond Measurement': Analysts should not measure impact for its own sake but integrate it in a larger process, so that organizations can improve their work.

'Impact' can have many definitions. The following one identifies clearly the key components: 'a set of significant and long-term changes – whether positive or negative, expected or not – that were caused directly or indirectly by an action.' I do not have the space to go into more technical terms, but I will say that when we speak of impact measurement, in most cases we are really talking about tools that help measure the quality of a project in a given time period, but not its long-term effects. One of the reasons is that we need to distinguish between contribution and attribution: through the various projects that they implement, organizations contribute (in the best-case scenario) to improving the condition of beneficiaries. However, there are many other factors that can cause change, and

the project will only be one of those factors.

That being said, it makes sense to go beyond sheer impact measurement, but the real question is: how do we define 'beyond'? Where does impact measurement take us? According to various points of view, it could be heaven or hell.

The road to the hell of impact measurement is paved with good intentions. There are numerous tools and attempts to standardize measurement. Each tool strives to ease the work of donors and organizations. The Foundation Center has thus developed a database that includes over 150 tools. Each of them has its apostles who belong to a specific parish.

The goal is not to say which tool is the best, because the answer depends on the strategy defined by the supported organization and the donor.

However, there is a trend that can take us from that hell to a paradise in which organizations define a strategy that is revised after their results are measured (as opposed to a recent NPC study showing that 80 per cent of charities do not use any planning models; a paradise where donors use not only their heart but also their head when they engage in philanthropy (only 2 per cent do so according to another NPC study).

The road to this paradise is not a highway. At this stage, it looks more like a path, and it has to be approached from a global and pragmatic perspective. Impact measurement is not an end in itself but the end of a process that begins with planning one's philanthropic commitment.

*This article was written by Alliance and kindly supplied to Philanthropy Impact to include in this magazine. Philanthropy Impact does not take any responsibility for the content of the article*

# Building the Social Enterprises of the Future with Hybrid Financing

Maximilian Martin (Posted: 02 Jun 2014 02:00 AM PDT)

*Globalization, long-term demographic trends, changing consumer preferences, and the state of public finances are collectively driving the emergence of an integrated social capital market for the first time in human history, currently valued at US\$46 billion. Nonetheless, the social sector remains highly fragmented. This lack of coherence serves to hold back investment by raising costs and complexity.*

Social entrepreneurs also need money for starting and scaling their ideas, but existing funding solutions are often imperfectly suited to their needs. Chris West, director of the Shell Foundation and a long-time supporter of social enterprises, commented: ‘One of the barriers social enterprises face in reaching scale and sustainability is the ‘valley of death’ that exists between securing grant funding and investment capital. To bridge this gap, we need innovative tiered capital structures that blend ‘patient capital’ with debt and equity.’

**B**uilding Impact Businesses through Hybrid Financing: Special impact starter edition, a new report released by Impact Economy last week, examines leading social enterprises operating in a number of fields ranging from alternative energy to solid waste management and explores how these efforts can be more effectively and efficiently funded for growth and greater impact. It is meant as a companion to Impact Starter, a new platform to help get social entrepreneurs started.

A key implication emerging from the work is that successful social enterprises can use hybrid financing to drive greater impact. Grants remain the best way to seed a social enterprise, but grants tend to become insufficient in providing the capital required for the venture to scale if it achieves initial success. Hybrid financing models use some combination of up to four forms of capital (eg grants, debt, equity, and mezzanine or convertible capital), as well as a variety of possible financial instruments such as internal credit enhancement through subordination or reserves, or external credit enhancement via letters of credit.

Time also plays a hugely important role in these structures: hybrid financing can be synchronic (or tiered), combining for example grant and non-grant sources of capital simultaneously to fund the joint expansion of profitable elements and the optimization of unprofitable elements of the value chain and reduce risk. Or they can be diachronic, with hybrid funding unfolding over time, typically beginning with grant funding and then ‘graduating’ to equity and debt funding as the venture achieves critical mass.

.....  
**we need innovative tiered capital structures that blend ‘patient capital’ with debt and equity**  
 .....

Transformative progress on a number of issues needs to be the shared objective of innovative hybrid financing strategies. Some of these issues, which are covered in the report, include the fact that only 40-70 per cent of all the urban solid waste in developing countries is collected; open dumping and burning of waste continues to be the norm rather than the exception; and a country like Peru alone has 108,000 informal waste pickers who often live on toxic dumps. What’s more, 2.5 billion people around the world do not even have toilets.

While the poor spend US\$433 billion per year on energy, 1.2 billion people still lack access to electricity. India’s new government led by Narendra Modi recently

made waves by planning to harness solar power to enable every home to run at least one light bulb by 2019. With 400 million people currently lacking electricity in India, fresh approaches will be needed to translate this ambitious goal into reality, and a strategic combination of patient or long-term capital as well as grants.

Jürgen Griesbeck, founder and CEO of *streetfootballworld*, the focus of one of the case studies in the report, commented that hybrid financing strategies offer ‘important components to transform entire industries. Like subsidies or public research grants in the private sector, donations are highly important to the social sector to fund innovation and to support hard-to-monetize thematic areas.’ Hybrid financing strategies ‘can help to bridge the gap: from the current reach of clients in the social sector to all of those that are not yet served,’ said Griesbeck.

With 270 million people around the world playing football, which also happens to be a great way to reach at-risk youth, and the opening match of this year’s FIFA World Cup only 10 days away, football-for-development as practised by *streetfootballworld* is one of the many areas where it is time to unleash the power of hybrid financing. Combining philanthropic and commercial capital can help achieve a step change in impact, and build and finance the social enterprises of the future.

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# Glass Half Full or Glass Half Empty?

Caroline Hartnell (Alliance magazine 02 June 2014)

*If you're looking at impact investing, do you see a glass half empty or a glass half full? It all depends which end of the looking glass you're looking through. If you consider that the term wasn't even invented ten years ago<sup>1</sup> and there are now countless impact investing funds – GIIN alone has almost 200 large institutional members in 30 different countries – you might see a glass half full. If you look at the volume of funds in impact investing compared to total investments and the scale of social problems to be solved in a material way, you're more likely to see a glass half empty.*

It seems to me that the authors of *Beyond the Pioneer* start with a glass half empty – seeing too few 'inclusive businesses' to benefit the poor managing to scale up sufficiently. Their aim is to remove the barriers so the glass can start to fill up.

If these inclusive businesses are to reach the required scale, it seems that 'mainstreaming' must be at least part of the answer – mainstream funds going into industries that have themselves become part of the mainstream. Interestingly, it is Álvaro Rodríguez in Mexico and Vineet Rai in India – both from countries where the social problems to be solved are substantial and not addressed with any level of scale by government – who most clearly express this mainstream vision. Neither has much time for external 'do-gooders' who think they can tell the poor what they ought to want and then try to sell it to them.

Contributors from more developed economies seem more inclined to see the need for a distinct set of investors to support a more clearly social set of businesses. Guest editors **Audrey Selian** and **Ken Hynes** call for impact investors to eschew competition and work together. **Jane Newman** and **Hannah Goldie** emphasize the need 'to address the middle ground with investee-appropriate products'. **Martin Brookes** voices fears about the ethical consequences if charities start to be seen as 'investment options'.

Perhaps what is needed is a clearer demarcation between those areas where needs could eventually be met through mainstream industries, for example where physical infrastructure is involved, such as housing and renewable energy, and areas where a special set of investors may likely be needed, and areas where subsidy, too, will and must play its part. Defining this last area is something that this issue of Alliance hasn't tried to do, but I'd welcome readers' thoughts.

<sup>1</sup> Although Jed Emerson developed the concept of 'blended value' in the 1990s.

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# Going for gold?

## Active Philanthropy Publishes a Different Book on Impact Investing

Michael Alberg-Seberich (Posted: 24 Jun 2014 02:00 AM PDT)

*What really is this 'impact investing'? Some readers might sigh 'Not again!' Still, it is a question that we hear every day from donors, foundations, public officials, company representatives and others. In the philanthropy and social investment sectors we may already consider impact investing an old friend, but many people outside these circles that should join this friendship still do not even know that it exists.*

**At Active Philanthropy** we therefore decided to tell the stories and facts behind impact investing in a different way.

**W**e joined forces with Inga Michler, an experienced economics reporter at the German daily newspaper 'Die Welt', and asked her to report directly from the trenches of impact investing. And she did! Inga Michler spent time with social businesses and not-for-profit organizations in Germany (Looney, Karuna, VerbaVoice), India (Drishtee, Husk Power Systems), Italy (Sharing), the Netherlands (Resto Vanharte) and the UK (Blue Sky Development & Regeneration) to tell their stories and share their experience with impact investing.

Some of the organizations portrayed in the book had to learn the hard way that, contrary to their initial plans, they will never become a profitable social enterprise. Some of them had to admit that they won't even be able to return the capital received by their investors, and that their funding will always rely on other sources of support. Other organizations are such successful investments that they struggle every day to focus on their social mission. The CEO of one of these investments even confesses that they will not be called

an impact investment any longer once the day of 'big financial returns' arrives.

These stories from the field are healthy in many ways. They show that there is not one success story of impact investing. They show that the entrepreneurs behind these investments work very hard to achieve a social as well as a financial return, something that we may sometimes forget. They show that for every problem, for every target group, there is not always a business plan. They show that we need to keep our distance from all these stunning sector forecasts – just recently again by JP Morgan – and focus on the single investment and its social and financial return. The future of this field is encouraging, but it is not going to yield the big financial profits the sector is dreaming of. The reality of this field rather is about positive social change and small steps day by day. And maybe it is about yielding financial profits too, but this needs time, patience, expertise, trust – and philanthropic investments.

These stories therefore provide a different, very honest answer to the question: what really is impact investing? The first reactions we received from donors expressed their curiosity to learn more about the sector now. We consider this a good sign and would hope that others in the sector can also use these stories to support their efforts to spread the idea of impact investing.

You can find these stories in the book *The Reality of Impact investing: Stories from the field*. It is available as an e-book and can be downloaded [here](#)>

If you still prefer to read stories on paper, you can order the printed edition of the book via the webpage.

It should be noted that Active Philanthropy would not have been able to produce this book without the financial support of the Federal Ministry for Family, Senior Citizens, Women and Youth, the KfW banking group and the BMW Foundation Herbert Quandt.

*<sup>1</sup> Although Jed Emerson developed the concept of 'blended value' in the 1990s.*

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# Impact investing in a Democracy:

## A response to the Alliance Special Feature 'Markets for Good: Removing the Barriers'

Joe Ludlow (Posted: 15 June 2014)

When I first started out in social impact investing, it was hard to find anyone writing or talking about it (apart from my boss at Venturesome, John Kingston). But the tables have turned, and in the recent *Alliance* special feature, 'Markets for good: removing the barriers', we had not just one article but several from around the globe! It's a joy to think that the field is now at a point that such an esteemed and diverse group of contributors can come together and debate the issues raised by Monitor Inclusive Markets' report *Beyond the Pioneer: Getting inclusive industries to scale*. For me one big issue the report raises is the role of government vis-à-vis impact investing in addressing social problems.

**B**eyond the Pioneer is framed as an exploration of the barriers faced by social/impact enterprise ('social ventures' as we label them at Nesta) when attempting to scale up their operations. Many of the responses to the paper looked through the lens of social/impact investing and its role in overcoming those barriers.

In my opinion, the barriers to scale faced by social ventures as identified in the paper (at the level of the firm, value chain, public goods and government) are a helpful framework to consider what is needed to tackle any complex problem, ie it is a means of exploring a whole system of innovation around a need (as Vineet Rai points out in his contribution). It shouldn't surprise us that solving persistent social problems effectively, at meaningful scale and with longevity, requires interventions beyond the level of a single firm. I agreed with Guillaume Taylor that the lessons from Monitor Inclusive Markets' developing world experience have plenty of resonance with our experience making impact investments within the UK's developed economy and government structures.

So I want to respond to the special feature on five particular points that speak to my experience investing in UK social ventures operating at the boundaries of private, social and public sectors in education, social care and local communities.

### Start with the impact

The first is a simple one that arises throughout the special feature: the absolute importance of being impact focused and developing strategy from that starting point. We mustn't assume that starting or growing a venture is the best route to impact (as Uli Grabenwarter and Fabio Segura point out in different ways). Yet this point got lost where the debate looked at 'the sector' versus 'the mainstream'. Our pragmatic approach at Nesta is to not worry too much about sector, legal status, intention to make profit or not, but to focus on how can you have the best effect on the problem for the greatest number of people.

### Balancing the push and pull

The second point that resonated is the interplay between demand and supply of product/service, or as some described it 'push and pull' (again, I liked Guillaume Taylor's observations about developed markets on this point). That ventures will find it easiest to scale when there is a balance between the two is obvious. For example, our portfolio company FutureGov has been developing digital tools to improve social services for over five years and pushing to get them adopted, but a change in its market (government funding cuts and a digital first policy) have brought demand closer to balance with its supply. But I think we must be careful here about using the cold language of 'push' or 'creating demand' when what we are describing could easily be seen as at best paternalism ('we know what is good for you') or at worst self-interest (payment protection insurance, for example). Democratic representation through government (or other means) has an important role in overseeing and representing people in this push-pull tension.

### Do impact investors make good industry facilitators?

My third point is about the role identified as 'industry facilitators'. This is a highly sensitive area, and I'm not comfortable with the suggestion of the *Beyond the Pioneer authors* and guest editors Audrey Selian and Ken Hynes that investors are well placed to do this job. In the markets where I invest – education, healthcare and financial services for example – specialist organizations are needed for the distinct market facilitation roles that are so necessary. For example:

- The Education Endowment Foundation is a commissioner of evaluation and a repository of information about what interventions work in education (the UK government set this up, and is funding a series of 'What Works Centres' in different areas of social need).
- We have two investments focused on reducing the social isolation of older people, but the Campaign to End Loneliness is much better placed to campaign for wider recognition of the issue and better funding of support services than we are.

### The role of social ventures

My fourth point is about the role of the social venture in pursuing an impact objective. We must remember that growing a venture is only one means (among many) of addressing difficult social problems. As the Monitor Inclusive Markets framework illustrates, a lone venture is unlikely to succeed if other means are not being

deployed at the same time. In my portfolio, Ffreese seeks to address financial exclusion among low-income families in the UK by offering an alternative to a high street bank current account, but it relies on many other system factors from regulation to the mass availability of the internet to achieve its goals. Social ventures are built primarily around product or service innovations, and they optimize their solutions to current and near-term market conditions rather than directly seeking to shape the wider environment for the long term. I found the Ignia model helpful here in illustrating the need for a venture to position itself where there is a tolerable balance between product innovation and sector/market readiness.

### The role of investors and funders

I deliberately put the role of investors and funders as my last point. As an impact investor, I spend my time working my way through the previous four points: what is the impact objective? What are the dynamics of the marketplace and who is facilitating it? Is scaling a social venture a useful and viable impact strategy, and therefore what can I invest in? Impact investing is a tool that can help (but not do everything) to grow social ventures, as the *Beyond the Pioneer* authors point out, but it's still early days. So I felt uncomfortable at places in the special feature where contributors seemed to have a bigger vision of impact investing and what it can do.

I also have some ethical concerns (albeit different ones to those highlighted by Martin Brookes). I don't think investors should seek to be a substitute for democratic government in facilitating markets for the delivery of social outcomes, assuming we know what is good for people.

Social innovation historically took place in the social or charitable sector and sought adoption by government as its route to scale – either directly as public service or indirectly through regulation to steer the private market. The depth and complexity of many social problems demands a high scale and quality of innovation. The social venture and impact investing movement is, for me, aiming to deliver impact through a blend of the benefits of social impact focused innovation with the scale and speed of growth of the private sector with the democratic accountability and universality of the state. The *Alliance* special feature explored the opportunities and challenges of this approach comprehensively even if I didn't agree with all the assumptions contributors made.

*This article was written by Alliance and kindly supplied to Philanthropy Impact to include in this magazine. Philanthropy Impact does not take any responsibility for the content of the article*



## Philanthropy Impact's vision is to increase philanthropy and social investment across borders, sectors and causes.

### Why Do We Have To Increase Philanthropic Giving and Social Investment?

#### Funding is required because:

- Societal need for third sector support is growing e.g. addressing:
  - The problems and high costs of poverty<sup>1</sup> and its impact (e.g. inequality, increased crime, negative health outcomes and increased costs, reduced educational attainment)
  - Issues related to the environment, the economy, population growth, migration, health and culture
- Many new models for service delivery and funding are being developed as a social entrepreneurialism ethos takes hold
- The public sector is implementing significant cuts in spending
- To help them fulfil their mission, charities and social enterprises must move beyond a survivor mentality to innovation and growth

### Philanthropy Impact

Since 1998 Philanthropy Impact has been effectively delivering services to professional/ wealth/ private client advisors, philanthropists, trusts and foundations, and charities.

#### Our services include:

- Events that support professional training and development, information sharing and networking opportunities
- Research and production of 'body of knowledge' guides, case studies, and the acclaimed Philanthropy Impact Magazine
- Advocating policies and regulations that encourage giving

We recognise that those active in the philanthropy sector are in a powerful position to affect change, resolve social issues and provide support to their communities. It's important that professional advisors are prepared for these discussions with clients.

We look to support the development of the sector by providing resources on perennial issues for individuals active in philanthropy, including tax and legal structuring, cross-border giving and family philanthropy. We also provide expert opinion and in-depth discussion on current industry issues, advancing sector expertise and impact. With the right grounding, individuals, advisors and philanthropy professionals can be prepared to increase their impact in the third sector.

Members of Philanthropy Impact have access to an established network of thought-leaders and sector actors from across Europe. Our members are made up of private client advisors, philanthropists, trusts and foundations as well as organisations from across the not-for-profit sector.

Members have the opportunity to develop partnerships and initiatives to support philanthropy, advance the professional development of their staff and distribute their message amongst the sector. We are currently developing our 2015 programme and will be bringing members a wealth of discussions on cross border giving, corporate giving, impact investment, risk management, social investment, young philanthropy, as well as emerging issues.

Philanthropy Impact exists for the benefit of its members and we welcome any suggestions or contributions at [editor@philanthropy-impact.org](mailto:editor@philanthropy-impact.org)

To find out more about member benefits including free event registration, partnership opportunities and free resources please visit our website

[www.philanthropy-impact.org](http://www.philanthropy-impact.org) or call our team on **0207 430 0601**.

<sup>1</sup> For example 30% of the children in the UK live in poverty and approximately 13 million people in total live in poverty in the UK.

MAKING SENSE OF  
AND INSPIRING  
PHILANTHROPY  
ACROSS CAUSES  
ACROSS SECTORS  
ACROSS BORDERS