Philanthropy Impact

Magazine

Issue 14: Winter 2016

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THE CAMPAIGN FOR
GROWING MODERN
PHILANTHROPY

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How we set the table for success

The Arcus Foundation is a proud sponsor of this month's issue focused on social investment, social investment and impact. For funders like Arcus who centre their philanthropy on emerging and urgent issues, the question of how we invest our resources most effectively weighs heavily on our minds.

Arcus is the largest private funder of ape conservation as well as one of the world's largest funders of LGBT issues. The need for support is incredibly high on both fronts, yet we operate on a fixed amount of resources. That frequently means we must be strategic and creative with how we maximize our philanthropy and impact.

Arcus believes that effective and successful grantmaking is only as good as who and what it is informed by. I am proud of Arcus' brilliant and sharp team who I have the privilege to work with on a daily basis. But my colleagues and I readily admit that it's unrealistic for us to know or anticipate everything that impacts those we support.

While Arcus' programme staff spends many hours out in the field, we also make it an evergreen priority to bring together leaders who generously share their insights keeping us informed about opportunities and challenges in the field; also helping us to upgrade or develop new strategies and solutions.

Our Great Apes team frequently turns to the use of **Think Groups**, a small and curated panel of subject matter experts who grapple with how to best leverage in response to issues like the expansion of oil palm plantations and how to shift cultural narratives around conservation.

We employ Think Groups to address issues facing LGBT rights around the world. This past October, Arcus convened a group of U.S. communications experts to refine how the Foundation may support increased understanding of transgender lives, particularly as so many regularly encounter violence and discrimination from society.

Arcus actively endeavours to create optimal environments for our grantee partners to be positioned for success. The Foundation explores and pursues high-impact opportunities that allow the movements we support to possess as much intelligence as possible and are equipped with a suite of tools to advance their respective goals.

Take **My2024**, an integrated and crowd-sourced initiative supported by Arcus to identify future priorities for the LGBT movement in the United States after the historic Supreme Court ruling on same-sex marriage. By using game mechanics, this forecasting project sought to invite everyday LGBT people across the country to voice their ideas and concerns for the next decade.

More than 75 local, state and national LGBT organisations took part in the futures-mapping project. As a result, My2024 produced thousands of unique insights ranging from the call to advance immigration reform to the growing needs found among ageing LGBT adults. The data gathered from the nationwide effort continue to inform and shape how Arcus and our grantee partners plan for the next wave of LGBT advocacy in the United States.

The longevity of the movements that Arcus support is of imperative importance. While we remain a leading funder for many in the field, we seek to grow and diversify other forms of support for grantee partners to access. That's why the Foundation commits resources to encourage others to join us in funding this work.

In 2014, Arcus founded **Great Apes Giving Day**, a 24-hour online giving campaign created to support sanctuaries and rescue centres that provide long-term care for apes unable to live in their natural habitats due to poaching, land encroachment, medical and science research, and their use in entertainment. The annual event connects these dedicated and underfunded facilities with new donors who want to support their work.

This year, I'm pleased to share that Great Apes Giving Day raised nearly $400,000 – exceeding our original goal by almost $100,000 – benefitting more than 30 organisations around the world.

The real excitement lies in the fact that many of these facilities will now be able to cultivate long-term relationships with the more than 3,200 donors. Because of their participation, these sanctuaries and rescue centres have access to a larger and sustainable funding stream. This means foundations like Arcus have more philanthropic peers to support our partners on the ground.

Too often, philanthropy is treated like a transactional ritual, which makes impact more difficult to articulate and measure. It's important to work alongside grantee partners to achieve impact. If our field wants a higher return-on-investment, we can – and must – go well beyond writing a check in order to achieve impact.

Kevin Jennings *(www.arcusfoundation.org)*

Founded in 2000 by Jon Stryker, the Arcus Foundation is dedicated to the idea that people can live in harmony with one another and the natural world. Arcus believes that respect for diversity among peoples and in nature is essential to a positive future for our planet and all its inhabitants.

Kevin B. Jennings,
Executive Director, Arcus Foundation
(www.arcusfoundation.org)

Kevin has made a long and distinguished career as an educator, social justice activist, teacher, and author. He served as Assistant Deputy Secretary of Education in the Obama Administration, heading the department's Office of Safe and Drug-Free Schools where he led the Administration's anti-bullying initiative. Kevin began his career as a high school history teacher and coach in Rhode Island and Massachusetts. During this time he served as faculty advisor to the nation's first Gay-Straight Alliance, leading him in 1990 to found the Gay, Lesbian and Straight Education Network (GLSEN), a national education organization tackling anti-LGBT bias in U.S. schools, which he led for 18 years.

Kevin earned a BA (magna cum laude) from Harvard College, a Master of Education from Columbia University's Teachers College, from which he received the Distinguished Alumni Award in 2012, and an MBA from New York University's Stern School of Business. He has been honored for his leadership in education and civil rights by the National Education Association, the National Association of Secondary School Principals, the National Association of School Psychologists, the National Association of Independent Schools, and numerous other organizations.

He is chairman of the boards of The Ubunye Challenge and First Generation Harvard Alumni. Kevin also serves on the board of Marjorie's Fund and the Council on Foundations. His seventh book, One Teacher in Ten in the 21st Century*, was published in 2015. Along with his partner of 20 years, Jeff Davis, he is the proud dad of a Bernese Mountain Dog, Jackson, and a Golden Retriever, Sloane.*

Philanthropy Impact
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THE CAMPAIGN FOR
GROWING MODERN PHILANTHROPY
INCREASING ENGAGEMENT • SHARING KNOWLEDGE • DELIVERING IMPACT

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 advisers. Through our links with 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.

Please contact the Editor at editor@philanthropy-impact.org

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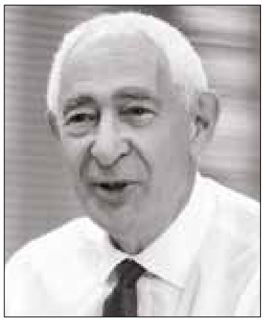
Breaking through on social housing: Achieving a holistic impact

Lord David Triesman *(www.salamanca-group.com)*

The UK has a long-term housing problem which every government has promised to address – and every government has failed. About five million people need a home and many more live in over-crowded and sub-standard housing. Each year we build a few tens of thousands of homes with two inevitable results.

First, the housing list gets longer, the gap wider, and families and people with special needs become more desperate. Health declines as it is harder to access regular primary care. School attendance becomes more erratic as frequent moves cut children off from stable schooling and their results get worse as they have nowhere to do homework or even read. Depression and other chronic conditions become worse, often resulting in an inability to get and keep a job. For older people isolation becomes an additional millstone.



Lord David Triesman

Second, such homes as are built become unaffordable, ever further beyond the means of families and individuals who need homes. Some of the individuals have jobs but typically in vital but relatively low-paid work including nursing, teaching and health care. Those individuals move away from the main urban centres where rents are beyond reach.

About five million people need a home and many more live in over-crowded and sub-standard housing.

Both sets of problems have the greatest impact on those with the gravest social, physical and economic difficulty, and the organisations to which they traditionally turned for social housing provision – local authorities and housing associations –have a lessening capacity to cope with demand.

Of course, everyone can wring their hands and lament the downward spiral. That, however, doesn't help and what is demanded is new thinking, new financing and a sense of mission drawn from new values. When Salamanca Group Merchant Bank applied itself through a new business, Funding Affordable Homes (FAH), we consciously tried to break the log-jam. Thinking went along these lines.

To have a meaningful impact new money was needed, and the public purse has not been deep enough for decades. The money would need new

characteristics. It would not be straightforward philanthropy because it would never generate the volumes needed. Nor would it come from straightforward commercial investment because private development of housing is driven by the characteristics of the housing market in the UK. This is precisely where prices are spiralling beyond the means of those most in need.

We needed a middle path, an investment structure which produced modest but long-term returns and had impact out of all proportion to the normal attributes of property investment. Some deep thinking and challenges that the team at FAH set themselves led to a set of new conclusions.

First, we wanted to provide homes for those most vulnerable – the home is itself a valuable goal, but the aim had to be impact on schooling, health, employment and strong communities. With wonderful encouragement on aspirations and finances from Big Society Capital and some inspirational and well-off individuals, FAH devised investment criteria for the new schemes to be developed. With detailed advice and an ongoing overview from *The Good Economy* we adopted a 'Social Assessment Methodology' which specified any investment must provide an improved supply of good-quality, affordable housing and accommodation. The percentage of our developments which would meet this standard was set at 100%. The outcomes were that everyone would have a 'decent home to live in and good housing management services; access to local shops and services; those with vulnerabilities are able to live as independently as possible with appropriate support'. And we would focus on 'employment opportunities, better health and thriving local communities'.

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So, social impact is central alongside financial investment considerations of risk and return. FAH screens for all these when making investments and all housing providers with which we work make reports where we can assess, with the judgement of *The Good Economy*, the metrics through which we know if we are moving in the right direction.

Second, we needed a new financial model. Social housing has been highly regulated in the UK so it has been broadly possible to predict rents and the costs of services over lengthy periods. There have been some recent changes in the government's approach to the way Housing Associations can expect Government support through housing benefit but the essential characteristics are well-established. This makes investment rather like bonds or infrastructural investments. The FAH model is that we build or buy the property and make it fit for purpose, and the homes and occupants are looked after by housing associations, public and quasi-public bodies. They are good at their job and typically are well-regarded by tenants. So, to use the jargon, FAH is the PropCo and the providers are the OpCo's. Candidly, there is no need for the providers to own the property. Their goals are to provide it at an excellent standard. FAH launched a fund and it has been used to make the first investments; either building new homes, buying homes from providers or converting existing buildings. It is all new capital in play.

The FAH model is that we build or buy the property and make it fit for purpose, and the homes and occupants are looked after by housing associations, public and quasi-public bodies.

Of course, FAH had to have a compelling reputation. Its directors have been drawn from the leaders in the social housing field and include, alongside commercial experts, a former chairman of the National Housing Federation and CEO of the Peabody Trust, Richard McCarthy CBE, and the former Chair of the Joseph Rowntree Foundation, Debby Ounsted CBE. I had the privilege of chairing the Cabinet Office National Inquiry into Housing Benefit.

Third, we closed our initial fund in September 2015 and have completed three investments in well over 200 properties and have now created a pipeline exceeding £400m and over 3,000 properties across the UK. Our business plan forecast an IRR of about 8%. We have exceeded 10%. The model of impact and sensible returns is encouraging a second round of fundraising not least because the scheme has significant attractions to long-term investors including pension funds and philanthropic individuals who want the scheme to grow. Indeed, its growth potential is likely to make it one of the most dynamic contributors to shrinking the housing list.

But does it work for the tenants as well as for the investors? Does it really meet the social objectives? So far, so good. While this is the view of *The Good Economy* review team, which is gratifying, perhaps an example would be most useful.

In Luton, just north of London, we bought and converted a large building into 78 apartments. The young people who have moved in had the prospect of jobs if they had somewhere reliable to live, and somewhere to live if only they could get a job. In short they were caught in a Catch 22. The new tenants had been sleeping rough, in B&Bs, hostels, living on friend's floors, in temporary accommodation, hospital or in probation hostels. A small number had unsatisfactory short-term private accommodation. The men and women in the new accommodation are properly housed, now have jobs and all those wanting it have access to tertiary education. Their home is run by the YMCA and the feedback of the tenants is heart-warming. In due course, many will move on to flats but they are becoming independent livers with a chance in life you can't get sleeping in a shop doorway.

Our other projects involve older people who need supported living but treasure their independence, young adults with learning difficulties, and so on. We will, of course, house conventional families in due course, because strong communities are also diverse communities. In every case one of our goals is that tenants have a strong voice in their lives – that they are the authors of their own future.

It works financially, it works in tangible and measurable impact, it is scalable and it addresses head on an issue where we have failed as a country. I think this makes it impact philanthropy which stimulates still more impact philanthropy. As the old saying goes: a hand up rather than a hand out. And FAH is always willing to go through how it works.

Lord David Triesman *is an Executive Director at Salamanca Group, responsible for developing new business opportunities. He also sits as a non-executive Director at Havin Bank, Funding Affordable Homes, and OneOcean Ventures. Previously, he served as Chairman of the Advisory Board at Templewood Merchant Bank, a Board Member of Wembley National Stadium, Chairman of the Football Association and was a member of an Advisory Board at UBS. In political life, Lord Triesman was responsible for the Prime Minister's political organisation (2001–2004); has served as Under-Secretary of State in the Foreign & Commonwealth Office and later in the Department for Innovation, Universities and Skills; and held ministerial and official opposition roles in Energy, Business, Higher Education and Europe.*

Re-imagining philanthropy

Laura Miller and Michele Sanders *(www.synchronicityearth.org)*

An uncharitable view of the charitable sector is that it is unprofessional and ineffective. According to this perspective, if charities only acted like businesses, they would have a greater impact.

Dr Laura Miller

Michele Sanders

Is this assessment correct, or does it fail to take into account the conditions in which charities operate? Do charities even get the opportunity to act like businesses? And what has any of this to do with the relationship between money, mission and philanthropic return on investment (ROI)?

This paper attempts to answer these questions before describing how donors and charities can cooperate to achieve a greater impact. It draws on the experiences of its authors. Both believe that unintentional pressure from funders can hamper the work of charities; both see a vital role for enlightened and creative philanthropy in bolstering the sector.

So what's the problem, exactly?

The charitable sector has grown, largely in response to heightened awareness of social and environmental problems – many of which are increasing as a by-product of globalisation and economic growth (GDP measurements ignore the true social and economic costs of development).

Charities are required to manage human and environmental needs but their revenues do not keep pace with burgeoning demand. There is simply not enough money to address the symptoms of the problems charities wish to tackle, let alone their causes. Additionally, the sector as a whole receives little by way of core funding, which renders it incapable of building the systems required to deliver real solutions: most donors contribute only to individual charity projects.

Our research highlights that this lack of core support can affect the overall strategic direction of charities, some of which over-focus on work that has the greatest chance of fundraising success, or compete rather than cooperate in areas of shared interest. This ultimately reduces impact, but meanwhile the quest to demonstrate ROI means that charities seldom admit to the challenges they face, or learn from their failure to meet goals.

Charities are required to manage human and environmental needs but their revenues do not keep pace with burgeoning demand. There is simply not enough money to address the symptoms of the problems charities wish to tackle, let alone their causes.

The role of donors in reinforcing these problems is clear: evidence suggests that most switch off when discussion about a charity's work, deeper purpose, potential or effectiveness becomes too technical. In some respects, it is easy to see why; outcomes are more interesting than processes – emotional appeals and narratives, more compelling than facts and figures. Only the most business-minded will understand how an investment in the core infrastructure of a charity can add value.

And what's the solution?

The good news from our research is that many charities recognise the need to collaborate, innovate and adapt. They will do so if they have the opportunity.

In the business world, the need to invest in people, innovation, operations and information systems is well recognised. In the charity sector, perversely, a key metric is how little funding is spent on all of the above. Why? Charities need to receive the right kinds of core infrastructure to stay forward-looking and effective. Most simply do not.

If philanthropists devoted their resources, both intellectual and financial, to supporting the core functioning of those charities which demonstrate the greatest potential, encouraging them to enhance their strategies, collaborate and take measured risks – either to scale tested solutions or innovate where there were none – their funds would be well allocated. This approach would produce a compounding effect over the long term and could lead to systemic change.

How should we understand impact?

The advent of 'impact philanthropy' is a step towards a more powerful and enabling dynamic between charity and donor. However, our research suggests that the metrics currently deployed to assess ROI are superficial, and mainly document a charity's ability to fill in complicated forms. They do not capture nuanced (yet vital) aspects of a charity's work; the prevailing view is that if it can't be measured, it doesn't count.

However, our research suggests that the metrics currently deployed to assess ROI are superficial, and mainly document a charity's ability to fill in complicated forms. They do not capture nuanced (yet vital) aspects of a charity's work; the prevailing view is that if it can't be measured, it doesn't count.

An over-reliance on metrics that have no rational basis other than being commonplace, means that charities and donors alike do not have space to interrogate successes, to understand how they were achieved, or to predict any risks associated with them; nor do they give room to acknowledge challenges or foster deeper reflection.

In charitable endeavours, the path to well-implemented projects is not always straightforward. To achieve real impact, a charity needs to know how to turn failing projects into successes; cooperate with others to ensure that results are lasting; and adapt strategies so that they can overcome obstacles. This is where experience, cultural awareness, leadership, negotiation and communication skills are so important. Philanthropic investment in people who can think strategically and build strong organisational cultures, empowering multi-disciplinary teams to work creatively and with rigour makes a difference. ROI measures do not focus on these qualities, yet they are the very things that set some charitable organisations apart.

Intangible value is the vital ingredient in the work of charities, helping them to address complex problems, ensuring that they do not opt for short-term gains over long-term success. For example, if a charity focusing on poverty reduction has such qualities, it will not implement damaging forms of agriculture in developing countries because it recognises that any benefits will be short-lived, and that the costs to communities and ecosystems will be substantial.

Some philanthropists are already beginning to recognise the benefits of assessing intangible value over straightforward ROI. They see the interconnections between social and environmental problems and seek to tackle the roots of both; they no longer want to be the funder that only kicks the can a little further down the road. They understand that the role of philanthropy is to be strategic; to enable cross-sectoral collaboration (network capital); seed innovation (risk capital); and finance successful interventions into the long-term, with a view to replicating and scaling them (patient capital).

Commonly used ROI metrics do not capture this insight or ambition. Yet they have become a normal, everyday part of the donor arsenal, and charities – drowning in the report forms they have to fill in to attract yet more application forms – are using them to 'demonstrate their success'. It is hardly surprising that some are driven to over-state their achievements but while this might bring some short-term benefit to the charity, it creates long-term problems for the sector and – as has been shown – for the people charities serve.

So what SHOULD we assess?

Research suggests that small, restricted, short-term grants *succeed* 20 per cent of the time while larger grants over longer time lines only *fail* 20 per cent of the time. One can conclude from this that longer-term support allows charities to concentrate efforts on fulfilling their missions rather than on fundraising.

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So rather than focus on short-term ROI, we believe that philanthropists should provide long-term backing for people who can make a difference. Getting a sense of who to fund is obviously harder than measuring short-term gains from a project, but it is demonstrably more effective at delivering 'bang for buck'.

With that comes a warning: bigger organisations have better means of drawing attention to their work, but they are not always the best ones to support. There is growing recognition that local groups have a better handle on the needs of the people and places that they were set up to serve, and have a greater impact. We should be just as comfortable with the concept of innovation in the charity sector as we are in the business world; there is no reason why the largest organisations cannot be challenged by local initiatives.

Locating those people and finding out whether they stand up to scrutiny is the subject of our next essay. We believe that this is where philanthropists should put their brainpower, their resource and their business acumen. If they do so, they can offer charities the support they need. It is not just about giving money: a holistic approach, critical reflection, engagement with current research, strategic thinking and network building are the hallmarks of the most impactful philanthropy and they should frame our approach.

Dr Laura Miller *is Executive Director of Synchronicity Earth, a charitable foundation whose aim is to halt the extinction crisis by targeting donor resources towards the most needed interventions, carried out by the most capable groups and individuals. As well as providing philanthropic support to the right people, Synchronicity Earth bolsters their work, creating networks between them and involving people from all sectors – finance, the arts, philosophy, science, technology, anthropology – in galvanising action. Rigorous research and due diligence is integral to its model, as is a willingness to 'create synchronicity' to engage people from all walks of life.*

Michele Sanders *Michelle heads up the risk and due diligence function at Synchronicity Earth. As well as being responsible for risk identification and management, she is currently using her previous experience as a financial, sustainability and ethics auditor to develop a due diligence process that is grounded in empirical research rather than merely on management consulting principles. This research also formed the basis of her D.Phil at Oxford University, which was submitted at the end of 2015.*

Next gen: Socially conscious wealth management

Steve Carr and Sarah Cobden *(www.hawksford.com)*

There are profound differences in how today's young wealthy individuals and entrepreneurial figures approach their wealth management, with many of them showing a keenness to demonstrate their social conscience within their financial affairs.

The techniques, skills and approaches that were once common in the wealth management industry have evolved to meet and anticipate the fresh and innovative ways that a new generation of wealthy and entrepreneurial individuals manage their wealth.

Ethical evolution

Young wealthy individuals, whether they have acquired their wealth or generated their own, are a product of the modern, connected world.

Whereas previous generations played their cards close to their chest and there was much greater secrecy around wealth, investments and structuring, the climate today is starkly different.

Steve Carr

Sarah Cobden

Global regulations that are now in place mean that transparency is the norm, complementing the more socially minded approach that we are seeing younger generations demonstrate when it comes to every aspect of their life, including their wealth.

The world has also changed. More than ever, the public demands that wealthy individuals and corporations demonstrate their social conscience. Facebook founder Mark Zuckerberg's decision to set up innovative new structures for social giving has been widely reported, as has Harry Potter author JK Rowling who dropped off Forbes' billionaires list because she has given a vast proportion of her wealth to charity.

One of the defining attributes of entrepreneurs and young wealthy individuals is that they are proactive and committed to using their wealth to make a difference. Entrepreneurs and the new generation of affluent individuals are often driven by their passions, rather than the sole aim of making money.

Wealth creation

Today, the rise of technology has transformed the ways that individuals can become successful. With limited resources, an Internet connection and very little capital, pioneering businesses can be launched from a bedroom. Famously Larry Page and Sergey Brin founded global search engine Google in a garage in California. It's now worth nearly $500 billion.

Entrepreneurial courses are now included on University curriculums, underscoring how attitudes towards employment and wealth have developed.

Traditionally, it may have taken a long time to build up significant wealth. Technology has made the business world a much smaller place, which has greatly increased the opportunity for success and how quickly it can be achieved on a major scale.

Collaboration

Collaboration is a key marker in how entrepreneurs work with a willingness to share ideas and work alongside other industry professionals. E-communities, where people use online platforms to share ideas, have become a common way for younger generations to create and refine concepts and offer one another support.

For years, the start-up culture seemed to be focused on the activities of businesses based in Silicon Valley. However, tech and start-up communities have now spread across the globe, based in cities throughout Europe, Asia, North America, South America, Africa and Asia.

Creativity with control

Individuals who have built their wealth on their own steam want to be sure that their advisers will respect their personal beliefs. Today, some prefer to retain an element of control in their investment decisions and social responsibility features heavily in their wealth management choices.

With vast amounts of information at their fingertips, the new generation of wealthy is able to educate themselves on the tools and strategies available and they want to be certain that their portfolio represents their social beliefs. They want to be able to retain some authority over their wealth and be sure that their professional advisers will implement their clear financial objectives and desire to make a genuine difference.

Foundations and PTCs

The wealth management industry is adapting to accommodate the evolving requirements and expectations of the wealthy. There is now a range of suitable structures available to meet the need for creativity and control that some entrepreneurs demand.

Foundations, introduced in Jersey in 2009, are starting to come into their own and we have seen a recent surge in interest. Private trust companies are also popular vehicles. Often created with a specific purpose in mind, foundations are perfect tools for ensuring clients retain oversight of their wealth and investments. They ensure the original objective of the structure remains at the forefront of decision making.

A foundation, for example, can be set up to invest into specific areas or themes, such as waste management, sustainability or another area that is aligned to the client's social concerns and passions. For example, Hawksford provides personal trustees for the Eric Young Charitable Trust. Through the formation and careful administration of the philanthropic structure over a large portfolio of mixed investments, income is generated to fund the Eric Young Orchid Foundation, the world's premier foundation dedicated to orchids.

We also manage a multi-million pound trust which is funded by royalties received from distributors in specific geographic areas for a medical treatment created by the settlor of the trust. The majority of funds received are utilised to sponsor a wide variety of medical-related charities and further scientific medical research.

Working with a varied client base and their advisers across a diverse range of charity and philanthropy interests is essential. These structures, which have proven popular with international clients, allow for greater flexibility of their financial affairs, without jeopardising the integrity of the structure.

Philanthropic future

The new generation of wealthy people and entrepreneurs recognises the opportunity to leave a legacy and to use their wealth for creating social benefit. While there are clear tax advantages in using these structures to direct their wealth towards social enterprises, entrepreneurs today are more driven by the opportunity to make a genuine difference and be taken seriously as a philanthropist.

According to the latest EY Family business philanthropy report, nearly 44% of family business owners and managers actively engage in social impact investing[1]. In 2015 Mark Zuckerberg announced plans to donate 99 per cent of his Facebook shares to the cause of human advancement, representing roughly $45 billion at the business' current valuation.

It is expected that there will be more interest in structures for philanthropic purposes in the near future. It is an exciting prospect to work with a more socially aware generation that is motivated by the desire to invest wealth wisely and is an active participant in the process.

[1] EY Family Business Center of Excellence: Family Business philanthropy report 2016 http://www.ey.com/Publication/vwLUAssets/ey-family-business-philanthropy/$FILE/ey-family-business-philanthropy.pdf

***Steve Carr** joined Hawksford in 2000 and is a Director with the responsibility for growing Hawksford's private client services alongside James Howe.*

He has a wealth of private client experience, particularly in the formation and administration of estate and succession planning structures and employee solutions. He brings experience of working with clients from a wide range of industries, including retail, entrepreneurial, manufacturing, media, sports professionals and international entertainment stars.

Steve is known for going the extra mile and is well-liked and trusted by clients and colleagues.

Steve has 20 years' experience in the offshore finance industry and is an associate of the Institute of Chartered Secretaries and Administrators.

***Sarah Cobden's** area of expertise lies within marine-based structures, working with both HNWIs and corporates.*

Sarah has built up lasting relationships with commercial lawyers, yacht managers, VAT specialists and tax advisers; finding solutions to often complicated structuring requirements, while working across multiple jurisdictions to include Asia, Africa, the Caribbean, Russia and the UK. She is also heavily involved with complex structures holding property, manufacturing and other lifestyle assets.

She is an active member of Citywealth and STEP, holding the STEP Diploma and in a previous role she was the student liaison officer for the Jersey STEP Committee. She has also achieved the Jersey Certificate of Offshore Administration.

Sarah has gained 20 years of experience in offshore trust administration, having previously worked at Warren Trustee Group and Barclays Wealth.

Measuring impact:
How best to measure the third sector?

Pauline Hinchion *(www.scrt.scot)*

It is now becoming apparent that there is a disconnect between the types of social investment available, and the financial requirements of third sector organisations. This mis-match is creating an increasingly dysfunctional market with unrealistic expectations on both demand and supply sides, with the value of loans and investor returns at odds with the financial needs and repayment capacity of most organisations. As the social investment sector continues to develop, there is a need to avoid making similar mistakes around the emerging impact measurement scene and to do that it is crucial to explore 'how', 'who' and 'what' measurement is for.

Pauline Hinchion

Perhaps it was inevitable that as soon as the social investment concept started to gain traction that the thorny issue of measuring the impact of the investment would emerge. This is a move given added momentum by the establishment of the Social Impact Investment Taskforce in 2013. As a wide variety of measuring mechanisms and tools exist within the third sector, the ethical sector and now increasingly within the impact investment sector, the 'how' to measure was never going to be as problematic as 'who' it is for and 'what' is measured.

Not many within the third sector would disagree that measurement is good for organisations. Measurement can evidence what an organisation does and allow it to justify its charitable status and its values and ethos. Additionally, effective measurement can be used to win contracts, secure additional finances such as grants and investments, and to promote the organisation and its activities to a wide range of stakeholders.

Measuring impact is not new to the third sector. Indeed it has a long history of developing measurement mechanisms. As far back as 2004/5 there was the EU funded Guide 'Social Added Value'. In addition there are also 'Social Auditing' and 'Social Return on Investment' mechanisms along with the New Economics Foundation (NEF) 'Proving and Improving' model. With a focus primarily on 'Social Impact Measurement', NEF's model allows organisations to capture and articulate how their activities impact upon the social, economic and environmental issues they are set up to address. Equally, within the field of 'ethical investment', mechanisms such as ESG reporting (environmental, social and governance) exist and now in the 'impact investment' arena IRIS is one of the first mechanisms that exists to capture and measure impact as well as aid investors to make investment decisions.

Clearly there are many overlapping objectives between the measurement approaches of these three sectors. Measuring impact is thus a continuum of approaches that seeks to ensure that a financial decision produces the best outcomes for society as well as providing a return to investors. However, ultimately the three are not necessarily the same thing and recognising the distinction is fundamental if there is to be clarity on how to proceed with measuring the impact of the third sector.

From the outset it is important to recognise that measuring the impact of an investment is not the same as measuring the impact of an organisation. Although all third sector organisations strive to achieve triple bottom lines (economic, social and environmental), many of them prioritise one over the others and may receive investment based on this priority. Thus impact across the triple bottom lines might not be evenly spread. In a similar vein Alan Kay argues that measuring impact is not the same as measuring performance and in particular he argues 'impact measurement' does not take into consideration the organisational approach, values and ways of operation that makes the third sector different from other ethical businesses.

The emergence of impact investment raises questions such as how long do we measure the impact of an investment? Indeed without a counterfactual it is very difficult to ascribe actual impact to a specific investment in most cases. Equally should measurement happen only for the duration of the investment? It is well known that there is often a time lag between financial inputs and the actual impact from any investment and that time lag can be significant.

From the outset it is important to recognise that measuring the impact of an investment is not the same as measuring the impact of an organisation. Although all third sector organisations strive to achieve triple bottom lines (economic, social and environmental), many of them prioritise one over the others and may receive investment based on this priority.

There are also fundamental differences in terms of who and what the measurement is for. The 2014 'Measuring Impact' paper by the Social Impact Investment Taskforce made a very clear call for 'a standardised impact measurement and reporting system that enhances the availability of material, reliable, comparable, additional and universal impact data' combined with an emphasis on the traditional concept of 'accountability'. If the primary focus of impact measurement is standardisation so that assessments between third sector organisations, social investments and results are easily compared, determined and tracked, it will put the needs of the investor squarely at the centre. An approach championed by the Global Impact Investing Network (GIIN), 'IRIS is developed with the needs of impact investors in mind'.

However, it is crucial that third sector organisations are at the centre of any impact measurement. The third sector is as creative as it is diverse, with most organisations striving for a triple bottom line in addition to generating profit. Existing third sector based mechanisms such as 'social impact measurement' or 'social auditing' allows an organisation to measure what it does in a much more organic manner that better reflects the differing priorities, needs and approaches of the myriad organisational forms, culture, size and business model that constitute the third sector.

A further question for this debate to consider is the 'cost' of measurement. Who bears that cost should be directly linked to 'who' measurement is chiefly for. Good measurement, irrespective of method, is not cheap to undertake and it can devour financial and human resources. This is a cost not easily borne by many organisations in the third sector but there seems to be little consideration of cost in the development of new impact-measuring processes.

Equally the question of 'who' is driving the measurement agenda is fundamental in framing what mechanisms and methods will become the norm going forwards. Thus far it is fairly evident that representatives from the third sector are in short supply when it comes to shaping and influencing this agenda. To quote Nigel Kershaw of Big Issue Invest: *"My fear is people who don't understand what it's like to fight poverty in the trenches are now determining whether they will invest in people… I'm absolutely for measuring impact but I think it has to be quite light and it has to be the social enterprises themselves who determine how they do that. My fear is there will be people coming out of mainstream finance who are used to having really heavy-duty metrics who will start to impose their own idea on how we measure change."*

In summary, contrary to perceptions, measurement is not a new concept within the third sector and a number of tools are available to allow the sector to evidence and prove the impact it has on people, communities and the planet. However, there is a need to recognise that the newly emerging field of impact measurement is placing investor needs at the core of measurement and is in danger of ignoring the needs and the history of the third sector. If the third sector is not more involved in the development of impact measuring processes; if there is no recognition of existing third sector models and if the cost of measurement is not considered, it is highly likely that, like social investment itself, there will be a disconnect between what investors expect and what the sector can deliver.

Pauline Hinchion *has held various senior posts within the third sector over the last 20 years. She is currently Director of the Scottish Community Re: Investment Trust (SCRT), a new financial initiative that that seeks both to harness the third sector's collective financial assets and expertise and to provide a family of financial services and products relevant to the needs of the sector.*

The value of being human:
A behavioural framework for impact investing and philanthropy

Greg B Davies *(www.centapse.com)*

As investors increasingly seek to use their wealth to deliver positive social outcomes, as well as financial ones, the need to understand how emotions can affect decision-making is all the more valuable. How can investors strike the balance between combining their social objectives with financial goals? And what are the emotional and behavioural barriers both to donating wealth, and engaging with impact investing?

Building on our existing work as industry leaders in the application of behavioural finance to wealth management, we recently launched The Value of Being Human: a behavioural framework for impact investing and philanthropy. Our aim is to provide investors with a framework and tool to help them better understand themselves, their needs and how best to approach the complicated question of doing social good with their wealth.

Greg B Davies

The research that helped inform the development of this framework shows that investors are keen to embrace impact investing, but turning these good intentions into a comprehensive investment strategy is proving harder to achieve.

There is clear evidence of a desire to do social good through investments (almost two thirds of the respondents to our surveys expressed interest), but until now investors have been ill-equipped to navigate this complex area with any degree of confidence (fewer than one in ten had actively engaged). This means there is considerable untapped demand from investors to find clear ways of expressing their social preferences through their investment portfolios.

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To unlock latent demand for impact investment, we need to focus on the needs of the investor at least as much as on the supply of products. Just considering financial needs is complex enough; adding in social considerations is extremely daunting, so most investors keep things simple by expressing their social preferences only through philanthropy. Our framework seeks to help investors approach the appealing, but daunting, set of opportunities of the middle ground of impact investing with comfort and confidence.

However, ultimately we wish to help investors tackle the broader, more fundamental question: what is the best way to do social good with my wealth? This means helping them not just to approach impact investing, but rather the full range of options, from philanthropy, to impact investing, to traditional investing. It is essential that we include both philanthropy and impact investing; these are both viable options and we don't want to discourage philanthropic activity when promoting impact investing.

Although people are already clearly prepared to donate to charities, it is questionable whether the amount they give is sufficient to optimally satisfy their social objectives. Just as investors will shy away from impact investing unless there are clear guidelines about how to go about it and how much to do, in philanthropy most people lack a clear framework that enables them to work out how best to give.

As with most things in life, if we are unsure what the appropriate action is, our natural human tendency is to retreat from the problem, and as a result do less than we would if we had a clear mental anchor of the right solution. For example, evidence suggests that the amount people give is determined more by their income than their wealth. The result is that the wealthier people are, the lower the percentage of their wealth they donate.

Providing donors with a clear, and personalised, recommendation of how much of their wealth would be appropriate for them to donate each year will remove the seeds of doubt that result in people not engaging with philanthropy as much as they might.

We have already seen the effect of providing clear mental anchoring points for the super wealthy through The Giving Pledge campaign to encourage billionaires to donate at least half of their wealth. The very recent pledge of Mark Zuckerman to give away 99% of his Facebook shares in his lifetime provides a further mental anchor to encourage giving. With an anchor of what to aim for, people become comfortable with doing more.

Our framework, which was built on extensive statistical analysis of data from two surveys of nearly

1,000 UK respondents each, starts with 24 simple questions that provide each person with a profile of their social preferences relative to the population as a whole. This helps investors to understand their own attitudes and motivations. The next step is to turn each profile into a set of guidelines that gives each person a personalised recommendation for how they should set about structuring their wealth to align to their own social profile. We have tried to do the heavy lifting for people to give them a clear way of approaching these complex issues.

Based on their profile scores on three attitudinal dimensions, each individual is given a social budget of credits that they are encouraged to 'spend' each year by channelling their wealth to social good. The three dimensions are:

- **Social/Financial balance:** your willingness to trade-off financial outcomes for social outcomes
- **Moral duty:** your need to change society for the better
- **Personal satisfaction:** the emotional rewards you get from being involved and doing social good.

Individuals who show high scores on each of these dimensions are allocated a larger budget and low scores get a smaller budget. This aligns the recommendations to individuals' attitudes and what they are comfortable with.

Based on their profile scores on three attitudinal dimensions, each individual is given a social budget of credits that they are encouraged to 'spend' each year by channelling their wealth to social good.

The budget is then split between philanthropy and impact investing, again based on individual responses to questions that indicate the degree to which each is more comfortable with the immediacy and directness of giving money away, or with the idea of investing for good. The philanthropy allocation is then translated directly into a suggested percentage of wealth that the individual should donate every year. These values, which will typically be around 0.5% of total wealth per year, but could be substantially higher, have been calibrated by looking at the actual donation levels of individuals with each credit allocation and then increasing these somewhat. In other words, most individuals going through this framework will be encouraged both to think of donations as an annual percentage of wealth, not income, and also to somewhat increase their donation levels relative to their existing giving.

On the impact-investing side, the credits are also linked to how much of your wealth you would be prepared to forego per year. However, in this case each credit relates approximately to the financial sacrifice you would make to do social good, rather than an amount you would give away. This could be through giving up returns, through taking additional risk, or by committing funds for long periods of time, and thus sacrificing liquidity. The credits form a neutral currency that allows us to incorporate the full range of impact investments and product types.

Giving an investor a budget of credits to spend is a bit like setting yourself a daily calorie limit if you're dieting. You may want to consume no more than 1,500 calories, but you can choose whether to eat them all at once in one giant chocolate muffin, or whether to eke them out more slowly on carrots and celery. When we look at the range of things investors can do to use their credits, some require a substantial financial sacrifice (e.g. philanthropy) and some relatively little (e.g. ESG (environmental, social and governance) filter funds of traditional investments). Our framework allows investors to aim at the right level of sacrifice for them, while doing so with a mix of approaches that is most comfortable to them.

Overall, if investors follow the personal recommendations of our profiling tool and framework, they will typically increase somewhat their current level of charity donations, and in most cases give up an approximately equivalent amount of wealth annually through their impact investments. The average individual would more than double the annual flow of their wealth to socially beneficial activities.

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Some investors are also likely to help themselves financially through impact investment in a hitherto unrecognised way. Many have existing portfolios that are cash heavy, too liquid and too focused on the short term. By nature, many impact investments are longer term and less liquid. Putting money into these may not just provide social dividends, but could also encourage them to deploy cash that they have been unable to bring themselves to put to work, resulting in a better portfolio structure in purely financial terms.

Too much writing on impact investment has the underlying assumption that, 'if you build it, they will come'. Various ambitious projections based on a few years of growth – including one giving a six-fold increase in assets under management between 2015 and 2020 – are based largely on extrapolations of increasing supply. Instead, we suggest bringing more focus on investors themselves, to better understand what holds them back from a market that clearly interests them, adding to the current discussions and enabling the industry to achieve its potential.

Greg B Davies, PhD *is the Founder of Centapse – Decision Science, Applied. He is an expert in applied decision science and behavioural finance, turning academic insight into practical applications.*

In April 2016 he founded Centapse, a firm dedicated to applying sophisticated behavioural insight to design, develop and deploy solutions across industry to help people (and organisations) make better decisions.

Greg started, and for a decade built and led, the banking world's first behavioural finance team as Head of Behavioural-Quant Finance *at Barclays. He was the architect of Barclays' behavioural profiling tools and holistic Wealth Philosophy, delivering solutions tailored to both financial and emotional investment needs; and he designed Barclays' innovative behavioural approach to impact investing and philanthropy.*

He holds a PhD in Behavioural Decision Theory from Cambridge; is an Associate Fellow at Oxford's Saïd Business School; a lecturer at Imperial College London; and author of Behavioral Investment Management.

Greg is also the creator of Open Outcry, a 'reality opera' which premiered in London in 2012, creating live performance from a functioning trading floor. @GregBDavies

Investors can achieve market-rate returns and their social impact goals

Naomi Friend *(www.cambridgeassociates.com)*

Impact investing has come of age. Total assets in impact investments were estimated to be $60 billion at the end of 2014, with growth of 16 per cent expected in 2015, according to data from 146 respondents and collected by the Global Impact Investing Network (GIIN) in *Eyes on the Horizon,* its 2015 Impact Investor Survey.

Naomi Friend

There are two main drivers of this growth: one, asset owners have an increasing desire to invest responsibly; and two, there is a rising interest in using impact investing as an efficient way of meeting their social impact goals. According to the 2014 World Wealth Report, produced by Capgemini and the Royal Bank of Canada, 92 per cent of High Net Worth investors ascribe importance to driving social impact, with 60 per cent saying it is extremely important.

We are optimistic that investing for impact will move into the mainstream in the years ahead. Investors have an increasing awareness of the importance of environmental and social factors that have tended to be overlooked by traditional approaches to financial analysis. The UN-supported Principles for Responsible Investors encourage investors to demonstrate their commitment to responsible investment and to incorporate environmental, social and governance considerations into their investment decision-making and ownership practices.

Long-term asset owners – such as foundations and endowments, pensions and families – are becoming ever more thoughtful about aligning their investment portfolios with their mission and/or stakeholder interests. Questions are being asked about the long-term sustainability of 'growth' capitalism and asset owners are targeting solutions to environmental and social problems as well as financial returns through their investments. As an example, the focus on climate change is directly impacting portfolios as many investors look to reduce their exposure to carbon risk and invest in new technologies.

Until recently, one of the main impediments to the further growth of impact investment had been a lack of aggregated performance data. It was to address this problem that we, together with the GIIN, launched the Cambridge Associates Impact Investing Benchmark. Our purpose was to provide investors with credible data on risk and return to help them better identify strategies that suit their objectives.

Features of the benchmark

The Impact Investing Benchmark, which was launched in June last year, focuses on private equity and venture capital funds with an objective to achieve market rates of risk-adjusted return and an intention of having a social and environmental impact.

The benchmark is by no means perfect, since the sample size for this evolving market remains small. However, it represents an important first step, and as the industry matures, the dataset will become more statistically significant, providing an invaluable source of data on risk and return.

There are several notable features of the funds in our Impact Investing Benchmark. They tend to be small – just over half of the funds analysed raised less than $50 million. Also, they tend to be relatively young – over two-thirds of the funds analysed were launched in 2005 or later.

From a geographic and sector perspective, more than 50 per cent of the total assets of the funds have an exclusive focus on Africa, while over one quarter of the capital invested is focused on the financial services industry, reflecting the historically strong investor appetite for microfinance funds.

The investment themes include microfinance, employment, economic development, sustainable living, agriculture and education. Some 70 per cent of the funds have exposure to multiple themes, with the remainder pursuing a single theme.

Impact funds can make 'market-rate' returns

The headline finding is that *market-rate returns can be achieved*. It is a common misconception that investing for impact necessarily results in a below-market or 'concessionary' return. However, the Impact Investing Benchmark, which analyses funds launched between 1998 and 2010, demonstrates that strong financial performance is achievable. In fact, funds launched between 1998 and 2004 – those that are largely realised – outperformed funds in the comparative universe (which comprises non-impact funds). Over longer-time frames, the results are less compelling on an aggregated basis, with impact funds launched from 1998 to 2010 delivering a pooled return of 6.9 per cent (all figures represent net internal rates of return), falling short of the 8.1 per cent delivered by the comparable universe. It will be interesting to see if this picture changes as the dataset evolves and the younger funds are fully realised.

The strongest performers were the Emerging Market (EM) and smaller funds. EM impact funds returned 9.1 per cent to investors versus 4.8 per cent for Developed Market impact funds, while those focused on Africa performed particularly well, returning 9.7 per cent. Funds that raised under $100 million returned 9.5 per cent to investors, significantly outperforming similar-sized funds in the comparative universe (4.5 per cent). The larger impact investment funds (with assets of more than $100 million) underperformed the comparative universe. This raises the question of whether impact funds can deliver market rate returns beyond a certain scale – but given the small dataset, it is unfair to form hard conclusions at this stage.

Conclusion

We believe that the Impact Investing Benchmark represents an important step in advancing investors' ability to measure and evaluate the performance of impact funds. We are confident that it will help remove a key barrier to the growth of impact investing, and that the usefulness and applicability of this data will continually increase as the sample size grows and its track record develops.

One thing is very clear – impact funds can perform in line with top quartile non-impact funds but investors need to be aware of the significant dispersion between funds and dedicate appropriate resources to the selection process. Picking the right funds is critical for success.

Naomi Friend *is a Managing Director in Cambridge Associates' London office. She specialises in advising clients in Europe and the Middle East on investment strategy and portfolio management. Naomi is a member of Cambridge Associates' Mission Related Investing team, which supports clients to align their investment portfolios with environmental, social and governance concerns.*

Mixing it up:
Combining grants and debt to make social investment accessible

Ed Anderton *(www.access-si.org.uk)*

Ed Anderton

This article describes how Access: the Foundation for Social Investment is approaching the challenge of supporting social organisations to take on repayable finance, and their place on the 'philanthropic spectrum'.

Our creation is further evidence of the growing momentum for social investment in the UK. Created with the backing of Big Society Capital, Big Lottery Fund and the Cabinet Office, our team is charged with delivering a £100m-plus programme, over the next 10 years, to make social investment work for smaller and earlier stage social organisations.

The social investment that Access seeks to facilitate (working via intermediaries) is an unsecured loan, typically of around £40–70K, given to a charity or social enterprise (which will most often be taking on debt for the first time). Taking on that investment enables that organisation to grow and become more resilient by generating more revenue, or more diverse income streams resulting in greater social impact. Crucially, more of this income will be (that magic word) 'unrestricted': theirs to use as they see fit to support their social mission. And that flexibility also makes these organisations more resilient.

Underlying this objective is an acknowledgement that current income sources – grants and public sector contracts in particular – are becoming increasingly difficult to secure. They also, potentially, come with strings attached, which tend to pull organisations in different directions, putting at risk their focus on their core purpose.

We too are a grant funder, having been founded with a £22.5m grant from the Big Lottery Fund, and a £60m endowment from the Cabinet Office: they underwrite our 'Growth Fund' and 'Capacity Building' programmes, which are what we were created to deliver. We are, of course, unusual in that we are using this grant money to support charities and social enterprises to take on social investment. Importantly, the latter is in no way a substitute for the former: repayable finance is not a viable option for organisations who have falling revenues or exhausted their sources of grant income.

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It will, however, be appropriate for organisations seeking to develop new revenues, grow an existing income stream or looking to sustain their current operating model that is established and secure. The range of organisations in such situations is wide, with many different potential types of social investment available to supporting them, individually and as groups. Access has been given the task of providing the means to test some of these types of financing, and share what we learn as we go.

The Growth Fund will establish 15–20 loan funds, run by a variety of organisations, providing loans up to a maximum of £150K: these deals will combine debt provided by Big Society Capital with our grant funds from the Big Lottery Fund, although some deals may not include a grant component. For those that do, the maximum ratio permitted will be 50:50. The grant can be used for three purposes:

- To contribute to the fund manager's operating costs
- To blend with the debt to cover losses in the fund
- To be passed on as a grant to an investee organisation.

At the time of writing we have completed three Growth Fund deals – the Health and Wellbeing Challenge Fund (Resonance), The Northern Impact Fund (Keyfund) and 'Invest for Impact' (First Ark) – and look forward to announcing further deals in the coming months.

Alongside this, the £60m endowment will be spent down over the next 10 years, on grant-funded programmes to provide capacity building for charities and social enterprises who are seriously considering taking on repayable finance (again, typically for the first time). Between July and December 2015, we ran an open consultation with the sector, to inform our strategy: you can read a summary of our findings on our website here. These findings emphasise (among other things) the importance of engaging with existing communities of interest and practice, facilitating the growth of networks, and encouraging a culture of learning and iterative improvements within organisations.

We are pleased to be able to point to two major programmes we have launched, which have been informed by this consultation process: the Reach Fund, an investment-readiness grants programme, and the Impact Management programme, focussed on improving support, practice and consistency across the social sector. A third programme – the Infrastructure Investments Fund – will be opening up in early 2017.

We believe that the use of grant money across our two programmes to help stimulate social investment, especially at this relatively small scale, is essential but not a panacea. It does, of course, come with risks and inherent tension. Learning which methods of providing subsidy are the most effective, so that the precious grant is having the greatest impact, is a key aim of our work.

Across the Growth Fund, subsidy operates in three different ways to tackle three specific problems:

a) At the level of fund managers, subsidising operating costs allows them to manage the process of making and monitoring many small loans. However, it obviously means that funds are not used at the front line and may not always encourage new approaches to loan making.

b) In the fund, subsidy allows for the fund to incur significant losses while still repaying the debt, encouraging the lender to take risk and back organisations with potential but who are unproven. For charities and social enterprises seeking to borrow these relatively small amounts of money, there is a lack of evidence about how risky those loans are and what levels of default should be expected. Therefore, we hope to generate a significant new evidence base which will allow for more similar funds to be created in the future. The risk of using subsidy in this way is one of market distortion; however, at the present time it would be reasonable to argue that there is not a functioning market to distort.

c) In the deal, subsidy in the form of a grant sitting alongside the loan helps the charity or social enterprise to more readily afford the loan, and de-risks the total investment for them. However, the organisation should not see this grant as normal income but rather part of the capital investment to help grow. It should also be distinct from any grant received earlier in their investment journey as part of the capacity-building programme.

Our capacity-building programme provides a fourth form of subsidy, allowing organisations to pay for the development work needed to get to the point of taking on a loan. This is a widely recognised need and meeting it was one of the core reasons for Access being set up.

Together, these two programmes are designed to test, from a number of different angles, how grant funding can be combined with repayable finance in order to 'open up' social investment for a wide range of social organisations. Indeed, a crucial aspect of 'getting it right' for us and our delivery partners will be to quickly and accurately identify an organisation's potential for successfully using repayable finance to increase its social impact.

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Our interest is in those business models which can generate both financial and social value. This does not invalidate models of grant-funding and donations when they are the most appropriate choice for making social impact. However, we are tasked to contribute to the sector's understanding of itself by providing rich evidence for the value created through blended finance. The 'social investment spectrum' includes grants and donations, blended finance, loan finance through to social/impact or equity-like investment. Any of which may be directly or indirectly subsidised by grant-funded programmes, such as the Big Potential.

On this spectrum, our aim is to be a bridge between the constraints and unpredictability of grant-funding and the resilience and independence organisations can win for themselves through diversifying and generating their own income. For some, there may be a happy and stable medium, in which they combine thoughtful grant-application and fundraising alongside trading and managing an asset like a community building: for others, there may be a natural progression towards growth and operating at scale. The challenge for the latter may be to retain (and be seen to retain) the values upon which they were founded, as they inevitably take on some of the characteristics of purely commercial organisations.

For this reason and many others, we must also have an eye to the implications of our work for the private sector. Already there is a clear trend towards commercial organisations seeking to understand and implement 'social practices', driven by market opportunity, consumer demand or personal commitment. From Fairtrade through to B-Corps, social practice can, and has, become mainstream. As we seek to support social organisations to better understand and articulate their impact, the commercial world will be, increasingly, finding reason to do the same. If played astutely, this in itself represents a huge growth opportunity for our sector.

Both the challenges and opportunities before us – Access, and those organisations we wish to support – are considerable. Having been founded to exist for 10 years and no more, our work is usefully constrained: in order to fulfil our purpose we must operate through others, and seek at every turn to make ourselves dispensable. Success, ultimately, will consist in working through how this bridge needs to be constructed, and demonstrating how others – funders, investors, government, delivery organisations – can continue to be bridge-builders long after Access has ceased to exist.

Ed Anderton *joined Access in July 2015 as the Strategy and Policy Manager. His primary focus was managing an open consultation for its capacity building programme, alongside setting up systems and reporting processes.*

Prior to joining Access, Ed spent three years at Nominet Trust, the UK's leading #techforgood funder, where he led their involvement in the 360giving open data initiative, developed systems for their Triple Helix impact reporting process, and was principal researcher for the Nominet Trust 100. He began his career working in performing arts education, which led circuitously into community development, education consultancy, conflict resolution (mediation and training), and a stint in Whitehall (BIS) working on improving the regulation of the social sector.

Measuring your mission like your money

Doug Balfour *(www.genevaglobal.com)*

Measurement and metrics are an integral part of business. No company would get far without sales goals, progress reports, projections and spreadsheets. The old business maxim still rings true: if you can't measure it, you can't manage it. Yet that guiding principle largely seems to be ignored when it comes to philanthropy.

Doug Balfour

Geneva Global, was founded by two billionaire investment managers who were looking for professional philanthropic advice that met the investment banking standards they were accustomed to receiving. When they didn't find the level of transparency and measurement they were seeking – not to mention the investment mindset in which they wanted to approach their philanthropic work – they established Geneva Global in 1999. In 2008, I acquired Geneva Global from them, but our thinking and approach has stayed true to our origins: transparent measuring is crucial to effective philanthropy. We talk about demonstrating impact but this often has different meanings to different audiences.

Measuring for impact can be challenging

It's not that there's a complete absence of numbers and statistics, but for the most part, what you have is counting, not measuring. An organisation will, perhaps, report how many children were enrolled on the first day of school or tally the number of people who were fed in a given year, but there's no assessment of what was actually really achieved as a result. For instance, the children could all have dropped out of school, never returning after the first day. The figures describe intent, rather than defining impact. They are about activity, not results.

Another reason we see a lack of strong measurements is the fear of failure. Raising money is highly competitive, so organisations vying with each other for donor funds usually want to be seen as responsibly handling the money they are given.

This nervousness about being scrutinised too closely is all the more unfortunate when you consider that a certain amount of failure is an accepted fact in the business world. If you aren't having to re-evaluate, recalibrate and reassess, you are probably not being innovative enough to bring anything new to the market. Progress involves the occasional steps backwards. Businessmen and women understand that. As long as your overall momentum is forwards, missteps are OK.

Ironically, my experience has been that donors are more confident when they find themselves dealing with organisations that are more open in their reporting. Trust seems to go up when they are told, 'actually, this project didn't quite turn out the way we had hoped, and here are the reasons why'.

…donors are more confident when they find themselves dealing with organisations that are more open in their reporting. Trust seems to go up when they are told, 'actually, this project didn't quite turn out the way we had hoped, and here are the reasons why'.

Having systems in place that require some assessment of what happened can be beneficial in identifying situations and circumstances that may not be possible to avoid in the future but that can be planned or prepared for to some degree. In this way, a failure can actually help increase the likelihood of more future successes so that even the initial money isn't wasted ultimately. As Thomas Edison famously said, "I haven't failed. I've just found ten thousand ways that won't work."

Cause and effect certainly isn't always easy to quantify. But attempting to understand the data is important if organisations are to develop and improve so that they can do more tomorrow because of what they have learned today.

Thinking like an investor

For Geneva Global, our investment approach starts by helping donors identify the level of risk they are comfortable with and the kind of return they would like to see. Determining how, and where, those two criteria intersect requires a careful evaluation of the different options available. And once a choice has been made, like investment managers, we will go back to see if that area is performing as expected, and if not, consider whether that money needs to be redeployed elsewhere.

Another point is not to dismiss the emotional element involved in philanthropy, but to balance it. Passion is a prerequisite for wanting to bring about change, but applying a more business-like approach to philanthropic efforts – and therefore improving the results – can satisfy both the heart and the head.

To assist clients in making informed giving decisions, Geneva Global has developed a series of detailed evaluations for organisations and programmes. With the help of economists, analysts and statisticians, we have created stringent guidelines for vetting projects. Since 2001, we have used them to evaluate over 1,800 projects in more than 100 countries.

How to measure effectively

Because we believe it's important to set out specific goals and targets ahead of time, we're able to grade programmes at the end. Those that significantly exceed expectations are rated as 'overachieved'. Any that are within 20% of projections get classified as 'achieved'. Those that meet less than 80% of the benchmarks that were set are considered to have 'underachieved', while those that meet less than half the goals have 'failed'.

Another important part of our reporting is a cost-per-life-impact calculation. This attempts to work out how many lives have been impacted by the particular project and for how much per person. The figure can be weighed against costs for similar programmes run by other groups to see how it measures up.

Finally, we have developed a sophisticated, proprietary social-impact index that looks at how much wider societal impact a community development project may have beyond the immediate beneficiaries. Among the issues we consider in trying to evaluate the social-impact index are the degree to which a project impacts individual well-being and empowerment and in what ways social and cultural values that may contribute to existing conditions have been challenged or changed.

With the help of economists, analysts and statisticians, we have created stringent guidelines for vetting projects. Since 2001, we have used them to evaluate over 1,800 projects in more than 100 countries

We also ask, how well is this initiative supported by leaders of influence in the local community – the power brokers? How easily and well could this programme be replicated?

These are not easy questions. Some are more qualitative than quantitative, and there's the natural tendency for organisations in the field to self-evaluate on a curve when asked for feedback.

That has to be factored into the equation. We are now looking into ways of surveying actual beneficiaries, asking them directly how they feel about the services given to them to get a more independent evaluation. Even this isn't foolproof, of course. In some cultures, people are prone to telling you what they think you want to hear.

While measuring for impact can be challenging, having those kinds of cost and result details enables donors to make informed decisions about where, and how, they want their money to make a difference. It helps us judge just how much good has been done – and whether we may even be doing great.

Doug Balfour *As owner and CEO of Geneva Global, Doug provides expert guidance to foundations, corporations, individuals, and other organisations throughout the world who seek to apply a business mindset and results-oriented approach to their social impact efforts. With more than 25 years of experience in philanthropy, international development, leadership and organisational development, Doug brings a wealth of knowledge to his work with Geneva Global's clients. Currently, Doug sits on the boards of Capital for Good U.S.A., Capital for Good UK and the END Fund, and earlier this year he released a book, entitled* Doing Good Great.

Moving with the times: How venture philanthropists can help charities focus on impact

Jenny North *(www.impetus-pef.org.uk)*

These are uncertain times for the charitable sector. Charities are scanning the skies for the long-term effects of Brexit, and of the change in government. We've seen the high profile collapse of several well-established charities: 4Children in 2016, as well as Kids Company and the British Association for Adoption and Fostering (BAAF) in 2015. These have made for uncomfortable reading for both the public and private sectors, and especially for the children and young people who will no longer benefit from these charities' assistance.

The dual pressures of growing demand for services and a tougher environment for raising funds and obtaining grants mean high-growth charities may become victims of early success, because they fail to build in the impact disciplines and funding streams to sustain and finance high-quality service. Funders need to take a fresh view of their role, looking beyond the value of opening doors and bringing in big cheques to understanding what really drives sustainable impact and growth

At Impetus-PEF we have developed our own unique approach to the issue in our work as a venture philanthropy charity, to transform the lives of young disadvantaged people in the UK. Our Driving Impact model puts impact at the heart of everything we and our charities do, and in the last few years it's enabled us to help more charities grow their own impact. Our recent Driving Impact report, set this out in more detail.

Funders need to take a fresh view of their role, looking beyond the value of opening doors and bringing in big cheques to understanding what really drives sustainable impact and growth

And our approach is working: last year we delivered over £11m of value to our 20 plus charities, supporting over 80,000 disadvantaged young people facing some of the toughest barriers to success. In 2015 we made England's largest ever single venture philanthropy funding package, investing nearly £8 million of leveraged funding into three UK youth-focused charities: The Access Project, Action Tutoring and Resurgo.

The pressure is increasing for charities to become more accountable and effective. It's our responsibility as a sector to learn the lessons of what's led to these charities collapsing and encourage a shift in the approach to charity management and funding, to benefit all stakeholders.

Jenny North

Venture philanthropists can help charities by encouraging them to consider some of the following issues.

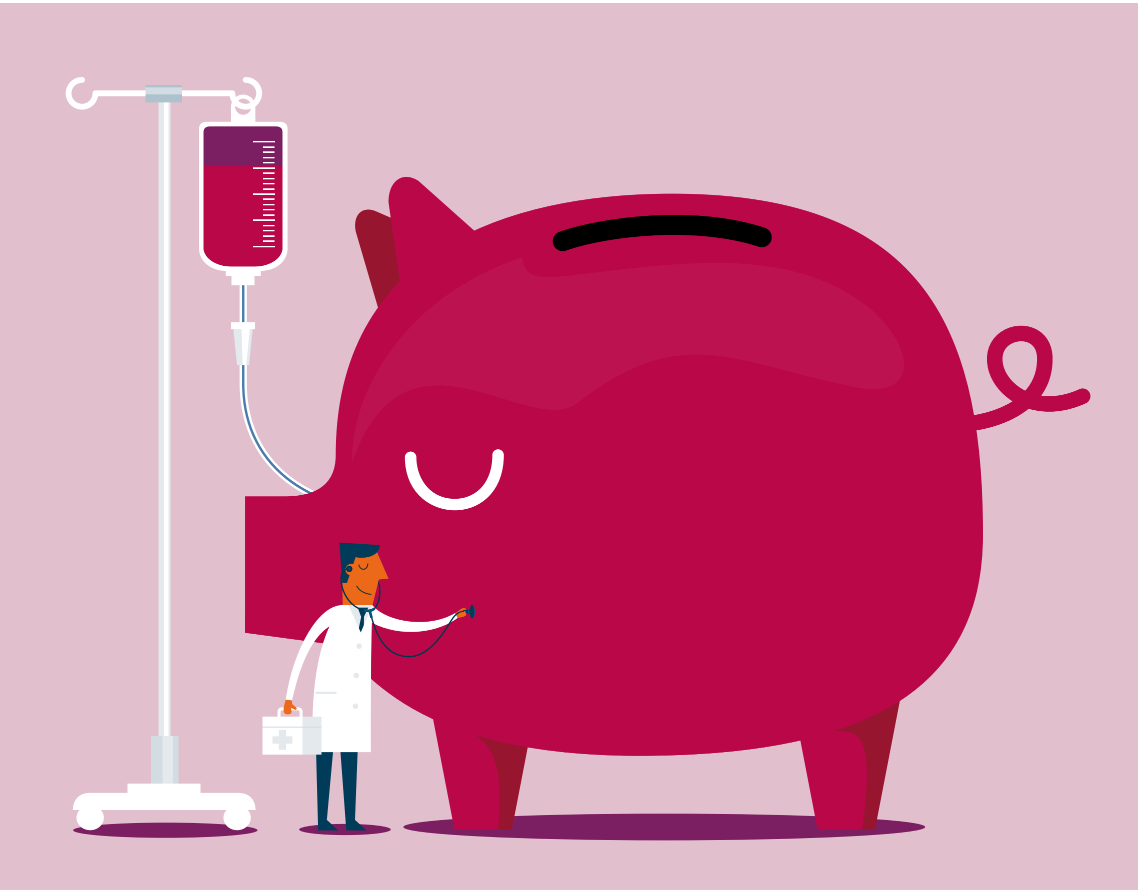
Making some tough decisions

Once a charity's commitment to becoming truly accountable for its impact on young people is decided upon, a series of tough decisions need to be made. VPs can help charities clarify their mission, which requires an honest assessment of impact to date, and a focus on how they will improve this going forwards – this self-reflection can prove daunting.

When answering the questions 'What outcomes are we trying to achieve?' and 'For whom?' it is essential that everyone in an organisation is aligned, from Board to frontline staff. When these choices are clearly understood and internally consistent they allow a charity to build a clear definition of who they will and won't enrol, the short and long-term outcomes they will seek to achieve, and to design a programme with a good chance of getting the people they serve, to those desired outcomes.

Implementing the changes

These tough decisions build a new operational blueprint for a charity – and while making these decisions may be tough, the real work begins in implementing them. Impetus-PEF supports our partner charities on every element of this – including rolling out the new programme, making new hires, and helping existing staff feel comfortable with the changes. A crucial element that can take considerable time is purchasing and implementing a data management system which allows all staff to collect, analyse and act on data about the progress of individuals through the programme. Performance management or accountability for every person served should be at the heart of everyone's jobs. Without the visibility of every person, and the ability to act on what the data tells you, such a commitment is meaningless. The importance of sound financial and HR procedures, along with an effective approach to fundraising are all operational areas that should be on VPs' radars when supporting the charities they work with.



Testing and evaluating

Preparing for and participating in external evaluation is essential for any charity committed to continual improvement and learning. A formative evaluation – one which assesses whether the people served, the activities delivered and the outcomes recorded match up to the decisions the charities made when we started working together – is crucial for identifying where practice is not as it should be and what effect this is having on the target population.

Preparing for and participating in external evaluation is essential for any charity committed to continual improvement and learning.

These results improve programme delivery and performance management, getting the organisation ready, ultimately, for a summative evaluation – ideally at randomised control trial (RCT) level, or as close as is feasible. VPs can incentivise charities to participate in robust formative evaluation before summative – avoiding the pitfalls of inconsistent implementation that lead many RCTs to return unclear or negative results.

Critical friend

The path towards helping charities better manage performance and impact is both long and full of obstacles. Trust between the charity's CEO and foundations should be built upon and prioritised. The legacy of 'dressing up' an organisation's impact for funders means that this can be initially hard. We believe that for VPs to be truly useful in increasing an organisation's impact they must ask the hard questions and stick around for the (sometimes) ugly answers – to use these as the starting point for building the missing capabilities which will ultimately align a charity's aims with their achievements. The impact of a VP is only ever as good as the impact of its partners, and can only be increased by ever more impactful partners – understanding how best to do this, is the priority.

As funders consider the challenge of helping charities place impact at the centre of their approach, it's important to remember it can take several years for charities to benefit from this change of focus. Yet when this is combined with effective performance management, scale can be quickly and effectively achieved.

***Jenny North** joined Impetus-PEF from Relate, where she served as Head of Public Policy for six years. Prior to this she held policy positions with Maternity Alliance and New Policy Institute. Her experience also includes working at the Home Office as crime and policing analyst. Jenny holds a degree in Philosophy and Theology from Oxford University.*

Achieving economic empowerment through system change: Evaluating what works

Jeroo Billimoria *(www.childfinanceinternational.org)*

Eliminating global poverty has long eluded the international community, governments and development agencies. While social and economic empowerment are the intentions of poverty-eradication efforts, often 'we paper over the cracks and layer yet more complexity onto an already complicated and confused system', perpetuating the cycle of poverty for millions worldwide.

Jeroo Billimoria

Child & Youth Finance International (CYFI) was launched in 2012 with an ambitious mission in mind: provide marginalised children and youth around the world with access to financial services, enhance their awareness of economic rights, and empower them to build their assets, invest in their future, and ultimately break the cycle of poverty. CYFI's goal is to equip today's youth so they can become the next generation of empowered Economic Citizens.

It was clear from the beginning that taking on the task of reshaping financial systems required a new way of thinking, and so CYFI looked to a longer-term Systems Change approach to meet our goals.

What is Systems Change?

Increasingly recognised within the sphere of social impact, Systems Change is picking up momentum amongst philanthropic actors as a viable approach to addressing large, complex issues. Many organisations and institutions are now realising the value of looking at the bigger picture in order to tackle the world's most pressing problems.

Many organisations and institutions are now realising the value of looking at the bigger picture in order to tackle the world's most pressing problems.

The complexity of the sustainability issues we face mean that a precise and methodical approach is needed to create long-term change. As an approach, Systems Change recognises that there is no one big answer to complex problems, but rather a plethora of smaller efforts working in harmony that propel the entire machine forward - the concept proposes that 'social problems are the product of network of cause and effect, and this must be reflected in the way we act to improve them'.

However, attempting to practically apply and measure the Systems Change approach can be an obstacle for many organisations. Despite consensus about the opportunities Systems Change offers as an approach, it is an abstract concept focused on identifying problems rather than solutions. This, coupled with a shortage of practical guidance, has meant the concept has posed a challenge in getting to grips with how to go about reshaping systems.

A key challenge for many change agents is choosing the right level, or levels, of scale for the changes they seek. The answer is often working at multiple levels: top down, bottom up, outside in and inside out. At the same time, it is possible to create conditions that take advantage of a system's capacity for generating creative solutions: foster collaboration, nurture networks of connection and communication, create climates of trust and mutual support, and encourage questioning and reward innovation.

A key challenge for many change agents is choosing the right level, or levels, of scale for the changes they seek. The answer is often working at multiple levels

Systems Change works by enacting change through the collaboration of multiple sectors, by implementing multiple activities across many levels, and by the leading organisation adopting multiple roles to address the various challenges and opportunities present within a context – as demonstrated in CYFI's approach to Systems Change.

CYFI's Approach to Systems Change

Over the past five years, CYFI has worked with global organisations such as the G20/GPFI and OECD on making financial inclusion of youth a key focus in the development agenda, fostered collaboration in each of the regions we work in, and supported countries and their governments in creating and implementing strategies to promote Economic Citizenship for youth.

To drive the necessary change to empower young people and combat cycles of poverty, CYFI has adopted a Systems Change approach, providing a leading example and case study on how the concept can support sustainable social and economic impact.

CYFI has found that utilising Systems Change as a means to enact sustainable change requires organisations to adopt a two-sided approach; firstly defining the issues and determining the supportive role they must play to enact change, and secondly identifying the change which has occurred. For CYFI, our roles and how this links with resulting changes in relation to Economic Citizenship are illustrated in Diagram 1 below.

Diagram 1: Linkage between CYFI's roles and the resulting activity within a country

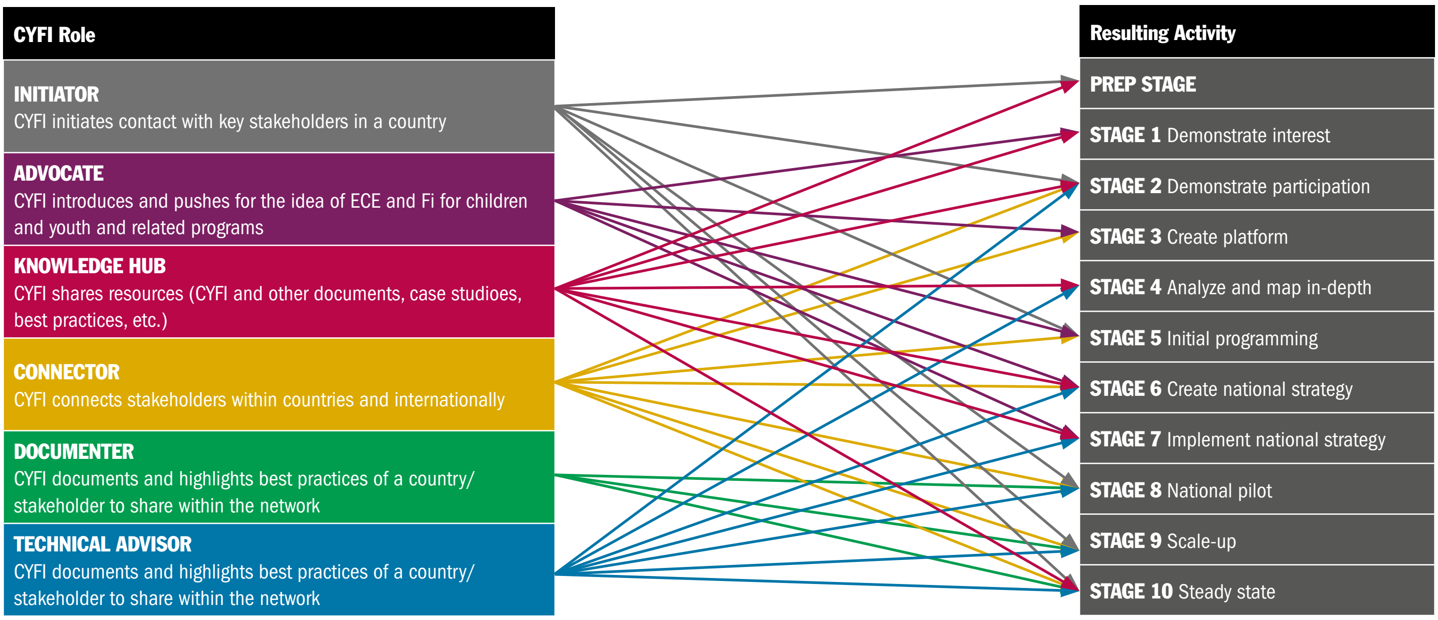


Diagram 2: Country stages and related activities

1 DEMONSTRATE INTEREST	1	**Express national interest**
	2	Brainstorm avenues of collaboration
	3	Determine CYFI's role
2 DEMONSTRATE PARTICIPATION	1	Participation of country in any summit or regional meeting
	2	Secure funding
	3	**Establish governmental working groups**
	4	Civil society led local initiatives and/or participation in GMW
	5	Participation of stakeholders from public and private sectors
3 CREATE PLATFORM	1	Organise youth consultation on national platform
	2	Identify objectives
	3	**Establish a national platform**
	4	Organise nationally-led awareness activities and/or Government-led GMW
	5	**Institutionalise national platform (including resources)**
4 ANALYZE AND MAP IN-DEPTH	1	Assess available mapping/resources
	2	Organise youth consultation on products, services, policies and programs
	3	3rd party or government mapping of products, services, policies and programs
5 INITIAL PROGRAMMING	1	A small-scale, initial effort that precedes a full-on pilot
	2	Nationally-led initiatives
	3	Monitor and evaluate
	4	Organise youth consultation on initial programming
6 CREATE NATIONAL STRATEGY	1	**Consult broad selection of stakeholders (including youth) on a national strategy**
	2	Design national strategy
	3	Develop implementation plan (roadmap, roles and responsibilities, M&E)
	4	Secure resources for implementation
	5	**Launch a national strategy**
7 IMPLEMENT NATIONAL STRATEGY	1	Organise youth consultation on implementation of national strategy
	2	Develop/adjust educational curricula
	3	Develop financial products for children and youth
	4	Adjust or promote child-specific/friendly regulations
8 NATIONAL PILOT	1	Prepare pilot
	2	Organize youth consultation on national pilot
	3	**Initiate pilot**
	4	Monitor impact of pilot
	5	Evaluate and adjust according to lessons
9 SCALE-UP	1	Secure funding for implementation
	2	**Implement on a national scale**
	3	Monitor and evaluate
	4	Organise youth consultation on scale-up
10 STEADY STATE	1	Organise nationally-led awareness activities and/or Government led GMW
	2	**Monitor results consistently, including long term impact**
	3	Institutionalise periodic youth consultation on products, policies and programs
	4	Re-evaluate and adjust periodically
	5	Publish report on strategy, successes, failures etc.

The various roles CYFI plays relate directly to identifying the state of Economic Citizenship within a country and determining the support needed to accelerate Economic Citizenship for youth.

Therefore, depending on which stage a country is at on initial contact from CYFI, the activities undertaken will support systemic change to propel Economic Citizenship for youth forward. CYFI will then work to efficiently engage with and develop existing mechanisms present within a country to create a sustainable and cost-effective use of resources where possible. The division of activities per stage can be seen in Diagram 2.

For CYFI, adopting this two-pronged strategy as part of our Systems Change approach has enabled us to pay attention to the smaller systems to identify opportunities and challenges present within a country, whilst also monitoring changes to the larger system. As such, measuring impact of our support and activities undertaken helps CYFI to identify where there has been sustainable change and where further support is needed.

Measuring impact

Effectively measuring systemic change is challenging – particularly with regard to assessing long-term impact during the process and tangibly gauging to what extent a system has and is being reshaped.

To understand the impact of our work, together with the help of Deloitte, CYFI created a Diagnostic Tool to track a country's progress toward systemic change between the years of 2012 – 2015 in areas of youth economic citizenship. This impact evaluation tool also allows CYFI to efficiently monitor its unilateral and collaborative actions in relation to a given country.

Combining a CRM system, Salesforce, and a data visualization tool, QlikSense, the resulting impact evaluation matrix has helped CYFI to simplify complex data and make it possible for CYFI to measure impact and identify correlation between our work and the sustainable change present in countries in relation to Economic Citizenship for youth.

CYFI's key findings include:

- In the period of 2013-2015, CYFI helped 57 countries move 177 stages through 2,186 activities, averaging three stages and 47 unique activities per country
- A different range of activities are needed in Africa, Latin America and MENA in order to create change than in Eastern and Central Europe (EECA) Western Europe and Asia.

- Creating systemic change takes between four to eight years, varying from context to context

Our key findings illustrate a clear correlation between the supportive role of CYFI, our Systems Change approach and the resulting changes within each country.

The Diagnostic Tool provides insight into the impact of short-term support for countries, but will also continue to feed into our long-term overview to present sustainable impact as a result of our Systems Change Approach as we move forward with our 2016 – 2020 strategy.

Securing sustainable impact with Systems Change

While CYFI currently provides one of the few examples of best practice, as Systems Change continues to gain momentum further case studies on what works and why will guide the philanthropic sector in tackling the world's biggest issues. Systems Change not only provides organisations with a means to tackle complex solutions through an inclusive, causality-driven perspective, but also offers a cost-effective and sustainable approach.

We have also found that it is possible to incentivise partners and collaborators around supporting systemic change at a range of levels, in addition to our work in supporting countries with enhancing Economic Citizenship for children and youth. Highlighting the crucial collaborative nature of Systems Change, advocacy-related events such as Global Money Week (GMW) and The Global Inclusion Awards create awareness and a call to action for individuals, communities, institutions and organisations alike to align interests and strategies for create far-reaching social impact.

Systems Change not only provides organisations with a means to tackle complex solutions through an inclusive, causality-driven perspective, but also offers a cost-effective and sustainable approach.

With the support of our global network, CYFI has effectively utilised a Systems Change approach to tackle our complex mission to empower children and youth worldwide. Over the past five years we have used our Systems Change approach to identify the root causes of youth-related poverty, create a roadmap for action and propel joint actions around the cause. As CYFI enters into our 2016 – 2020 strategy, we will use the lessons learned from our Systems Change approach to evolve how we continue to tackle the financial and social issues facing youth and create real systemic change.

Jeroo Billimoria *is the Founder and Managing Director of Child and Youth Finance International. Jeroo is considered among the world's leading social entrepreneurs and is now working on her ninth entrepreneurial venture. She is a Skoll awardee, and an Ashoka and Schwab Fellow. Among her organisations are Childline India and ChildHelpline International which have facilitated a global movement for the protection of children and youth and is active in more than 181 countries – having responded to over 160 million calls. Her previous organisation, Aflatoun, has been recognised among the world's top 50 NGOs.*

In a space of three short years, Aflatoun succeeded in working with global partners to provide social and financial education to over 1 million children in 84 countries. Jeroo is now heading CYFI and building a Child & Youth Finance Movement to ensure financial inclusion and Economic Citizenship Education for 100 million children and youth in 100 countries.

Understanding risk and success in social impact bonds

Pedro Sampaio and Kevin Munday *(www.thinkforward.org.uk)*

The social impact bond (SIB) is a promising new funding mechanism within the impact-investing sector but how does it work? Private investors provide the upfront capital to fund a social intervention and commissioners (typically the government) repay the investor when, and if, an agreed-upon outcome is achieved. Investors typically risk their capital if outcomes are not achieved. So this isn't really a bond, but the name is catchy.

In the UK and continental Europe, SIBs are being used primarily to experiment with new interventions, such as the programmes commissioned by the UK's Department for Work and Pensions Innovation Fund to support disadvantaged young people. In the US, however, 'pay for success' initiatives are generally used to scale existing evidence-based programmes.

Following the launch of the first SIB in the UK in 2010, much was written to describe the mechanics, structures and challenges of implementing new deals. Over 40 SIBs have been launched since then – in the UK, US, Australia, Canada, Netherlands, Belgium, Portugal and Germany.

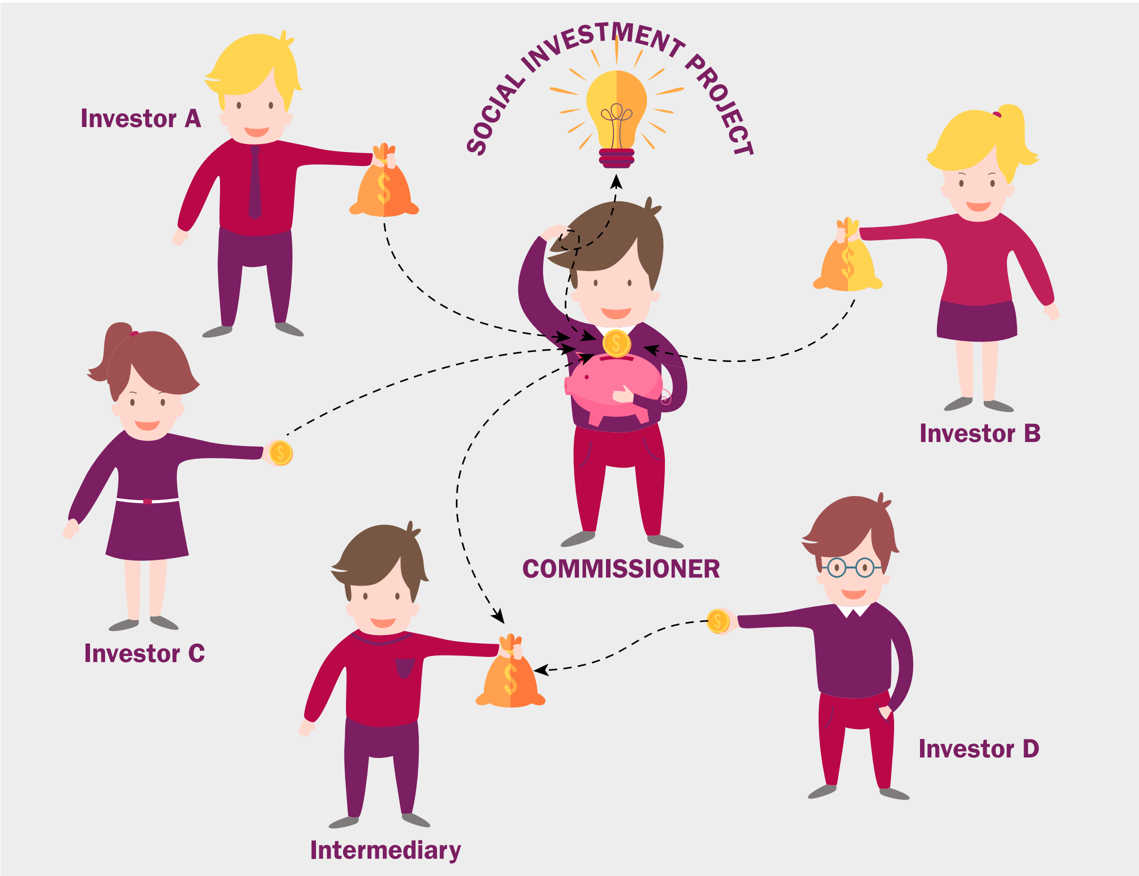
As investors crowd-in and the first round of SIBs have been completed, the buzz is less about how to design them and more about whether they have worked. What are the lessons from the first SIB deals? What should investors and advisors know about measuring success and risks within SIBs?

As investors crowd-in and the first round of SIBs have been completed, the buzz is less about how to design them and more about whether they have worked.

Based on our experience developing SIBs, we have identified some key lessons. Firstly, investors should be aware of the risk that SIBs may not reach completion as planned. The first SIB in the world was launched in the UK in 2010 with the One Service in Peterborough Prison. It was designed to fill a gap in the UK criminal justice system by supporting short-term prisoners and preventing their reoffending. Social investors invested £5m in a project meant to run for seven years. But in 2014 the Ministry of Justice announced a decision to restructure the provision of probation services nationally and the Peterborough pilot was brought to an early close.

Pedro Sampaio

Kevin Munday



The New York Times (Wall St. Money Meets Social Policy at Rikers Island) reported a similar outcome for the first SIB in the US, launched in 2012 to support high-risk adolescents detained at Rikers Island, the New York City jail. In this case, it wasn't the change of heart of policy-makers but implementation issues: the control group fell apart as wardens 'could not separate teenagers who were to participate in a course of cognitive behavioural therapy from those who were not supposed to attend', and then there was the failure to recruit the teachers required to carry out the therapeutic programme after the city's Education Department pulled out.

Was this a total failure? Investors will certainly be disappointed: Goldman Sachs had invested $9.6m with a 75% guarantee from Bloomberg Philanthropies. But from the perspective of the City of New York, it wasn't a disaster: the city had tested a new intervention at scale with the benefit of a rigorous evaluation and then walked away without spending any taxpayer money.

So another key lesson for investors is the importance of focusing part of their due diligence around their partner's record of, and ability to, recruit beneficiaries and frontline workers. At ThinkForward SIB, our programme in London helps more than 1,000 at-risk young people aged 14 to 19 years to complete their education and transition into work. The challenge of recruiting beneficiaries was partially solved by working inside schools. ThinkForward SIB carefully selected partner schools where teachers were committed to refer, and give access, to students. And when it came to staff, ThinkForward investors took a conscious decision to pay a competitive salary to frontline workers in order to secure the most talented applicants.

When SIBs reach maturity and investors receive payments linked to outcomes, a further set of questions arises: how to compare results across SIB deals? What is the relationship between financial return and social impact?

The promise of SIBs (and impact investing in general) is to align financial return with social impact, but one does not always imply the other.

Last year the New York Times (Success Metrics Questioned in School Program Funded by Goldman) reported how early-education experts questioned the validity of the impact results associated with a Utah pre-school programme designed to help 109 'at-risk' kindergarten children avoid special education. Goldman Sachs reported a $260,000 payout from the SIB but, according to the NYT, critics argued that the programme's unusually high success rate (99%) was based on a 'faulty assumption that many of the children in the programme would have needed special education without the preschool, despite there being little evidence or previous research to indicate that this was the case'.

The promise of SIBs (and impact investing in general) is to align financial return with social impact, but one does not always imply the other

This issue arises when validation of outcomes is not dependent on a control group or counterfactual assessment and there is the possibility of 'creaming', that is, enrolling participants who are easiest to work with and to achieve outcomes. As not all SIBs will run a control group – it is not always practical, ethical or cost-effective – impact investors must appreciate the limitations of linking the achievement of an outcome (say avoiding special education) to impact (the degree to which the outcome resulted from the intervention).

In the case of the ThinkForward SIB, while the payments were not linked to a counterfactual, we worked with the Education Endowment Foundation to carry out a pilot randomised controlled trial (RCT) with randomisation at school and pupil level. This evaluation, which is separate from the SIB work, aims to identify quantitative evidence that the ThinkForward intervention is having a positive impact on education attainment and other outcomes.

A clear relationship between financial return and impact is also complicated by some pricing strategies. Sometimes commissioners link payments to a set of outcomes. In the case of the DWP Innovation Fund, for example, its rate card set a price for ten outcomes per participant. DWP would pay for improved attendance at school (up to £1,400 per participant), entry into employment (up to £3,500 per participant) and for other outcomes linked to improved employability. The outcomes in the rate card are important, but not all are equally relevant. A sophisticated impact investor will want to know if the financial return is driven by less important outcomes, say passing one GCSE at school (DWP pays up to £1,100 per participant), or is the result of achieving more socially meaningfully outcomes such as securing employment for 26 weeks (DWP pays up to £2,000 per participant).

Another challenge with some payment structures is that they pay for the same outcomes, even if the programmes or the people the programmes target are very different. For example, a 12-week employability programme may be effective with young people who are work ready, but those further from the labour market may require longer interventions to achieve the same employability outcomes. The pricing structures don't always recognise these nuances. Over time we hope that commissioners' pricing will be better targeted, reflecting different levels of support needed to get different groups of people to the same outcome. Until then, investors who want to support the hardest to reach may need to accept lower financial returns.

Social impact bonds have opened up government funding streams to delivery partners that would otherwise not have been able to access payment by outcomes financing, and nudged up expectations of managing to impact. However, the challenges reviewed above suggest that SIBs should not be seen as the perfect tool for measuring social impact. Ultimately, investors, commissioners and delivery organisations must define and measure success, and hold themselves accountable to the objectives laid in their own organisational missions.

***Pedro Sampaio** joined Impetus-PEF in 2012 and leads the performance management and evaluation work at ThinkForward. He is deeply involved in social investment, having managed the ThinkForward Social Impact Bond and he is part of the Social Investment Laboratory that developed the first SIB in Portugal. His experience also includes working at Big Issue Invest and Credit Suisse in London. Pedro holds a degree in Economics from the University of Porto.*

***Kevin Munday** is the founding Director of ThinkForward, a programme providing young people with long-term and intensive support to ensure that they make a successful transition from school to work. ThinkForward is currently being incubated in Impetus – The Private Equity Foundation and, as well as leading and developing the programme, he does some other work with them as an Investment Director. In 2014 he was appointed as a Clore Social Fellow.*

Low-bono consulting with social impact at its core

Clare Stevens *(www.ey.com/egs)*

In early 2013, EY established Enterprise Growth Services (EGS) – a global programme which sends EY consultants overseas to help promising social impact businesses overcome obstacles and accelerate to their next stage of growth.

Clare Stevens

Teams work on-the-ground, on projects lasting from 2 to 12 months, mostly in sub-Saharan Africa, supported by EY's global network of technical experts.

The programme has helped:

- Solar companies improve their sales teams' effectiveness
- Sanitation businesses scale up successful experiments
- Logistics organisations improve food security
- Agri-businesses make markets work for smallholder farmers.

Social impact: out of the wings and on to centre stage

With over 7 billion people in the world, most goods and services are targeted at the 3 billion rich and middle-class. To generalise, the remainder, living on less than $8 per day, are trapped in an informal economy and struggle to gain access to basic services such as clean water, sanitation, or affordable education and healthcare. However, there's an exciting wave of exceptional 'social entrepreneurs' who are creating ultra low-cost, highly scalable businesses to tackle these previously intractable problems.

Small businesses increasingly dominate the economic life of most developing countries and social entrepreneurs are at the heart of this movement. Social entrepreneurs are the driving force behind the rise of enterprise models serving the poor as customers rather than passive recipients of aid. However, lack of capital, limited management capacity, poor infrastructure, and challenging legal and regulatory environments all contribute to low business survival rates. The social enterprises that make it out of their start-up phase are often unable to grow beyond the capacity of the entrepreneurs behind them.

...there's an exciting wave of exceptional 'social entrepreneurs' who are creating ultra low-cost, highly scalable businesses to tackle these previously intractable problems.

Every minute, a child dies somewhere in the world from the effects of drinking dirty water. One of the inspiring businesses the programme works with to tackle this devastating statistic is Jibu. They work with local entrepreneurs across East Africa to set up profitable franchises that solar-sterilise water and then sell it to low-income customers at a fraction of normal prices. The programme helped Jibu develop the financial and operational infrastructure it needs to grow quickly and sustainably across the region.

We find our social enterprise clients by working with impact investors, such as Acumen, who offer patient capital to businesses that have the power and potential to change the lives of millions of people.

Frontier Markets, which operates across Rajasthan, is supported by Acumen and is working to enable rural, 'base of the pyramid', populations in India to switch sustainably and affordably from dangerous and polluting kerosene to solar for their energy needs. Its products have reached 150,000 end customers so far. Although the addressable market is huge, adoption of solar products is slow because cash-constrained customers perceive solar to be unreliable, and there is a lack of last-mile infrastructure to market, deliver and service solar products. We worked with Acumen and

Frontier Markets to generate actionable insights from their current customer data in order to inform product strategy and marketing decisions and better serve the needs of their customers.

Equally, in tough funding conditions, many NGOs have, and continue to, set up social enterprises, or impact-investment platforms as part of their activities to facilitate growth and ensure longevity. One of these organisations is Access to Capital for Rural Enterprises (ACRE). ACRE is a consortium of international NGOs working together to identify enterprises with high socio-economic impact in the global south and helping them with tailored packages of support and finance. Amar Desh Amar Gram (My Country My Village) was an early recipient of ACRE's support. Amar Desh is bringing the concept of e-commerce to rural Bangladesh, directly connecting more than 5,500 rural producers to urban buyers in Dhaka and beyond via its 'amardesheshop.com' website. Amar Desh enables these men and women to earn much higher incomes than they would through more traditional value chains. EGS helped them develop a growth strategy to target at least 15,000 producers, to provide many more rural communities with sustainable income.

Consciously or subconsciously, social impact considerations are shifting from the periphery to the core of organisations and their operations. Big corporates are no exception. At EY we are passionate about working with impact investors, foundations, non-governmental organisations and multinational corporations to find high-potential small and growing businesses, like Jibu, Frontier Markets and Amar Desh who are changing lives in low-income communities; supporting them to accelerate this extraordinary socio-economic transition.

Consciously or subconsciously, social impact considerations are shifting from the periphery to the core of organisations and their operations.

Until very recently there were almost no examples of such social impact organisations, yet now, there are almost too many to count. These entrepreneurs have incredible vision and work immensely hard to play their part in this transition. They are the lifeblood of low-income communities, tackling problems often ring-fenced as being too difficult. Helping them to operate more efficiently and grow sustainably means helping to solve some of the world's most pressing challenges.

Low-bono consulting

There are good reasons for choosing a 'low-bono' approach. Firstly, if clients pay for support, even at a fraction of the commercial rate, they are more likely to be engaged to get their money's worth; steering the consultants in the direction of their priority problems to make effective strategic improvements.

There is also a risk that, when corporates offer pro-bono assistance, they have preconceived ideas (often subconsciously) of how they intend to do so; therefore it is important to be demand-led by starting with client needs. As fees are charged, consultant engagements are subject to contracts – creating an expectation of consultants with appropriate skills to match the job and the same high standards as any mainstream commercial project. This makes sense, as young growing companies all face different challenges, often specific to their locality, which require a real spectrum of skillsets in order to be addressed successfully.

By charging low fees, a proportion of the substantial costs can be covered, allowing the programme to operate on a not-for-profit, not-for-loss basis. So the programme can be sustained and grow to a far greater scale than could be achieved with a pro-bono model that typically relies on a limited budget.

***Clare Stevens** joined EY's Enterprise Growth Services earlier this year to support its growth strategy. Her main responsibilities include resourcing, sourcing opportunities, operational support, scoping engagements and event management. Prior to joining EGS, Clare qualified as a chartered accountant with EY's Corporate Tax department.*

Does mission motivate employees?

Professor Mirco Tonin *(https://sites.google.com/site/mircotonin/)*

A company mission can act as an important motivational driver, provided there is alignment with the values endorsed by its employees. It would be a mistake, however, to leverage only on intrinsic motivation to recruit talent.

Suppose somebody asks you to build a series of identical Lego models and pays for your effort based on how many you assemble. Would it make a difference whether the pieces you have completed are left to accumulate on your working desk or are disassembled immediately after completion? Why should it make a difference? After all, you can reasonably expect that all models will be eventually disassembled. Does it matter whether this happens now rather than later? This is the setting of a study by psychologist Dan Ariely (from Duke University) and co-authors[1] and what they find is that with immediate disassembling (aptly labelled the Sisyphus condition) people complete 30% less pieces than when models are left to accumulate (the Meaningful condition). This illustrates how motivation is a subtle concept and, yet, a central factor in any organisation.

Mirco Tonin

Motivated by doing good

Working for a company that, in the words of Google founders, 'does good things for the world' can potentially represent an important motivational driver for its employees. Sometimes this element is inherent in what the worker does – think about being a frontline nurse for a charity devoted to children welfare – while in other cases this motivational element can emerge in a more indirect way, depending on how a company does what it does. This can be the case, for instance, when firms introduce corporate social responsibility policies.

To find out whether there is indeed a motivational element to corporate social responsibility (CSR) policies, Michael Vlassopoulos (from the University of Southampton) and I hired more than 300 students to perform a data entry task involving bibliographical records.[2] This is a rather mundane task, not particularly rewarding in itself, and we paid students a wage with a fixed component, plus a bonus based on performance.

Working for a company that, in the words of Google founders, 'does good things for the world' can potentially represent an important motivational driver for its employees.

We then compared the boost in productivity arising from stronger monetary incentives, in the form of a higher bonus, to the increase in the number of entries associated with the provision of intrinsic incentives, in the form of a donation to a charity chosen by the student. This donation could either be contingent on productivity or a lump sum. What we find is that associating the job with a charitable donation increases individual performance by an average of 13%. This is less than what is achieved by an equally costly increase in monetary compensation, but the difference is rather small. Moreover, it does not really matter whether the donation is contingent on productivity or not. This suggests that what the donation does is to enhance a worker's identification with the job by providing meaning to an otherwise repetitive task. Finally, leaving students freedom to choose whether to allocate some of their compensation to a charity, rather than imposing the donation, reveals that half of them are willing to do so, with women exhibiting a higher propensity than men. These findings are consistent with surveys showing how firms with CSR activities have a more committed workforce and are more attractive for jobseekers, in particular among more qualified prospective employees.

But what does "good" mean?

People are, of course, diverse in their values and beliefs, so, what is commendable and worthwhile for some, may leave others indifferent (or worse). This puts to the forefront the issue of alignment between the mission pursued by an organisation and the values of its workers. A recent study by Jeffrey Carpenter and Erick Gong (both at Middlebury College, in the US) nicely illustrates this problem. In conjunction with the 2012 US presidential elections, they first surveyed students about their political preferences. Approximately two weeks later, they hired students to stuff letters into envelopes, with a random assignment to either the Republican or Democratic campaign. Thus, some participants experienced alignment between the mission and their own preferences, whereas others were assigned to work for a campaign they did not support. The consequences on productivity are striking: alignment increases productivity by 72% compared to mismatches. Adding a bonus contingent on the number of stuffed letters makes up a large portion of the loss in output due to mismatching, while it does not affect productivity for cases where there is alignment. Financial incentives can thus partly compensate for misalignment, but they are, of course, expensive.

Recruiting through mission?

If the mission of a company can act as a motivational driver for an employee who shares the same values, should a company then leverage on its mission when recruiting? This sounds like a no-brainer, but some recent evidence casts doubts on this conclusion.

In 2010, the government of Zambia wanted to hire 330 people for a newly created position in the civil service, the community health assistant. The job mainly concerned the visit of households in underserved areas to provide health care services. This is the type of job where intrinsic motivation could potentially play an important role. So, should the recruitment drive appeal to this? To find out, the government partnered with Nava Ashraf (from the Harvard Business School) and co-authors and randomised the message of the recruitment campaign. In 24 of the country districts, the recruitment poster highlighted the social aspects of the job ('Want to serve your community? Become a community health worker!'), while in the other 24 districts, the message was geared towards career opportunities ('Become a community health worker to gain skills and boost your career!'). They then measured the qualification of candidates, finding that candidates with very high qualifications were virtually absent in districts with the social message. They also tracked performance of people actually hired to do the job for one and a half years. What they found is that candidates hired in districts underlining career opportunities, rather than the social aspect of the job, performed more visits to households, even holding individual characteristics like qualifications constant. It thus appears that the appeal to the social dimension of the job backfired, holding back high performers.

The conclusion that extrinsic incentives like career opportunities or salary are not detrimental to motivation is also borne out in a study in Mexico conducted by Ernesto Dal Bó (University of California, Berkeley) and co-authors. They looked at the recruitment of community development agents across 106 Mexican sites in 2011. The job consists of identifying areas where public good provision is deficient, and working with existing public programmes and local authorities to remedy these deficiencies. Again, these are jobs with a very strong social mission and there may be a concern that offering high extrinsic incentives, like high salaries, may attract people exclusively driven by money, with low intrinsic motivation. To verify whether this is indeed the case, they introduce random variation in the salary offered: in some localities, the posted wage was approximately $500 a month, a good salary given the local labour market conditions, while in other localities, the posted wage was 75% of that. Their findings show that high salaries actually attract better candidates, both in terms of skills and, crucially, in terms of intrinsic motivation.[3]

To conclude, the evidence suggests that people are indeed motivated by the mission of the company for which they work, but that it would be a mistake to rely only on this to recruit (and retain) talent. Extrinsic incentives like salaries and career development plans are not in contradiction with a motivated workforce, but may act as a complement to a strong mission.

[1] *Ariely, Dan, Emir Kamenica, and Dražen Prelec. "Man's search for meaning: The case of Legos." Journal of Economic Behavior & Organization, 2008: 67.3, pages 671-677.*

[2] *For more details, see: Tonin, Mirco and Michael Vlassopoulos, "Note to bosses: workers perform better if you give to charity", The Conversation, January 2015 https://theconversation.com/note-to-bosses-workers-perform-better-if-you-give-to-charity-35873*

[3] *An extended discussion of these issues, including a bibliography with references to the studies discussed here, can be found in this open access article: Tonin, Mirco. "Are Workers Motivated by the Greater Good? Evidence from the Private and Public Sectors", IZA World of Labor, 2015: 138 http://wol.iza.org/articles/are-workers-motivated-by-the-greater-good*

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Do endowments matter in analysing the relationship between money and mission?

Heather Grady *(www.rockpa.org)*

There has been a significant movement towards social impact investing by many philanthropic foundations over the last five years, for a number of reasons. First, there is a recognition by many foundation leaders that they must expand their 'philanthropy toolbox' to include debt or equity investment, in addition to grants, for at least some of the organisations they support.

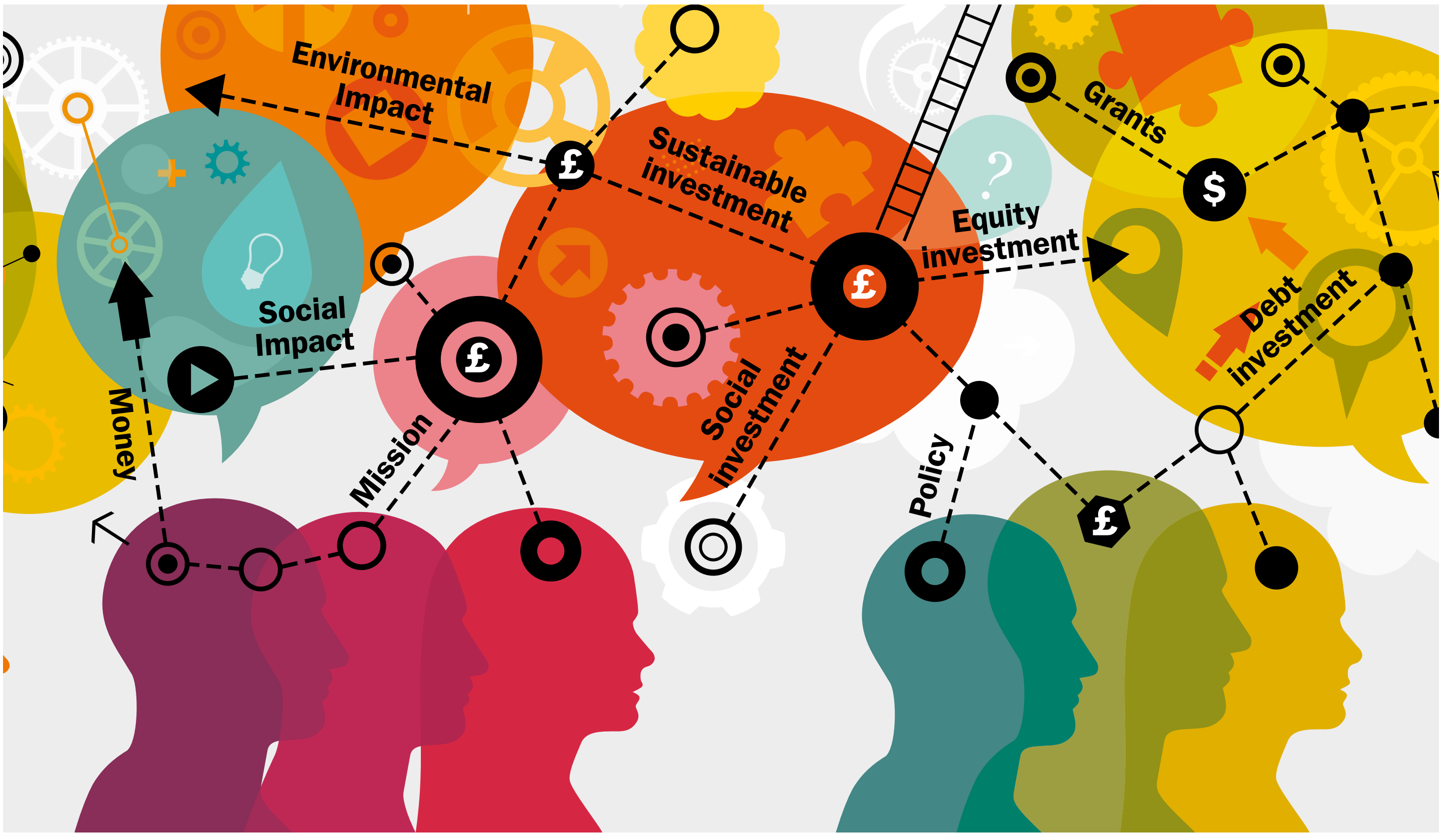
Heather Grady

Second, many funders come from the growing class of entrepreneurs and investors and have greater confidence in social enterprises and market-based solutions than in grant-receiving charities or governments to foster sustained social change. Third, the expanding number of both for-benefit enterprises, as well as hybrid social organisations who *earn* a portion of their revenue, provide exciting financing opportunities for social investors. And fourth, the networks and platforms that provide information on social investment opportunities and potential deals are growing.

There has been a significant movement towards social impact investing by many philanthropic foundations over the last five years

Slower to pick up adherents is a movement to encourage foundations to use an increasing proportion of their investment assets, particularly their endowments, for social purpose – rather than prioritising growth through the highest financial returns possible. In 2008, Rockefeller Philanthropy Advisors published one of the first works on Mission-Related Investing (MRI), sensing that a policy and implementation guide for foundation trustees was a necessary contribution to the field.[1] Recommendations included aligning the MRI strategy with programme impact goals; creating processes that are practical, disciplined and transparent; and tracking and monitoring results – 'even if imperfectly'. [2]

In the eight years since, there has certainly been some movement in this direction. In the US, where a long-standing law requiring that at least 5% of a foundation's endowment be used annually for charitable purposes (averaged over a few years) has come to represent not a *minimum*, but more of an *average*, some foundations have committed to doing more. The Heron Foundation, Jessie Smith Noyes Foundation and Rockefeller Brothers Fund (with their 2014 *Divest-Invest* campaign commitment) are just some of the many foundations that have moved their endowments fully or partially towards positive social and/or environmental impact. An early 2014 study by the US SIF Foundation noted that, 'more than 100 US foundations today pursue some form of sustainable and responsible investing, an investment discipline that considers environmental, social and corporate governance criteria to generate long-term competitive financial returns and positive societal impact.'[3] They used data from a 2012 survey of US institutions that identified 95 foundations applying one or more economic/social/governance criteria in selecting investments for their portfolios, covering assets of about $60 billion (about 9 per cent of the estimated total), and a dozen shareholder resolutions filed by foundations aimed at improving their portfolio companies' ESG practices.[4] At the same time, that survey found that less than 1 per cent of the 90,000 or so foundations in the US were engaging in socially responsible investing. And much of this type of investing is still exclusionary screening (the 'do no harm' approach), rather than more intentional impact investing into social enterprises and for-benefit



businesses, including the increasingly popular category of B Corps.[5]

A study by the Center for Effective Philanthropy published in May 2015, analysing 60 foundations making at least US$10 million in grants annually, found that 80 per cent of them neither screened out negative investments nor used a portion of their endowment for impact investing.[6]

The UK context is somewhat different. A 2013 study by the UK Association of Charitable Foundations concluded that the foundation sector had played a significant role in building the UK social investment market in the previous decade. It estimated that charitable foundations had provided about £100m of risk capital (though just ten foundations with endowments exceeding £100m provided nearly 90 per cent of that amount).[7] The link between having an endowment and doing social investment was strong, as 15 of the 17 foundations that had made social investments have endowments, generally the larger ones. The study pointed to relevant factors: endowments that were not restricted in terms of permanence, with flexible mandates (not restricted to supporting registered charities), and foundations with larger staff who could handle this newer type of work.[8]

The reasons for the somewhat cautious movement by foundations cluster around a few factors. One is behaviour. A foundation board that sees its fiduciary responsibility in a certain light may be loath to risk a different investment path, since it is so much easier to measure financial performance than positive social impact. A second factor is tradition. Foundation board investment committees and long-term investment advisors to foundations, whether internal or external, may lack the skills related to social impact investing. If they are not willing to adapt to these kinds of emergent requests (as some foundations have discovered), they will be the last to convert to new approaches to investing. And a third factor is policy. In countries where fiduciary responsibility is characterised by selecting the highest-return, lowest-risk investments, decision-makers at foundations often adhere as close to official policy as they can.

The irony is that, while the foundation sector prides itself on responsiveness and dynamism in choosing what to do with an annual programming budget, the sector is relatively conservative in how it deploys its far, far greater endowment assets (currently estimated at Euro 80 billion in Europe alone). But at the meta level of assessing the relationship between a foundation's mission and its money, the importance of considering the 'total foundation' approach is likely to increase.

The challenge for the philanthropy sector will be how to seize the expanding opportunities, manage public expectations, and build the confidence of more foundations to explore social impact investment approaches with the totality of their resources.

The irony is that, while the foundation sector prides itself on responsiveness and dynamism in choosing what to do with an annual programming budget, the sector is relatively conservative in how it deploys its far, far greater endowment assets

As foundations consider how to link money and mission, it is likely that scrutiny of foundations' use of their endowments in the US, UK and elsewhere will grow. First, the continuing efforts of groups like the UK-sponsored Social Impact Investment Task Force, led by Sir Ronald Cohen, will ensure that some attention stays focused on the foundation community and their significant endowments. Second, public attention on where the wealthy place their assets in times of fiscal austerity – especially when tax-privileged – will contribute to this attention as well. Third, the change in US policy in September 2015 allowing fiduciaries of foundations to invest not just in what is most profitable, but what can advance a foundation's charitable purpose, removes a key reason why some US foundation boards were cautious. Fourth, the growth of 'spend-down' foundations has challenged the idea that a founder's legacy is best created by maintaining and growing foundation assets in perpetuity. And fifth and perhaps most important, the next-gen cohort of the philanthropic sector is already proving to be much more interested in the 'total foundation' approach to achieving social impact than their parents' generation were.

All of this points to the strong likelihood that the social and environmental impact of foundation endowments is going to become a more visible lens of assessment of foundations' performance and contribution to society. The ACF study referred to above suggested that, in addition to more suitable deal flows, fully half of those already engaged in social investment felt that of most use would be greater internal capacity in terms of staff and trustee skills and time, and secondly, collaboration with other foundations or membership in peer support networks. Fewer than 25 per cent of them felt that advice from mainstream investment managers would make a difference. But 33 per cent of those not yet engaged thought greater expertise from mainstream advisors would be of greatest help.

Both philanthropic and financial advisors who are knowledgeable about how to help foundations move in this direction will position themselves in the forefront – not in catching-up mode – of what could be one of the most important trends in philanthropy in the decade ahead.

[1] *Mission-Related Investing: A Policy and Implementation Guide for Foundation Trustees. Rockefeller Philanthropy Advisors, 2008.*

[2] *Mission-Related Investing, p. 87.*

[3] *Meg Voorhes and Farzana Hoque, Unleashing the Potential of US Foundation Endowments: Using Responsible Investment to Strengthen Endowment Oversight and Enhance Impact. (Washington, D.C.: US SIF Foundation, 2014), 4, http://www.ussif.org/files/Publications/unleashing_potential.pdf.*

[4] *Ibid, page 4.*

[5] *For more information see www.B-labs.org.*

[6] *Phil Buchanan, Jennifer Glickman and Ellie Buteau, PhD, Investing and Social Impact: Practices of Private Foundations (Cambridge: Center for Effective Philanthropy, 2015).*

[7] *Nikki Jeffery and Richard Jenkins, Research briefing: Charitable trusts and foundations' engagement in the social investment market. (London: Association of Charitable Foundations, 2013), page 4.*

[8] *Ibid, page 15.*

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Foundation investment:
Integrating money and mission

Alana Petraske and Hugo Walford (www.withersworldwide.com/en-gb)

Philanthropic foundations typically seek to deliver public good from private wealth over the long term, with many pursuing an investment strategy aimed at perpetuity and tailoring their grants programme to match.

While some foundations developed ethical policies to bring investment activities in line with their mission, overall the historical norm has been to view charitable grant making and the investment of foundation assets as almost entirely distinct. However, the recent growth of social investment – with an estimated value of over £200 million – is now encouraging foundation trustees to consider merging money generation and social impact, and a new statutory power to engage in social investment exemplifies the UK's public policy in this area (see Philanthropy Impact, Issue 10 Part 1, p48).

...the recent growth of social investment – with an estimated value of over £200 million – is now encouraging foundation trustees to consider merging money generation and social impact

Keen (or curious) foundation trustees do not have an easy path to tread, however. Though guidance has been issued by the Charity Commission and institutions such as Big Society Capital, trustees considering social investment can be forgiven for confusion around terminology and mechanics. And one cannot fully fault trustee cynicism about the discrepancy between the amount of discussion of social investment and its actual practice.

This article takes a high level look at social investment by charitable foundations, highlighting the legal and practical considerations for trustees and senior foundation managers to consider.

Alana Petraske

Hugo Walford

Some social investment basics

There is no universally agreed definition for 'social investment'. In the UK context, the phrase usually describes any investment that generates both a social and a financial return, but it is sometimes used to refer more narrowly to 'programme-related investment' where financial return is decidedly secondary. In this article, the term is used to refer to the provision of repayable finance which achieves some degree of both a social impact and financial return.

Social investment most commonly consists of the provision of loan finance to a charity or social enterprise, which in turn repays the loan over an agreed term, sometimes with interest. Equity investment is possible where a foundation wishes to subscribe to shares in a social enterprise, for example. In addition, 'quasi-equity' is often used to refer to scenarios where a foundation investor is entitled to receive a portion of revenues. Quasi-equity arrangements are typically used where traditional equity is not possible because, for example, the investee is formed as a company limited by guarantee and cannot issue shares.

Social investment's framework

As a means to generate money and deliver a beneficial mission, social investment occupies the space between grant making and pure financial investment, ranging quite widely. It is worth recapping the different requirements and matters for trustees to consider when contemplating grant making or financial investment:

- **Grants** can only be made by trustees in furtherance of a foundation's charitable objects. Trustees will be focused on issues such as whether the intended application falls within the foundation's charitable purposes, and considering imposing appropriate terms on the grant to ensure proper application to the agreed purposes. Achieving a significant impact which furthers the foundation's objects will be at the forefront of the trustees' mind.

- In contrast, **financial investment** can only be made by trustees in accordance with their legal powers and duties, including as set out in the foundation's governing document (which typically requires advice to be taken if needed and diversification to be considered), and the trustees' general duties (to preserve the foundation's assets, and act with due care and prudence; overall to act in the foundation's best interests). Trustees will be focused on the bargain to be made: the reliability of the intended investment, the attributable risks, the potential for financial return, and – generally speaking – in maximising the invested assets as prudently and safely as possible. Achieving a strong and secure financial return for the foundation will be the overriding objective for the trustees.

With the above in mind, one can start to appreciate the broad ambit of social investment. Breaking the category down into its three main subcategories – programme-related investment (PRI), mixed motive investment and financial investment with a social impact – can help to clarify it.

Programme-related investment

As the above table illustrates, programme-related investment (PRI) sits immediately beside grant making, and is centred on delivering a foundation's mission. PRI involves the trustees making an investment that:

- Can be justified on the basis that it is *wholly* in advancement of the foundation's charitable objects
- Is for public rather than private benefit

Figure 1: SocialPioneers' Transformation Evaluation Framework ™ (STEF)

Application of funds	Requirements	Return	Public benefit requirements?	Falls within objects	Investment requirements/ duties?
Financial investment	Must be made in accordance with the powers set out in the foundation's governing document and the trustees' duties	Solely financial return	No	No	Yes
Financial investment which achieves a social impact	Must be made in accordance with the powers set out in the foundation's governing document and the trustees' duties. There's a social impact, but the risk profile justifies the investment	Financial return first and foremost, but with some degree of social return as well	No	No	Yes
Mixed motive investment	Must be for the achievement of a social impact and for a financial return (despite not being justifiable as PRI or financial investment)	Both a financial and social return	Yes	No	No, but needs holistic consideration, careful planning and detailed measurement of social and financial return
Programme Related Investment (PRI)	Must be in line with objects of the foundation	A social return, and some degree (or at least the possibility) of financial return	Yes	Yes	No
Grant making	Must be in line with objects of the foundation	Solely social return	Yes	Yes	No

- Generates, or at the very least has a possibility of generating, a financial return.

PRI, much like a grant, cannot be made if it would fall outside the foundation's purposes. Therefore, the key question for foundation trustees is whether they would be able to make a grant as an alternative to the proposed investment. If not, the investment cannot qualify as PRI, and would need to be justified either as a financial investment or as a mixed motive investment in order to proceed.

In considering PRI, trustees should weigh up if the investment would be the best way of advancing the foundation's aims. Particularly, they should investigate and understand the likely financial return, and in view of that ensure that foundation funds are applied appropriately (i.e. not excessively invested into a risky venture, with much riding on financial return).

If trustees decide to undertake PRI, there is no requirement that they must seek the maximum risk-adjusted financial return, as would be the case were they to consider making a financial investment. Trustees can therefore engage in PRI despite higher risks and/or lower financial returns than other investments available in the market.

Trustees should, however, undertake careful measurement of the social impact of their PRI. They will want to ensure that the foundation's objects are being furthered effectively by the PRI (especially if the attributable financial return is negligible), so as to ascertain whether the PRI is a justifiable means of advancing the foundation's mission.

The various competing 'impact measurement' methodologies are outside the scope of this article, but foundation trustees must grapple with the issue of measuring social return in respect of grants as well as PRI.

Financial investment with a social impact

This type of social investment overlaps with financial investment, and – apart from the fact a social impact is also achieved – is otherwise identical in nature to financial investment; it is primarily focussed at generating money for the foundation which can then be used to further its purposes.

Such investment does not fall within a foundation's objects, but rather is justified wholly on the basis of risk-adjusted financial return. While the trustees may give preference to an investment which would generate a desirable social impact over one that would not, the bottom line must be the viability of the investment. If it cannot be justified as the best financial return available within the level of risk the trustees consider appropriate (in accordance with the investment provisions in the governing document, the investment policy and the trustees' general duties of care, prudence and acting in the foundation's best interest), then it cannot be justified as financial investment.

In making a financial investment with a social impact, trustees will need to monitor the financial health of the investment. Should they conclude that financial return to the foundation has not been nearly as advantageous as it could have been with alternative options in the market, it will be difficult to justify continuing with the investment, unless it could perhaps be justified as mixed motive investment.

Mixed motive investment

Mixed motive investment is the most complex form of social investment from a legal perspective, being not only hard to define, but sitting as it does the greatest distance away from grant making and financial investment.

A mixed motive investment is essentially one which provides:

- A social impact (although one not falling within the foundation's objects)
- A financial return (although one which is not quite viable enough on its own to justify the investment).

In other words, it is an investment which cannot qualify as PRI or financial investment, because it would not further the foundation's purposes or offer the best risk-adjusted financial return.

Helpfully, the Charity Commission does recognise in its guidance that trustees are able to receive a discounted financial return on investment. Furthermore, the acceptance of greater risks or lower expected returns in exchange for bigger social impact is becoming increasingly common for charities. Nonetheless, the stakes are high with regard to mixed motive investment, and include criticism and/or accusations of trustees having failed to adhere to their duties, or even having mismanaged charitable funds.

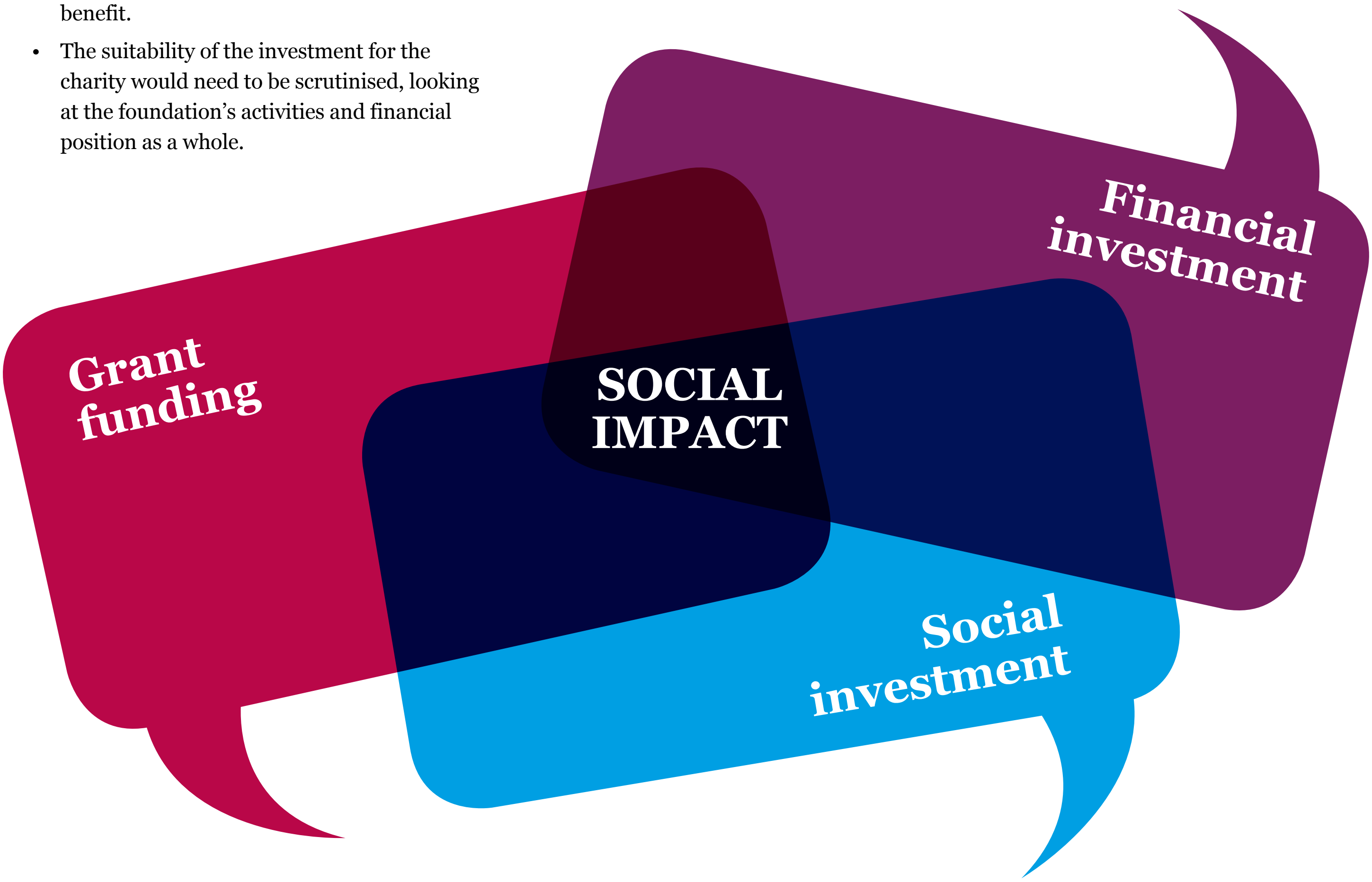
Having established what it is not (i.e. PRI or financial investment), the challenge is then to establish exactly what a planned investment is. The trustees should view the investment holistically, in order to evaluate its merits – this is best achieved by a detailed examination of the proposed investment from all angles, weighing up its risks and benefits.

- The trustees will want to identify the social impact of the investment, and estimate its extent as accurately as possible. The more clearly the trustees can quantify what the probable social impact would be, the more able they will be to weigh it against the reduction in financial return.
- The social impact will be easier to justify as a counter-balance to reduced financial return if it relates to the foundation's objects. If the social impact bears no relation to the foundation's purposes, the case for the investment being in the interest of the charity is weaker than if a correlation could be made between impact and purposes.
- The trustees will need to ensure that no inappropriate private benefit would be generated by the proposed investment, and – like PRI – that the investment is for public benefit.
- The suitability of the investment for the charity would need to be scrutinised, looking at the foundation's activities and financial position as a whole.
- Above all, the trustees would need to be sure that undertaking the investment would be in the best interest of the foundation.

Having decided to make a mixed motive investment and recorded the reasoning for doing so, measuring the investment's impact – both financial and social – will be very important for the trustees. If an investment is failing to deliver on either of its dual objectives, it would be difficult for the trustees to justify continuing it as a mixed motive investment. Trustees will want to consider and refer to Charity Commission guidance on approving the investment and should consider taking advice as needed.

And so….

The growth in social investment in the UK has led to the development of a permissive regime, one that presents viable alternatives to the traditional dichotomy of grant making or financial investment. However, this is still a developing area, and mixed motive investment



in particular presents a challenge for trustees – in classifying, determining and justifying – as well as a risk should insufficient analysis or thought be engaged in to render decisions defensible.

Foundation trustees are, of course, not bound to consider social investment but those ignoring its development are surely closing off an avenue for delivering public good. Social investment can, and does, sit alongside traditional grant making and can in some circumstances enhance a foundation's ability to achieve its mission.

Trustees must grapple with some new terminology and should keep the considerations described above at the forefront of their minds. However, if trustees' analysis is appropriately thorough, justification for a particular type of social investment is carefully recorded, and money generation and mission achievement measured and reviewed regularly, trustees can have little to fear, and much to gain, from steering their foundation towards this new and fast expanding domain.

Alana Petraske *advises families, businesses, institutions, and the charities they establish on a range of issues including tax-efficient giving, structuring of charitable and non-profit entities, venture philanthropy and social investment. She has a particular interest in family involvement and succession issues in family philanthropies, as well as the interplay with family business, and a deep experience advising universities and other institutions on their international operations.*

Alana also focuses on international issues facing both donors and charities, including governance for global charitable groups, cross-border operations and gifts, local recognition of foreign organisations, and the establishment of US/UK 'dual qualified' charities which enable tax-efficient giving in the US and the UK.

In addition, Alana advises giving intermediaries, including donor-advised funds, community foundations, 'friends of' organisations and Study Abroad programmes. She has experience advising on a wide variety of operational matters including: grant making, fundraising, sponsorship and trading, constitutional reorganisations, campaigning and elections, tax, governance, FATCA and Common Reporting Standard classification, and regulatory matters generally.

Alana is ranked in Chambers and Partners for charity law and for charity law and education in Legal 500, where she is noted for her 'passionate expertise'. Alana is also ranked in Citywealth and Superlawyers for charity law.

Hugo Walford *advises charities, not-for-profits and other organisations and individuals on charity law and commercial matters.*

He has worked with a range of charitable bodies (both incorporated and unincorporated) on issues including governance, constitutional concerns, regulatory matters, mergers, setting up trading subsidiaries and general operation.

Hugo has particular experience with advising individuals and organisations on establishing and registering charities, and on fundraising and internal structure, as well as on the formation of dual-qualified US/UK charities.

Philanthropy Impact

Join us in our vision to *increase philanthropy and social investment across borders, sectors and causes*

Why *join us*

'I believe Philanthropy Impact has a key contribution to make as a forum to encourage more – and more effective – philanthropy and social investment through the exchange of ideas, spreading knowledge and improving the professional advice available. This is more important than ever.'

LORD JANVRIN Deputy Chairman
HSBC Private Bank (UK) Ltd

Since 1998 Philanthropy Impact has been delivering services to professional advisers and other key stakeholders including philanthropists, trusts, foundations, and charities. Our vision, as a charity, is to increase philanthropy and social investment across borders, sectors and causes.

We provide resources and learning opportunities to professional advisers and other sector stakeholders in order to enhance their expertise, awareness and influence in increasing the level of philanthropy and social investment. Philanthropy Impact's 2014 – 2017 strategy as a centre of competence and impact encompasses growth by:

- Supporting advisers, ensuring they are equipped with best-practice philanthropic and social investment knowledge for discussion with their clients
- Organising learning events seminars for members and interested parties
- Creating networking opportunities to enhance understanding amongst advisers, philanthropists, social investors, trusts, foundations and charities
- Providing know-how, reports and analysis on philanthropy and social investment
- Disseminating information that raises awareness about best-practice amongst advisers
- Collaborating with third parties to support the development of philanthropic and social investment practices relevant to advisers and their clients
- Advocating for philanthropy and social investment internationally

Participants find events 'essential', 'highly educational' and 'inspiring'

FOR PROFESSIONAL ADVISERS

We produce a range of resources to support advisers, donors and their families:

- Opportunities to meet and network with professional advisers, philanthropists, trusts, foundations and charities
- News and updates on philanthropy, social investment and corporate giving
- Support to help fulfil CSR mandates and improve employee engagement in philanthropy
- Bespoke initiatives and advocacy activities to promote philanthropy and social investment
- Tailored professional development programmes

FOR NON-PROFIT ORGANISATIONS AND PHILANTHROPISTS

We offer a range of resources to help non-profits improve their social impact:

- Free access to our network through roundtable discussions with expert speaker panels and topical subjects.
- Opportunities to engage with members and increase influence through publications, events and advocacy initiatives
- News and resources on charity governance, giving trends and social investment.

Philanthropy Impact exists for the benefit of its members. We welcome any suggestions or contributions at **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
or call our team on **0207 430 0601**

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Membership *benefits*

STANDARD MEMBERSHIP LEVEL
For-profit Organisation: £1,375
For-profit Organisation (regional and international): £990
Non-profit Organisation: £325
Non-profit Organisation (regional and international): £215

PREMIUM MEMBERSHIP LEVEL
Membership Level
For-profit Organisation: £1,650
For-profit Organisation (regional and international): £1,170
Non-profit Organisation: £395
Non-profit Organisation (regional and international): £300

STANDARD MEMBER BENEFITS

- Priority registration and free attendance for events, all of which can be used for self-certified CPD
- Access to Member-only roundtable discussion groups
- Discounted bookings for partnership events and annual series
- Complimentary subscription to Philanthropy Impact Magazine and access to magazine archives online
- Regular news on philanthropy and social investment topics through our Member newsletter
- Published profile for your organisation on our Membership Directory webpages
- Access to a range of resources and publications available on the Philanthropy Impact website
- Programming, speaking and hosting opportunities for events
- Opportunities to join advocacy activities with influential stakeholders on tax planning, legal structuring, new giving initiatives and innovation in service delivery

PREMIUM MEMBER BENEFITS

- All standard membership benefits
- An enhanced profile on the Member Directory
- Organisational listing on the Guide to Giving– a decision-making tool to assist advisers and individuals to develop a giving strategy
- Marketing support and thought leadership opportunities through publications, events and advocacy
- Exclusive access to high-level invitation-only events on social investment and philanthropy topics
- Full access to resources and publications available on the Philanthropy Impact website

How to *join us*

Philanthropy Impact exists for the benefit of its members.
To find out more about member benefits including free event registration, partnership opportunities and free resources please visit our website **www.philanthropy-impact.org** or call our team on:
+44 (0) 20 7430 0601

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