UK NAB on Impact Investing – 2018 Call to Action International Development Convening

On January 24th, we convened a diverse group of more than 40 senior executives from leading UK organisations, all committed to using their respective financial capital, human capital and intellectual capital towards a more inclusive and sustainable society. Our immediate task was to convert into action the recommendations set forth in Chapter 5 of the UK NAB 2017 Report: The Rise of Impact: Five steps towards and inclusive and sustainable economy. The specific challenge for the day was to identify concrete steps that can be taken in the near-term to breathe life into the recommendations and to accelerate progress among a growing community of actors and stakeholders.

Under the able stewardship of Vaughn Lindsay, Amy Clarke and Sarah Forster, the group not only accepted the challenge but delivered real results that set forth a gameplan for 2018. The group split into 3 groups with each group focusing on one recommendation. Each group produced a specific Call to Action with recognition of the linkages between and among the 3 recommendations.

I. CDC should visibly ‘champion’ investment in developing markets, engaging externally to coordinate and lead other recognised UK-based investors

CDC’s credibility as a potential champion derives from its experience as a successful investor across sectors in numerous emerging market countries and with a range of investment instruments. In considering the role of a “champion” for international development, the group highlighted the expectations of a champion to: (i) engage, inspire and mobilise others to act; (ii) lead by example often as a first mover on new initiatives; (iii) publicly advocate and raise the profile of the community and the purpose of international development; and (iv) promote learnings and successes of the various members of the community. CDC is prepared to embrace the role of “champion” and has agreed to specific actions.

2018 Action Plan:

1.1 Sharing of Data
   o CDC is sitting on an extensive repository of data from many years as an investor. This information would be valuable to other investors in order to better assess the risk/return profile of investment opportunities, particularly in parts of Africa for which there is little reliable track record
   o Although the available information will be financial data and available the impact data will be very limited, CDC is committed to starting with what it has and leading the way for other DFIs to share their data

1.2 Sharing of Dealflow
   o CDC has extensive dealflow and origination capability. They have not systematically opened that dealflow to other investors, but are now looking at how best to do so
   o The initial focus is likely to be within the funds business of CDC where CDC’s participation in any fund is capped at a certain percentage

1.3 Interface with other UK players
   o CDC will proactively reach out to other players in the UK to spur interaction between UK actors focused on domestic impact investing and those focused internationally. These players will include Big Society Capital and UK intermediaries and non-governmental organisations (NGOs)
   o The initial focus will be on topics that span domestic and international impact investing including impact measurement frameworks and experience with Social Impact Bonds
1.4 UK Shareholder relationship
   o One of the strongest assets of CDC is its shareholder. Working closely with its shareholder in the context of international development investment is a priority and could tackle specific issues (e.g. positive regulatory environment for mobilization of local investors)
   o This strengthened relationship will be a signal to others, including co-investors and counterparties, of the importance the UK places on and its commitment to international development

II. Asset owners – from individuals to foundations to institutional investors – should put more capital to work using the SDG framework, as well as utilise innovations from the impact investment sector such as outcomes contracts

While recognising the power of the SDGs as a universal framework for investors of all types, the group identified a number of barriers to greater capital deployment in the SDGs: (i) regulatory barriers and specifically narrow interpretations of fiduciary duty; (ii) impact transparency and accountability with the real threat of ‘SDG-washing’; (iii) limited access for retail investors who seek to align their investable assets with the SDGs but who lack access product; and (iv) education on putting the SDGs into practice, particularly for investment advisors who simply lack knowledge as to how to translate the SDGs into tangible investment strategies and opportunities. Despite the focus on barriers, there was recognition of a significant amount of work being done in this area, and an opportunity to ‘connect the dots’ between those exploring SDG investing and the work that is being done on how to put it into action

2018 Action Plan:

The group agreed that ‘connecting the dots’ on education was where this community was most able to add value. The specific actions that were agreed by November 2018 were to:

2.1 Map the range of stakeholders through the investment chain, including a) prioritising which ones are most important for increasing capital commitments to the SDGs, and b) determining what types of education each group needs
2.2 Develop the list of current tools / sources of information / education providers, and assess the quality of what they provide
2.3 Create an engagement plan to connect the stakeholder groups with the tools etc. that will best equip them to increase capital commitments, in line with the stakeholder prioritisation

To support this, the group discussed that:

2.4 Members of the group should lead by example by actively sharing work and data from their own organisations, such as investment processes and model portfolios; they should consider drawing public attention to one another’s work as “leaders” in the field and thereby challenging others to respond
2.5 Members should also invite others who would be well placed to progress this work to join the community
2.6 Strategically there was recognition of the need to engage the FCA in the broader conversation about fiduciary duty and the potential standardisation of onboarding questions designed to help the advisor understand the client better, using the SDGs as part of that process. This recommendation should be elevated to UKNAB Board for further debate and execution
III. Investors and other organisations currently involved in international development finance should lead the way in committing to transparency of their capital deployments and development results achieved, to help map where supply and demand of capital meet, and measure progress over time

The group first articulated the rationale for why transparency matters – what are we trying to achieve? The response: (i) reducing transaction costs for the end enterprises; (ii) crowding in more capital – or scaling-up capital flow; (iii) value for money; and (iv) driving awareness by showcasing the transparency leaders. The group acknowledged that most of the information published today is on financial returns, but there is far less transparency being delivered in terms of impact; if we want to achieve the SDGs we need to be very transparent in terms of how we go about achieving it – honesty needed in terms of financial return, impact and also the level of subsidy present. Perhaps most importantly, we need to focus on the lives being impacted and to be very sure we understand what that impact is. Perhaps the SDGs provide us with an opportunity that we have not had before as a community; they provide keys which are applicable to all the audiences we are trying to communicate with - we must therefore be transparent in all directions.

The group identified its long-term goal: (i) transparency across the investment market so individuals can understand where their money is invested and impact it makes; (ii) SDG reporting and accreditation; (iii) transparency of impact validated by the communities, households and individuals that represent those the impact is intended to reach.

2018 Action Plan:

3.1 Invite participation of demand side and local actors – enterprises, local investors and countries concerned – to this group
3.2 Survey demand-side organisations which have raised (or failed to raise) impact investment to get feedback on their experience
3.3 Conduct transparency data studies of specific sectors to understand level of subsidy, business models, financial returns and impact – starting with energy and agriculture sectors (note: members committed to engaging and providing information)
3.4 Create better networks across actors and how can blend finance more effectively – particularly to address the start-up to scale-up gap
3.5 Recognize and celebrate investment organisations that use and demonstrate achievement of SDGs in practice
3.6 Structure funds so that fund manager reward is linked to both financial and impact performance