Re-visioning Social Investment

Growing social investment for deep and lasting impact

A UK NAB Working Group

October 2019
Acknowledgements
Elizabeth Corley, Chair of Impact Investing Institute

This report comes at an auspicious time. The unprecedented growth of the responsible investing movement has spawned a proliferation of practices, definitions and understandings. In this important review, the UK NAB draws guiding lines in the ever-shifting sands of language, intention and meaning. They re-root us in first principles: what we really mean by social impact when talking about investment practices. And they also help us navigate the many ways that different parties strive towards and express a common goal: to make the changes needed to combat global social and environmental problems.

The Impact Investing Institute is being formed to look for effective ways to put people’s savings and investments to work, combining financial returns with a social purpose to improve people’s lives in the UK and in developing countries. The contents of this report will contribute hugely to this mission. Thank you to Cliff and everyone involved; we look forward to continuing the conversation you have started here and to rising to some of the challenges you pose.

Global Steering Group for Impact Investment

The Global Steering Group for Impact Investment is an independent group focused on catalysing impact investment and entrepreneurship to benefit people and the planet.

The GSG was established in August 2015 as the successor to and incorporating the work of the Social Impact Investment Taskforce established under the UK’s presidency of the G8 in 2013.

The GSG currently has 22-member countries plus the EU via their National Advisory Boards (NABs), and strategic partnerships with world leading organisations. Chaired by Sir Ronald Cohen, the GSG brings together leaders from the worlds of finance, business, and philanthropy.

The GSG’s aim is that measurable social and environmental impact is embraced as a deliberate driver in every investment and business decision affecting people and the planet. The GSG’s mission is to harness the energy behind impact investment to spark a movement around the world.
We would like to acknowledge the contribution and support of the “Re-visioning Social Investment” UK NAB Working Group members, who gave up their time to share their experiences and perspectives and contributed to this report.

We would also like to thank Alex Nicholls, Richard Brass, Rosemary Addis and Vanessa Morphet for reviewing the report and providing thorough comments.

Finally, we are grateful to Claire Gibson-James and Victoria Kane for their support in organising the Working Group meetings and getting this report into its final shape.

**Working Group members**

- Cliff Prior, Big Society Capital (Chair)
- Candice Hampson, Big Society Capital
- Charlie Wigglesworth, Social Enterprise UK
- Chris Wright, Catch22
- Clara Barby, Impact Management Project
- Damien Lardoux, EQ Investors
- Ed Siegel, Charity Bank
- Evita Zanuso, Big Society Capital
- Hazel Blears, Social Investment Business
- Joanna Heywood, Big Society Capital
- Karen Shackleton, Pensions for Purpose
- Maggie Loo, Bridges Fund Management Limited
- Mark O’Kelly, Barrow Cadbury Trust
- Phil Caroe, Allia
- Seb Elsworth, Access – The Foundation for Social Investment
- Whitni Thomas, Triodos
- Anu Bhatnagar, Big Society Capital (Secretariat)
- Marie-Alix Prat, Big Society Capital (Secretariat)
**Foreword**

Re-visioning social investment has been both a vital and a challenging topic for the UK National Advisory Board on Impact Investing. Boosting social investment is vital to address the most pressing social issues in the UK. Identifying where it positions in the growing field of impact investing, is essential to attract relevant funds and support.

As impact funds are launched by mainstream asset managers, both investors and investees need clarity on the goals and characteristics of each type of fund, across financial returns, impact and risk. Yet this is a rapidly emergent and vibrant space, so we have been working on a moving platform where new participants and new approaches are bubbling up from all directions.

I would like to thank all our participants for their passion to get it right, their deep insight to build the very best future, and of course for their time and shared learning.

On a very personal take, from 40 years in social endeavour, the right kind of finance can be uniquely transformative for social enterprises and charities to achieve their full potential to improve the lives of people in serious disadvantage. It’s the right kind of money on the right terms with trusted partners. It’s going beyond contributing to social solutions: it is being fully dedicated to addressing social challenges. It is about the chain of trust and deep commitment from investors, fund managers, social enterprises and charities, and the people it’s all for: the end-users of the finance and their lived experience. Building capability, working with deep understanding and with deep codes of ethics and conduct. Social investment is a style of working as well as a technical type of working. At its best it is making sure that people end up not just with one initial problem solved, but also helping people and organisations to become more capable and confident for the next challenges in their lives and work.

Social investment is placing the skills, the tools and the money of social investors into organisations that have deep and sometimes long understanding of social issues, how people live their lives with the problems they face, understanding what good can really look like, engendering trust and tailoring finance in response. Because of this, it can reach into tough social issues with levels of success on impact and on financial returns, where mainstream investors would struggle to achieve in such areas of work.

However, the boundaries between different types of impact-minded investor are not clear cut. Investors have different interpretations of the evolving language to describe their impact work. Each investor may have a different balance of intentions across financial, impact and risk appetites. Investors may mix different types of investment to achieve balance in their portfolio. They may believe that a diverse portfolio, including both deep impact for systemic and sustained change, and breadth of impact reaching large numbers of people, would achieve more overall contribution to social and environmental solutions and stronger financial returns.

For example, Big Society Capital works with investors interested both in flexible capital for social enterprises and charities, and institutional investors who are prepared to back new, uncharted areas breaking new impact markets. As such we call ourselves a “social impact investor”.

Meanwhile, more and more people in the UK and beyond want to put some of their savings into impact. It is a movement which is growing, and which will over time break through current barriers to achieve far more in the future. The social economy is a movement, of which social investment is one key part.

Thank you to the UK NAB for hosting this project, to our Working Group participants, and very special thanks to our two secretariat members: Anu Bhatnagar and Marie-Alix Prat.

Cliff Prior
NOTE:

This report is prepared for and by the UK NAB: the UK National Advisory Board on Impact Investing, a member of the Global Steering Group for Impact Investment. The report focuses on social investing, a vital and important part of the wider field of impact investment.

The UK NAB is merging with the Taskforce on Growing a Culture of Social Impact Investing in the UK, to create the Impact Investing Institute. The Institute is being formed to look for effective ways to put people’s savings and investments to work, combining financial returns with a social purpose to improve people’s lives in the UK and in developing countries.

This report was chaired by the CEO of Big Society Capital (BSC), with members from the UK social and impact investing fields. BSC covers a specific area of social investment, working with social investors, looking for systems change, and bringing other investors towards social impact – we call ourselves a “social impact investor”.

<table>
<thead>
<tr>
<th>Big Society Capital exists to improve people’s lives in the UK by uniting capital, expertise and ideas to create opportunities for investors and enterprises to generate life-changing impact.</th>
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<tbody>
<tr>
<td>We collaborate with investors and expert partners to achieve systemic, sustained and measured impact, while targeting positive, sustainable returns and building the UK social impact investment market.</td>
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<tr>
<td>We invest into funds, fund managers and social banks, which then invest in or lend principally to social enterprises and charities that are dedicated to achieving social impact.</td>
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<td>Our investment activities include both addressing new or underserved markets, and investing in areas that may require capital on flexible terms. Our work includes pioneering new approaches with our partners to achieve breakthroughs in new markets for lasting system change. This creates opportunities for a wide range of investors, both those which place financial returns first, and those which prioritise impact first.</td>
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Executive summary

Social investors in the UK have pioneered a movement that puts finance to its highest purpose: improving people’s lives by connecting social enterprises and charities to capital. Social investors reach into complex areas, into underserved markets with uncharted risks, and work long term to achieve lasting results through investing into organisations that are dedicated to social mission.

The initial actors in social investment have been foundations and philanthropists. Over the last couple of decades, specialist fund managers and advisory firms have come into being and developed their approaches. In 2012, Big Society Capital launched as the world’s first wholesale investor for social impact. The path of development has been diverse in its tools and goals, its journeys and origins. The volume of social investment is still modest compared to mainstream finance, though growing at 15-20% a year. As a small sector, its focus is on the social issues where it can uniquely help to create the deepest impact.

In last couple of years, the wider impact investment market has grown internationally, and mainstream asset managers have joined in through launching impact investment funds. This is a radical change in the social investment sector: what does the arrival of these funds mean? Does it change the role of social investment? What can each sector achieve, separately or together? How can we clearly communicate the different characteristics of each?

In response to this major development, the UK NAB formed a Working Group to re-vision social investment, with the objectives to:

- safeguard the future of investment with deep social intent;
- focus on investments for organisations that are dedicated to delivering social impact;
- ensure and grow an intentional, flexible capital supply towards the most vital social issues; and
- maximise impact through connections along the spectrum of capital.

We looked at why social investment is important, how it is defined and characterised, what it has achieved, the challenges it faces, how we can unlock its full potential, engaging investors, and finally we set out key recommendations.

The boundaries between different types of impact-minded investor and impact investment along the spectrum are not clear cut. Moreover, the language is consistently evolving, and actors have different interpretations of the complex terminology. Hence, as a sector we need greater consistency and convergence, so that we all speak the same language to clarify and preserve our social objectives.

Social investment is important to address the specific challenges of deep social issues, financing new solutions and demonstrating new models. Catalytic capital, willing to go first, is needed to take uncharted risk and demonstrate financial and social returns to attract a broader group of investors into that space and drive the scale of capital that is needed. Hence it is important we re-vision social investment, anchoring its role, purpose and values within the broader sector.

We recognise that other actors are working on social investment and welcome diverse viewpoints.

We have identified four useful pillars to describe what social investment is: formal definitions, characteristics, house statements, and frameworks and principles.
Definitions are useful to some extent, to provide clarity for investors and investees to know what is really on offer and avoid “social washing” which could breach trust and undermine progress. In this paper, we understand the terms “impact investment” and “social investment” as defined in the box and figure below.

**Impact investments** are “investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments target a range of returns from below market to market rate, depending on investors’ strategic goals.” (GIIN)

**Social investments** are a subset of impact investments that are “intentional about creating impact by targeting and supporting organisations dedicated to delivering a measured, deep and lasting positive social impact, while providing financial returns”. (UK NAB Working Group)

Some social investors who define themselves as “impact-first” may at times accept partial capital preservation to achieve greater impact. (EVPA). Some would include environmental goals.

The figure below shows how impact investment and social investment are placed on the Impact Management Project (IMP) “Spectrum of Capital”.

However, we also observed that there are multiple overlapping definitions in this space, sometimes for the same terms. Many stakeholders use definitional terms in their own ways. Blended and catalytic finance is highly valuable, and places investments into multiple parts of the chart. Moreover, many fund managers and investors balance their portfolio by investing in different areas across the impact investment spectrum. Hence, definitions are not enough to provide clarity.
A second approach is through characteristics. We identified some compelling and additional characteristics of social investments. These included:

- aiming to deliver deep and lasting positive social impact, demonstrated with meaningful impact data and reporting;
- addressing the most vital social issues including in new and underserved markets, with the ability to provide flexible catalytic capital\(^1\) as needed;
- aiming to generate systems change;
- investing in organisations dedicated to creating a social impact, including mission-led companies, social enterprises and charities;
- being deeply informed on social issues integrating the voices of live experience;
- working to high standards of conduct and principles;
- involving specialist teams;
- balancing the weighting put on social and financial returns;
- having reduced exposure and low correlation to mainstream markets; and
- building resilience and capacity in front-line organisations.

Again, characteristics are useful to help understand social investment, but are not sufficient. Many of the characteristics listed would also be seen in other parts of the investment sector.

The high level of diversity across social investors, led us to see the importance of each actor stating its specific place in the sector and explaining concisely and clearly what they do: a “house position statement”. The characteristics, existing tools such as IMP and EVPA’s “impact strategies”, and sector principles such as those from the GIIN and IFC (see Appendix C), can be useful in constructing a house statement.

The impact of social investment in the UK has already been significant. Examples range from housing vulnerable people to prevention of harm, tackling poverty, improving lives in disadvantaged places, building resilience in the social sector, to growing ambitious tech for good mission- locked companies. Actions speak louder than words: for many people, social investment is understood by examples. We include several case studies in the report, to illustrate the range of sectors and impact of social investment.

Challenges remain, most importantly with finding the highest point of value, balancing affordability for social enterprises and investor requirements; weak impact reporting; gaps in provision of catalytic patient capital; addressing new or broken markets which face a wider lack of enabling systems; lack of familiarity, knowledge and experience in the sector; lack of scale; and regulatory and advisory barriers blocking retail investors.

We believe we can unlock some of these challenges:

\(^1\) The MacArthur Foundation defines catalytic capital as capital that “is patient, risk-tolerant, concessionary, and flexible in ways that differ from conventional investment. It is an essential tool to bridge capital gaps and achieve both breadth and depth of impact, while complementing conventional investing.” (see resource here)
• Providing flexible and catalytic capital that is willing to accept disproportionate (or overestimated) risk when other investors won’t invest, will support mission-led organisations to grow and scale.

• Partnerships with foundations and expert development partners can provide the tools needed to break new ground.

• Careful research and engagement can uncover new pools of flexible capital.

• Improving the UK’s subsidy, tax incentive and guarantee systems would allow more investment into critical social issues.

• Partnerships with mainstream investors along the spectrum of capital can at times allow for much greater scale of impact.

• Market side developments such as government procurement or policies can assist deployment, as more social enterprises win contracts and customers.

• Education and relevant regulation can break through perceived and real barriers, which have put up obstacles for people wishing to put some of their money into social projects.

• Strong impact reporting and case studies are needed, to show the deeper impact achieved through social investments and to attract new investors.

• Most of all, a cultural and behavioural change on impact is already in the minds of the public, and this will push through to the investment industry over the coming years.

We know that the public want this. We can already see growing, even if small, numbers of retail savers in social banks, and in community share and social bond issues. Surveys show a substantial interest in impactful investment that is currently blocked. We can see how ESG investing is becoming the new normal; we already have several impact funds launched by mainstream financial institutions, and in time we believe that social investment will play a much more significant role in achieving lasting and systemic change in deep social issues. This movement is supported by the development of social enterprises and mission-led businesses, and by the choices people are making as customers and in their careers.

We expect continuing modest but important growth from foundations and venture philanthropists, while in the longer term we will see much larger funds coming via mainstream managers into impact investment, creating more opportunities for partnerships across the spectrum of capital. We believe this is most likely to happen with diversified funds that include a small portion of social investment alongside the majority portion in ESG or responsible portfolios. Our goal is to have impactful finance at every level of size and type of finance, and theme of impact.

Our recommendations set out in the report build on the pioneering work of the early social investors, the deeper understanding as we see what can now be achieved, and how to unlock far more impactful investment in the future – investment with true integrity and clarity about its intentions and characteristics, social investment which can help address the most important social issues.

Meanwhile the work continues. More and more people want to put some of their savings into social good. Over 80% of social enterprise leaders in UK now say they understand social investment. Social investment fund managers are growing in number, capability and experience. Challenger models of social investment intermediaries are appearing on the scene. The barriers to mainstream finance are being addressed step by step. We can provide the clarity that investors and investees need on the
different types of social and impact investment. The partnerships we form between different participants can achieve far more lasting change for good.

This is a movement gathering pace – an unstoppable movement which will build a better society.

**Call to action to grow social investment**

We invite investors and supporters to join us in an impact movement to:

- address more of the deep social challenges;
- encourage more investors to provide catalytic capital for social investment, developing partnerships along the spectrum of capital;
- improve transparent impact reporting, with both data and case studies, and adopting globally agreed standards;
- improve clarity on investors’ intentions, conduct and returns; and
- open doors to invite in the public to put their savings and investments into line with their values, and above all, to improve people’s lives.
1 Why is this important?

The UK faces pressing social issues, many of which could be addressed by social investment along with other supportive interventions. Social investment can reach into areas where there are complex challenges, in areas of unknown risk and of market failure, and where long-term support is needed. The current supply of social investment is modest, and many social mission organisations are still on a path to understanding whether social investment could be useful for their mission. BSC’s annual market sizing estimates suggest so far about 3,000 of the 300,000 social enterprises and charities in the UK have used social investment. With annual growth in invested stock of 12-15% (Cass Business School, 2015) or 15-20% (BSC estimate 2018), it is clear that more and more innovative social investment funds will be required in the near future.

In the UK, social investment has historically developed to respond to this demand, by investing primarily into social enterprises and charities, and other organisations that are dedicated to social mission. A significant number of intermediaries, fund managers and social banks have developed, from small local or specialised to over ten with more than £50m assets under management. Social investment is diverse in its goals and methods, from social bank lending to charity bonds, tech for good venture capital to unsecured debt for growth, social housing to social impact bonds. It provides deep and lasting positive impact, contributing to solving important social issues, often with both investors and organisations dedicated to social mission. It includes both market rate and flexible investments, where any concessions may be on financial returns, risk, liquidity, complexity or scale. It attracts co-investors from foundations and philanthropists to mainstream asset managers, with high levels of interest from retail investors, which are often blocked by regulatory barriers at present and are pushing for new opportunities.

In recent years, a wider impact investment market, targeting both financial and impact returns, has grown significantly. It is capturing hearts and minds with its promise that one can “do good while doing well”. Mainstream commercial impact funds are unlocking the potential of finance for good, and offering opportunities for people to invest closer in line with their values. This is essential to fund the scale of change needed to combat global social and environmental problems.

With these developments in our sector, it is timely to re-vision social investment. In March 2018, the “Re-visioning Social Investment” Working Group was set up by the UK National Advisory Board (UK NAB) with the aim to:

- safeguard the original deep social intent of social investment;
- focus on investments for organisations that are dedicated to delivering social impact;
- ensure and grow an intentional, flexible capital supply towards the most vital social issues; and
- maximise impact through connections along the spectrum of capital.

This working paper summarises the discussions of the group. It is structured as follows. It first sets out the definitions, frameworks and other approaches that can be used to describe social investment and its key characteristics (section 2). It then shows what social investment has achieved so far (section 3). It looks at the challenges met (section 4) and what could be done to unlock its potential by attracting more capital (section 5). It finally presents how investors are entering the impact space, including social investment, in different ways (section 6). In conclusion, section 7 summarises our recommendations to ensure and grow the supply of supportive capital to social issues. In addition, Annex A presents the

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2 Defining social investment: four pillars

We have identified four useful pillars to describe what social investment is: formal definitions, characteristics, house statements, and frameworks & principles.

2.1 Formal definitions

Definitions are useful to some extent, to provide clarity for investors and investees to know what is really on offer and potentially limit “social washing” which could breach trust and undermine progress. In this paper, we understand impact and social investment as defined in the box and figure below. Social investment specifically supports organisations that are dedicated to delivering deep and lasting social impact.

**Impact investments** are “investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments target a range of returns from below market to market rate, depending on investors’ strategic goals.” (GIIN)

**Social investments** are a subset of impact investments that are “intentional about creating impact by targeting and supporting organisations dedicated to delivering a measured, deep and lasting positive social impact, while providing financial returns”. (UK NAB Working Group)

Some social investors who define themselves as “impact-first” may at times accept partial capital preservation to achieve greater impact. (EVPA). Some would include environmental goals.

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**Figure 1: Impact and social investment definitions on the IMP “Spectrum of Capital”**

**Impact investments** are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments target a range of returns from below market to market rate, depending on investors’ strategic goals.” (GIIN)

**Social investments** are a subset of impact investments that are “intentional about creating impact by targeting and supporting organisations dedicated to delivering a measured, deep and lasting positive social impact, while providing financial returns”. (UK NAB Working Group)

Some social investors who define themselves as “impact-first” may at times accept partial capital preservation to achieve greater impact. (EVPA). Some would include environmental goals.
However, we observed that there are multiple overlapping definitions in this space, sometimes for the same terms (see analysis in Annex A). Many stakeholders use the term “social investment” in their own ways. Blended and catalytic capital is highly valuable and places investors in multiple parts of the spectrum. Moreover, many fund managers and investors balance their portfolio by investing in different impact areas across the spectrum of capital. For example, Big Society Capital works both with investors interested in flexible capital for social enterprises and charities, and more institutional investors who are prepared to back new, uncharted areas breaking new impact markets: hence BSC calls itself a “social impact investor”.

We believe these definitions do not fully achieve how to present the compelling characteristics of social investment for investors and investees. Each investor, each investment, has its own specific characteristics. This paper proposes a list of characteristics for social investment.

Rather than press for an exact definition of social investment as a sector, we believe that it is better:

- on a sector level, to demonstrate the characteristics of social investment through its use in different circumstances;
- on an individual level, to ask each investor what their intentions and specific characteristics are for a particular investment, giving clarity to other actors involved; and
- on both levels, to use shared industry language, frameworks and measures (in line with GIIN’s draft characteristics of impact investors, IFC’s operating principles for impact management (see Annex C) and the Impact Management Project).

2.2 Characteristics of social investment

Beyond these definitions, the Working Group discussed the characteristics shared by social investments.

Social investment is vital to achieving social impact in some of the most important and toughest areas in our society. Social investment seeks to find the highest point of value for impact, balancing the requirements of inward investors and front-line organisations, and often engaging other stakeholders, to change people’s lives for the better. Without this sector, the enterprises that can address social issues, would often be unable to reach the scale and capability to take on finance from impact funds created by mainstream asset managers. Investors into social investment funds, know that they are making a systemic and sustained difference to the lives of people in disadvantage.

Social investment includes a cluster of externally compelling and vitally important characteristics. Not all are exclusive to social investment, and not all social investments will meet all of them, but overall they give shape to the sector:

a) It delivers deep and lasting positive social impact, contributing to solving important social issues. The investor and investee both demonstrate their social intent with meaningful impact data and reporting.

b) It often addresses the most vital social issues, and aims to generate systems change, including in underserved, new or undersupplied capital markets, with the ability to provide flexible capital as needed.

c) It informs itself about the social issues involved, to fully understand the problems and what good could look like, reducing risks and improving prospects of success for the investment. Where possible, it engages with the end-users of the work, to co-design programmes, to hear
their voice, and to encourage their agency and participation in solving the social challenges they face.

d) Investors in social investment are committed to high standards of conduct and principles, which are being developed for impact investors by GIIN and IFC (see Annex C), engaging and understanding end-user lived experience, considering social risks as well as financial, working collaboratively to achieve social impact results.

e) It accepts a range of expected returns depending on the investor, from market through to capital preservation and in some cases partial capital preservation. It accepts to be less liquid, smaller deals, require additional development work, or take risks on new sectors. EVPA sees the willingness to provide patient capital\(^3\) and take risks no other funder can take as a key element of “investors for impact”\(^4\). Venture philanthropists and blended programmes such as Future Builders, CAF Venturesome or Access – The Foundation for Social Investment accept partial capital preservation for instance. On the other hand, BSC’s approach of “social impact investment” covers a specific zone across “impact investment” and “social investment”, focusing on systemic and sustained impact whilst providing market rate to positive sustainable returns.

f) Particularly for foundations and philanthropists, it may recycle the capital available and interests into new social investments, stretching their available resources.

On a wholesale level:

g) It invests in specialist teams, which have deep expertise in social impact sectors and finance, mitigating the impact and financial risks.

h) It diversifies across multiple asset classes in private markets with reduced correlation to mainstream markets.

For our sector, we have an internal understanding about social investment:

i) It is intentional and dedicated to generating a social impact: it is FOR impact rather than WITH impact (as defined by EVPA in its Impact Strategy Paper)\(^5\).

j) It often has an added objective of creating resilience and capacity in the front-line organisations that deliver deep systemic impact, for the long term.

k) It may be small scale, rarely including public markets.

Each investment may comprise a different sub-set of these characteristics. In many cases, social investors may collaborate with investors with other requirements and capabilities, and/or with development partners.

2.3 House statements

Given the complexity around definitions, they need to be put in context. Each investor needs to describe what it does using shared sector language, in its definitional or “house position” statement. The list

\(^3\) Patient capital accepts disproportionate risk and/or concessionary terms to generate positive social impact. See more on catalytic, patient capital in Box 9, Section 5a).


of characteristics set above can also be a helpful support for social investors in completing their description.

Definitional or "house position" statements from some investors are set out as examples below. We believe this approach could be a significant step forward in providing clarity to key stakeholders in social investment.

For instance, BSC has drafted the statement below using terms from the IMP framework. BSC covers a specific area of social investment, working with social investors, looking for systems change, and bringing other investors towards social impact – hence the use of the hybrid term "social impact investor".

**Box 1: BSC DRAFT descriptive and definitional statement**

Big Society Capital is the leading financial institution dedicated to social impact investment in the UK. We exist to improve people’s lives by uniting capital, expertise and ideas to create opportunities for investors and enterprises to generate life-changing impact.

We collaborate with investors and expert partners to achieve systemic, sustained and measured impact, while targeting positive, sustainable returns and building the UK social impact investment market.

We invest into funds, fund managers and social banks which then invest in or lend principally to social enterprises and charities that are dedicated to achieving social impact. Our investment activities include both addressing new or underserved markets, and investing in areas that may require capital on flexible terms. Our work includes pioneering new approaches with our partners to achieve breakthroughs in new markets for lasting system change. This creates opportunities for a wide range of investors, both those which place financial returns first, and those which prioritise impact first.

We are invested across asset classes, primarily in private markets, often with reduced correlation to mainstream markets. We have deep expertise in selecting and developing social impact investment managers.

**Big Society Capital’s definition of social impact investment is investment contributing to solutions** (using the Impact Management Project framework). This means we are intentional about creating impact by targeting and supporting organisations which are dedicated to delivering and reporting a measured, systemic and sustained social impact, while providing sustainable returns.

Below are definitional statements from other social investors as examples.

**Box 2: Access – The Foundation for Social Investment definitional statement**

Access – The Foundation for Social Investment works to make charities and social enterprises in England more financially resilient and self-reliant, so that they can sustain or increase their impact.

We do this through:

1. supporting the development of enterprise activity to grow an diversify income;
2. improving access to the right sort of social investment which can help stimulate that enterprise activity; and
3. sharing the learning from how these programmes work.
We will be around for a **decade**, but the need for this work will continue well beyond that. So our approach is to work with and through others to create partnerships that can outlive us and test, learn from new approaches and generate knowledge that improves the work of others seeking the same goals.

**Box 3: Charity Bank’s statement**

Charity Bank is an ethical savings and loans bank with a mission to use money for good. We are owned by and dedicated to supporting charities and social purpose organisations. Since 2002, we have used the money saved with us to provide over £250m of loan finance to support organisations that are working to enrich and improve society.

We offer loans to charities and social enterprises with support from our team of regional managers who work across England, Northern Ireland, Scotland and Wales to help organisations find solutions to their funding needs. We aim to give each customer a personal service, tailoring every loan to the organisation’s needs and giving charities and social enterprises the flexibility and security needed to make an even bigger impact.

We offer a simple, ethical range of savings accounts and personal customer service. Our accounts are available to UK individuals, businesses and charities. In a Charity Bank savings account, your money is a powerful force for good. We offer a competitive rate of interest, and the money you save goes to doing good. Our savers can be safe in the knowledge that the money they invest is working hard to build a better society.

**Box 4: EQ Investors’ statement**

EQ Investors provides investment management in the form of “Positive Impact Portfolios” to enable the leveraging of private wealth and pensions into impact investments, while also providing the financial security and returns needed to reach personal objectives.

Our diversified Positive Impact Portfolios invest in collective investment vehicles that have a strong process focus on selecting companies and projects with intentional, additional and measurable positive impacts on society and/or the environment through core products/services. We deliver social impact through helping leverage capital towards companies providing goods/services that solve unmet societal needs, reducing their cost of capital and creating market signals. Through active engagement with fund managers, aiming to push companies to improve the social impact of product mix and own operations, we believe we can further improve the positive impact of these companies over time.

Our impact goals are to “Contribute to solutions” (IMP), which is reflected in our investment process of seeking out funds with the same impact goals. To provide transparency to our clients of what impact we are targeting at any month in time, we map all underlying company holdings to whether their products/services contribute to a UN Sustainable Development Goal target. In order to monitor and manage these positive impact intentions, we measure the delivered impact contributed to through our portfolios and disclose this publicly.

### 2.4 Frameworks and principles

We have identified some useful frameworks and principles for investors to describe what they do and how they work.
The Impact Management Project or IMP tools, such as the “Spectrum of Capital” in Figure 1 shown earlier, can be used by investors to describe what they intend. An investment’s positioning as “ABC” on the Spectrum is based on data across five dimensions of performance that were widely agreed to define impact through the IMP: Who is affected, What is changing for them, How much it is changing over what time period, the Contribution of the investment to the change, and the Risk that the impact may not be what was anticipated. Box 5 below shows the specific types of data that drive each dimension, and the impact characteristics one would expect to observe for an investment to present itself as A, B or C “impact class”. Annex D provides an explanation of each type of impact data, including an explanation of common impact risk factors that are observed.

**Box 5 The ABC of Impact**

Assessment of data across the five dimensions tells us if an impact is “Acting to Avoid Harm”, “Benefitting Stakeholders” or “Contributing to Solutions”. The total impact of any asset – or portfolio of assets – is the combination of its impacts on people and the planet.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Data Category</th>
<th>Act to avoid harm</th>
<th>Benefit stakeholders</th>
<th>Contribute to solutions*</th>
</tr>
</thead>
<tbody>
<tr>
<td>WHAT Outcome</td>
<td>Negative outcome(s)</td>
<td>Positive outcome(s)</td>
<td>Positive outcome(s)</td>
<td></td>
</tr>
<tr>
<td>Importance of outcome to stakeholder</td>
<td>Important outcome(s)</td>
<td>Important outcome(s)</td>
<td>Important outcome(s)</td>
<td></td>
</tr>
<tr>
<td>WHO Baseline</td>
<td>Underserved</td>
<td>Various</td>
<td>Underserved</td>
<td></td>
</tr>
<tr>
<td>Other stakeholder characteristics</td>
<td>Various</td>
<td>Various</td>
<td>Various</td>
<td></td>
</tr>
<tr>
<td>HOW MUCH Scale</td>
<td>Various</td>
<td>For many and/or</td>
<td>High degree of positive change</td>
<td></td>
</tr>
<tr>
<td>Depth</td>
<td>High degree of positive change</td>
<td>Various</td>
<td>High degree of positive change and/or</td>
<td></td>
</tr>
<tr>
<td>Duration</td>
<td>Various</td>
<td>Various</td>
<td>Long-term</td>
<td></td>
</tr>
<tr>
<td>CONTRIBUTION Depth counterfactual</td>
<td>Likely same or better</td>
<td>Likely same or better</td>
<td>Likely better</td>
<td></td>
</tr>
<tr>
<td>Duration counterfactual</td>
<td>Likely same or better</td>
<td>Likely same or better</td>
<td>Likely better</td>
<td></td>
</tr>
<tr>
<td>RISK Evidence Risk</td>
<td>Various</td>
<td>Various</td>
<td>Various</td>
<td></td>
</tr>
<tr>
<td>Execution Risk</td>
<td>Various</td>
<td>Various</td>
<td>Various</td>
<td></td>
</tr>
<tr>
<td>Stakeholder Participation Risk</td>
<td>Various</td>
<td>Various</td>
<td>Various</td>
<td></td>
</tr>
<tr>
<td>Drop-off Risk</td>
<td>Various</td>
<td>Various</td>
<td>Various</td>
<td></td>
</tr>
<tr>
<td>Unexpected Impact Risk</td>
<td>Various</td>
<td>Various</td>
<td>Various</td>
<td></td>
</tr>
<tr>
<td>Alignment Risk</td>
<td>Various</td>
<td>Various</td>
<td>Various</td>
<td></td>
</tr>
<tr>
<td>Efficiency Risk</td>
<td>Various</td>
<td>Various</td>
<td>Various</td>
<td></td>
</tr>
</tbody>
</table>

*Enterprises can also ‘contribute to solutions’ by selling products that enable others to act to avoid harm (e.g. an off-grid lighting company)

Source: Impact Management Project

During this Working Group, as the compelling characteristics of social investment were articulated, the group reflected on whether the IMP impact classes could or should include a D for “Dedicated to Solutions” (see Box 6 below). The rationale for this would be to incentivise capital to flow to organisations that demonstrate that their dedication to impact, typically exemplified by a mission or asset lock, actually results in compelling and differentiated impact performance.

As an example, an impact investor interested in improving mental healthcare, might move into a different area if the mental health work proved difficult in terms of near future impact and/or financial returns. A social investor who was dedicated to mental health work would not give up this endeavour and would continue to develop approaches until successful. Similar arguments would operate at the
In the language of IMP, dedicated impact investors have lower “drop-off” risk – ie less likelihood that the expertise and capacity built up over time would be lost or wasted.

The D for Dedicated category requires further development work. The European Venture Philanthropy Project (EVPA) is planning a working group on this area in 2019/20. This will be part of its impact strategies programme, and relates to its categorisation of investors who are “for impact” and those who are investing “with impact”: investors who are dedicated to impact are likely to fall into the “for impact” group.

Meanwhile there is a need for organisations which are dedicated to impact – and the social investors who support them – to continue improving their measurement and disclosure of data, to evidence the characteristics of social investment that make it compelling.

**Box 6: D for Dedicated**

Do enterprises that are “Dedicated to solutions” share a typical pattern of performance across the five dimensions of impact? Should the spectrum be ABCD rather than ABC?

For example, can we substantiate with data the observation that mission-locked organisations are likely motivated to focus on the most underserved or disadvantaged populations (Who)? Do mission-locked organisations likely make a much greater Contribution to impact than the market would otherwise make, not least because such organisations are incentivised to engage in system-level change to maximise the chances of achieving their mission (How Much)? When it comes to Impact Risk, are there obvious risk factors that are significantly reduced, such as the probability that the organisation does not continue delivering the expected impact post-investment (which one might think of as “impact terminal value”), or that impact does not endure (drop-off risk, which increases if it is in the commercial interests of a business to have customers repurchase products or services)?

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Data Category</th>
<th>Contribute to solutions</th>
<th>Dedicated to solutions?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WHAT</strong></td>
<td>Outcome</td>
<td>Positive outcome(s)</td>
<td>Positive outcome(s)</td>
</tr>
<tr>
<td></td>
<td>Importance of outcome to stakeholder</td>
<td>Important outcome(s)</td>
<td>Important outcome(s)</td>
</tr>
<tr>
<td><strong>WHO</strong></td>
<td>Baseline</td>
<td>Underserved</td>
<td>Most underserved?</td>
</tr>
<tr>
<td></td>
<td>Other stakeholder characteristics</td>
<td>Various</td>
<td>Various</td>
</tr>
<tr>
<td><strong>HOW MUCH</strong></td>
<td>Scale</td>
<td>For many and/or</td>
<td>For many and/or</td>
</tr>
<tr>
<td></td>
<td>Depth</td>
<td>High degree of positive change and/or</td>
<td>High degree of positive change</td>
</tr>
<tr>
<td></td>
<td>Duration</td>
<td>Long-term</td>
<td>Long-term</td>
</tr>
<tr>
<td><strong>CONTRIBUTION</strong></td>
<td>Depth counterfactual</td>
<td>Likely better</td>
<td>Likely much better?</td>
</tr>
<tr>
<td></td>
<td>Duration counterfactual</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>RISK</strong></td>
<td>Evidence Risk</td>
<td>Various</td>
<td>Various</td>
</tr>
<tr>
<td></td>
<td>Execution Risk</td>
<td>Various</td>
<td>Various</td>
</tr>
<tr>
<td></td>
<td>Stakeholder Participation Risk</td>
<td>Various</td>
<td>Lower?</td>
</tr>
<tr>
<td></td>
<td>Drop-off Risk</td>
<td>Various</td>
<td>Lower?</td>
</tr>
<tr>
<td></td>
<td>Unexpected Impact Risk</td>
<td>Various</td>
<td>Lower?</td>
</tr>
<tr>
<td></td>
<td>Alignment Risk</td>
<td>Various</td>
<td>Lower?</td>
</tr>
<tr>
<td></td>
<td>Efficiency Risk</td>
<td>Various</td>
<td>Lower?</td>
</tr>
</tbody>
</table>
EVPA also uses a new framework to describe investment strategies, laid out in its report “Impact Strategies – How Investors Drive Social Impact”\(^6\). An impact strategy represents the way in which an impact investor codifies its own investing activity along three axes: social impact, financial return, and risk associated with the achievement of both the social impact and the (eventual) financial return. The report suggests diagnostic questions to help an investor position itself on these three axes.

Signing up and implementing shared operating and conduct principles for social investment, is also useful for investors to position themselves in the market:

- **GIIN Core Characteristics of Impact Investing** (see Annex C1)
- **OECD transparency principles**\(^7\)

### 3 Impact: what social investment has achieved so far

Social investment has already achieved growth, diversity, innovation, and enabled new ways to help solve vital social challenges. Given the range of meanings of the term “social investment”, estimates of the size of the market vary. Below, we set out some market sizing estimates used by social sector organisations.

BSC estimates that social investment (defined strictly as “repayable finance for charities and social enterprises that targets both financial and social returns”) in the UK has reached over 3,000 charities, social enterprises and other organisations dedicated to social mission. By the end of 2017, the outstanding repayable investments into charities and social enterprises were worth over £2.3bn, a 50% increase since the end of 2015.\(^8\) Note that these estimates are based on the narrower boundaries of the social investment market: where both investors and investees are intentionally seeking impact.

Product diversity has increased, with expansion in the vital area of unsecured debt for growth in organisations such as charities that cannot offer equity, new products such as blended funds and social outcomes contracts (also known as social impact bonds), and substantial growth in previously niche products such as charity and social enterprise bonds.

For instance in the housing sector, social investment is already contributing to a fairer housing market by partnering with housing associations, developing new financial instruments, such as social property funds and charity bonds, to connect more capital to the sector and funding specialists to smaller housing providers. It has provided homes to homeless and vulnerable people. Social investment in this sector is continuing to grow, with now over £400m capital available in dedicated property impact funds compared to £30m five years ago.\(^9\)

One example is the Real Lettings Property Funds run by St Mungo’s, a homeless charity, and managed by Resonance. The first property fund was set up in 2013 to provide affordable accommodation and support to homeless families and individuals who are ready for independent living, but struggle to access private rented accommodation. It was then followed by the National Homelessness Property Fund and the Real Lettings Property Fund II. By the end of March 2018, total investment in the three funds was £155m. They were offering stable accommodation to 1,247 people, including 613 children (see case study in Annex B).

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\(^7\) See box 1.5 in OECD (2019) Social Impact Investment: the impact imperative for sustainable development


\(^9\) Big Society Capital, Response to MHCLG green paper, A New Deal for Social Housing November 2018
Another example is the commissioning of public services with social outcomes contracts that link financial outcomes directly to social outcomes to enable innovative and preventative models of public service delivery\textsuperscript{10}. They are creating significant positive impact for groups such as young people not in education, employment or training (NEET), recently released prisoners, children in or at risk of entering statutory care, and people experiencing homelessness. There has been a significant increase in social outcomes contracting in recent years. To date there are 69 such contracts in the UK. The first 45 of these raised £46m and are benefiting 35,000 people.\textsuperscript{11} The Ways to Wellness social outcomes contract funded by Bridges Fund Management’s Social Outcomes Funds is one example. By 2022, this £1.7m social outcomes contract aims to benefit more than 11,000 people with long-term conditions, by complementing their medical support through social prescribing (see case study in Annex B).

Social investment is also opening up new markets, by creating partnerships between social investors, foundations and profit-with-purpose stakeholders to tackle social issues. The Fair by Design Fund is a good example of partners coming together to tackle a social issue using different tools. The partners started with the social issue, identified whether social investment was useful, if so what other tools and partners were needed, bringing them together to achieve the impact. Fair by Design combines social investment in ventures, research, campaigning, user-led design and an accelerator to tackle the issue of the poverty premium (see Box 7 below).

### Box 7: Fair by Design Fund \textsuperscript{12}

**The social problem.** People in poverty or on low incomes often pay more for the same products or services than people who are better off financially. This is called the “Poverty Premium”, the extra cost of being poor: in addition to not being able to buy many goods and services, people in poverty also end up paying more for the ones they can buy. A 2016 report by the University of Bristol revealed that the Poverty Premium paid by low-income families is, on average, £490 per year – enough for a family holiday, children’s clothes and shoes, or keeping a house warm in winter. According to Joseph Rowntree Foundation research, 21% of the UK’s population live in low-income households.

**The solution.** Set up in 2017, the Fair by Design Fund is a £9.6m fund investing in businesses tackling the Poverty Premium. These include for-profit and non-profit companies, tech start-ups, Community Interest Companies (CICs), charities and private limited companies. The Fund is investing in companies seeking loans and equity funding from Seed through to Series A and beyond. The Fund is invested in by Big Society Capital, Joseph Rowntree Foundation and Social Tech Trust and other social investors, managed and advised by Ascension Ventures and Finance Birmingham and with an accelerator programme run by Wayra UK.

The Fund operates in collaboration with a wide range of partners, contributing to the Fair by Design policy campaign to design out the Poverty Premium. Additional grant funding has been committed by Barrow Cadbury Trust, Comic Relief, Big Lottery Fund, The Tudor Trust and JRF to support the campaign. Fair by Design is working with:

- government departments and regulators to ensure policy and regulation adequately protect low-income consumers from paying a premium;
- corporates in key target sectors to understand their products and business models, and work with them to develop and roll out products and services that are designed for low-income consumers; and

\textsuperscript{10} Also known as Social Impact Bonds.

\textsuperscript{11} GO LAB online SIB database. [https://golab.bsg.ox.ac.uk/knowledge/project-database/](https://golab.bsg.ox.ac.uk/knowledge/project-database/)

\textsuperscript{12} [https://www.goodfinance.org.uk/investors-advisors/fair-design](https://www.goodfinance.org.uk/investors-advisors/fair-design)
• galvanising public support (including among low-income consumers) for these changes through advocacy and campaigning, and showing what’s possible.

The figure below is an example of the impact on people achieved with the contribution of BSC’s social impact investment between 2012 and 2017 across a range of sectors.

Figure 2: BSC Impact Report (2012-2017)

Annex B shows more examples of social investments and their impact on people and systems across sectors and products.

4 The challenges faced to grow social investment

Investment in organisations that address the toughest social issues can sometimes lead to significant challenges. These may include:

a) **Balancing affordability for front-line enterprises, with the requirements of investors**, given the slim margins obtained by many charities and social enterprises, and the burden of transaction costs for small deals. This may be accentuated where investments are made into organisations that cannot accept equity investment, where unsecured debt is the only route for growth, creating limited upside for investors.

b) **Lack of catalytic capital**, willing to take greater risks and/or lower returns in order to support early-stage social enterprises or to make a capital stack work with multiple investors with different intentions and requirements: often needed in broken markets.

c) **Lack of long-term patient capital**, which may be essential to develop models to get to full scale.

d) **Limited tax breaks and incentive structures** compared to commercial organisations and EU comparisons.
e) **Addressing new or broken markets**, where individual investment activity may struggle, given the lack of enabling systems in those areas. Yet, social investment has demonstrated that early pioneer investments can break through barriers and create new sustainable sectors (e.g., charity bonds, social property funds, social banks).

f) **Lack of familiarity in social sectors among mainstream investors** and lack of hard data on the risk/return characteristics of social investments, leading to inaccurate or poorly understood pricing of capital.

g) **Lack of scale of deals in the social sector for mainstream investors**.

h) **Weak secondary markets and reduced exit opportunities**, creating illiquidity for investors.

i) **Lack of knowledge and experience** from the social sector to articulate their investment need. However, understanding of social investment among social sector leaders has improved in recent years. In BSC’s 2018 Stakeholder survey, over 89% of social enterprise leaders have said they understand social investment. Tools such as the Good Finance website have facilitated demand and navigation routes. Peer-to-peer shared learning is also building confidence, e.g., through Let’s Talk Good Finance.

j) **Regulation and advisory barriers** blocking retail investors.

k) Social investment is seen in quite different ways, lending to **miscommunication and cultural challenges** (see Box 8 below).

If the challenges mentioned above are addressed, social investment could achieve much more for social challenges and for investors.

**Box 8. The cultures of social investment**

Social investment is seen in quite radically different ways by its participants, in terms of the culture and change process that it may involve, and of overall “world views”. The differences are not clear cut, but to assist in understanding, here are four possible ways in which participants see the “why and how” of social investment:

**Revolution**

Some participants see social investment as a thorough-going revolution in finance, putting values ahead of money, seeking a radical change in the purpose of investment, and seeking to replace the existing commercial approach. Participants thinking this way may focus on building a new purposeful financial system from the ground up through community-level instruments (e.g., community share issues) or on outright challenge to the current mainstream investment system – or both.

**Transformation**

A second viewpoint sees social investment as transforming (rather than replacing) mainstream investment. They might focus on the journey from traditional investment, through ESG investing to impact investment, a momentum for change towards balancing financial returns and impact. They might point to the French Solidarity Funds, and the impact funds created by mainstream asset managers in recent years, alongside more mission-first investing. This transformation viewpoint is strongly held by the Global Steering Group for Impact Investing.

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13 *Big Society Capital 2018 Stakeholder Survey*
Breakthrough

A third approach would look to the role of social investment in terms of breakthroughs in new or underserved markets for social improvement. The approach would accept that some areas of social need might always need flexible and below-market return finance, but would see other areas as ripe for initial pioneer investment, leading on to creating new sustainable solutions which could move towards mainstream finance. The "breakthrough" viewpoint will focus on the right kinds of finance – often in combination – at the right points in the journey, to turn areas of market failure into market success. The recent work on “Beyond Trade-offs” would be an example.14

Goal-oriented

A fourth approach sees social investment simply as a useful tool, often used with other tools to achieve a desired social impact goal – a much more pragmatic approach, used when helpful.

These cultural takes are not clear cut, and many participants will hold different views on each area of work. However, they show the range of intentions and cultural norms within the system, even if these are assumed rather than clearly articulated. People and organisations may often collaborate for the same area of social impact with widely different intentions and cultural standpoints. This diversity can sometimes inhibit collaboration, with internal criticism within the impact sector based on different cultural views. But it can also enrich the conversation and add both practical improvements and continuing learning.

5 Unlocking the potential of social investment: the opportunities

There are a number of social challenges which have become accepted as part of mainstream finance through supportive interventions, for example affordable housing and clean tech energy: it is possible to breakthrough in further themes. Social investors seek to find the highest possible point of success in overcoming or mitigating these challenges.

Social investment can achieve more impact through the following tools and actions:

a) Catalytic capital. There is an unmet demand for capital accepting disproportionate risk and/or concessionary returns to support mission-led organisations to grow and scale, when other investors will not. Organisations that operate in new or underserved markets, tackling difficult social issues and/or working with most vulnerable people, need time to understand the demand, the economics and path to scaling, and to build their reputation. While grants can help enterprises validate and establish new business models, at scaling stage, catalytic capital plays an important role in attracting and unlocking the additional investment capital – equity and/or debt – needed for growth.

Historically, most catalytic capital has come from foundations and a small but important number of individual philanthropists, alongside government programmes on tax breaks and guarantees which need improvement. The creation of Big Society Capital in 2012 provided a pool of capital alongside a market development role, at sustainable but often below risk-adjusted market rates in order to achieve systemic and sustained impact. This has drawn in substantial co-investments: BSC’s commitment of £541m has been matched by £1,222m from co-investors.

In March 2019 for instance, the MacArthur Foundation launched the Catalytic Capital Consortium in partnership with The Rockefeller Foundation and Omidyar Network. They believe

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14 [https://www.omidyar.com/insights/beyond-trade-offs](https://www.omidyar.com/insights/beyond-trade-offs)
that a greater, more effective use of catalytic capital is an essential component to achieving the UN Sustainable Development Goals (SDGs) and realising the full potential of the impact investing market. Patient, risk-tolerant, concessionary and flexible catalytic capital can help meet the demand for more capital across the risk-return spectrum, complement and pave the way for conventional investment, and mobilise additional capital through a range of blended finance solutions. MacArthur is allocating up to $150m for investments on a matching basis in approximately five funds or intermediaries that demonstrate a powerful use of catalytic capital across sectors and geographies (see Box 9 below).

Sub-sections d) to g) below look at other possible sources of catalytic patient capital, including opening new pools, reducing the risk for investors with tax breaks, guarantee or first loss schemes, and subsidies.

**Box 9: The role of catalytic capital (from MacArthur Foundation “Catalytic capital” report)**

In its report, the MacArthur Foundation defines the forms, roles, uses and results of catalytic capital.

The report defines catalytic capital as one building in a concession which can take many forms:

- **Price** – accepting an expected rate of return that is below-market relative to expected risk.
- **Pledge** – providing credit enhancement via a guarantee.
- **Position** – providing credit enhancement via a subordinated debt or equity position.
- **Patience** – accepting a longer or especially uncertain time period before exit.
• Purpose – accepting non-traditional terms to meet the needs of an investee (unconventional or no collateral, self-liquidating structures, smaller investment sizes, higher transaction costs, etc).

Such forms of concession can be built into traditional financial instruments (debt, equity or guarantees).

b) Partnerships with philanthropic foundations and development and expert partners.
Social investment is a single tool, and in many cases, multiple tools are required to address important social issues. For example, social investors may need the knowhow of expert agencies or the capacity building of development partners; they may need grant-based activity before investment is feasible; social issues are often surrounded by government activity, so investors may need line of sight to policy changes; there may be multiple barriers holding back progress, requiring a systems change model.

Box 10: The role of blended finance – the Access example

In early 2015, BSC, together with Big Lottery Fund and the UK Government, set up Access – The Foundation for Social Investment (Access) to provide an appropriate blend of capital to charities and social enterprises in England through the Growth Fund, seeking smaller-scale unsecured debt, as well as enterprise development support.

Blended approaches can help to build a bridge between the differing requirements of investors, in terms of return expectations, risk appetite and impact goals, and the capital needs and risk profile of beneficiary organisations.

In the Growth Fund, the grant plays three specific roles, which are intended to overcome the barriers which had prevented this sort of social investment from being more commonly available.

• First, it provides loss protection in each fund, giving BSC a buffer of between 15% and 35% before any capital might be eroded, depending on anticipated loss rates.

• Second, it provides a small subsidy to the fund manager, thus helping to tackle the relatively high transaction costs of making many small loans.

• Third, it allows the fund manager to deploy some non-repayable capital to the charity (always the minority of an investment), in the form of either a grant or, in some cases, an equity-like instrument.

The Growth Fund has a total investment capacity of £50m and is now fully committed in 16 funds across England. Funds vary in size from about £1.5m to £5.5m. To date, 240 investments have been made to charities and social enterprises of an average size of just over £64,000. Many of the recipient organisations are small, with a median turnover of less than £250,000.

c) Partnerships between social investors and more mainstream impact or fully commercial investments – and sometimes with other development partners. Partnerships can include capital stacks, serial investments (eg social investment at early stage, handing over to impact investments as the enterprise grows), and collaborations with research, expert organisations and government departments. The interest from mainstream players in impact investing could
be harnessed to get them to commit a small percentage of their capital for deeper impact social investment.

**Box 11: Investing for impact: the need for different types of capital when investing for impact**

Understanding and leveraging the unique role that each type of capital can play is vital.

Asset owners and investors find it easier to invest with impact, particularly in listed markets and in private equity. These impact products offer breadth of impact. Investing for impact and contributing to solutions starting from the social issue, will often be more difficult and require engaging with public and social sectors as well as the private sector, with long due diligence processes, infrequent timing of fund-raising, long ramp-up periods, smaller size of investments, unproven managers, high-concentration risk and impact measurement and report, not to mention the ongoing monitoring of these investments.

Social investors can attract capital to these issues, by helping lower the barriers to entry for investors.

For instance, BSC partnered with Cheyne Capital, a leading alternative investment manager with approximately £4bn of assets under management. BSC invested £12m in the Cheyne Social Property Impact Fund. The Fund aims to invest £900m to increase the capacity of the charities and social enterprises that deliver services, such as supported housing for people with disabilities, affordable housing for those on low incomes, elderly care and specialised housing for people experiencing homelessness. The Fund aims to attract new sources of capital to the social investment market, while tackling a serious and growing social issue which requires a large amount of capital. It aims for a balanced approach to financial and social return. It seeks to generate stable, long-term, inflation-linked returns for investors, while creating positive and measurable social outcomes.

**d) Opening new pools of mission-led capital.** Concessionary and high-risk finance has principally come from foundations and philanthropists. Opening up additional pools of mission-led capital could increase the finance available for some of the highest priority but toughest areas of social impact. Despite the challenge that can exist with affordability, the depth and importance of the impact created are attractive to socially minded organisations and individuals. Examples include local authority pension funds, donor-advised funds, university, hospital or foundation endowments, and retail crowdfunding. In addition, measures on tax breaks, guarantees and other subsidies could attract additional investors, creating positive returns while making finance affordable to front-line organisations (see points e) and f) below)

**Box 12: New pools of capital – example from the University of Edinburgh**

The University of Edinburgh’s social investment is the largest social investment made by a university in the UK. In 2018, it invested £1.5m in Big Issue Invest. £1m of the investment is for Big Issue’s Social Enterprise Investment Fund (SEIF II), which aids the finding of solutions to the most difficult social problems, such as social and financial exclusion, homelessness and youth unemployment.

£500,000 of the total investment is with Power Up Scotland, which is co-ordinated by Big Issue Invest. Power Up Scotland enables local community groups to expand and improve their services through funding new equipment or hiring new staff, in combination with support building business development plans and receiving mentoring from industry experts. The University of Edinburgh is

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one of four partners – along with the Scottish Government, Aberdeen Standard Investments and law firm Brodies LLP, and made the largest financial investment.

**Box 13: New pools of capital – donor-advised funds**

A donor-advised fund, or DAF, is a philanthropic fund held within an organisation which is itself a charity. It is essentially a charitable giving account. Donors can make contributions in cash or transfer existing investments to the fund as often as they like, and then recommend grants to their chosen charities. DAF providers range from bespoke philanthropy advisers serving the very wealthy, to large-scale providers such as Fidelity and Charles Schwab serving the retail market.

DAFs are not a new concept. In the US, DAFs are a multi-billion-dollar sector and a rapidly growing segment of philanthropy, with more than $80bn of assets under management. DAFs are increasingly popular in the UK because they are easy and convenient to administer, and offer cost savings and relative anonymity compared to setting up a family foundation or charitable trust. Donors to DAFs also benefit from UK tax advantages, such as Gift Aid and tax relief.

DAFs in the UK have enjoyed growth in all key areas over the past few years. As of 2017, charitable assets under management in all DAF accounts topped £1.3bn for the first time, a 24% increase from the previous year. The steady rise is a result of both an increase in contributions to DAF accounts and gains from investment returns. This was driven by £481m being paid into these funds by donors, a 36% increase on the year before.\(^\text{18}\)

**Box 14: Social investment to demonstrate a new market – charity bonds**

BSC’s investments and efforts to support the charity bond market, such as a £30m investment in the Charity Bond Support Fund in 2014, are examples of how social investment can demonstrate a market encouraging further investment. Managed by Rathbones, the Fund mandate was specifically designed to support the issuance of new bonds by charities, by investing in up to one third of each new issue.

This was an important step for both potential issuers, giving them greater confidence in their ability to raise investment through a bond issue, and for other investors, by supporting early deals to successfully launch and helping to develop the track record of the emerging market.

Critically, because of BSC’s market-building mandate and desire to have as many co-investors as possible, it embedded an incentive mechanism into the Fund, such that should wider investor interest emerge, then the Fund itself would be scaled back ahead of others (to a target investment size of 15%).

This work and other initiatives, including the Retail Charity Bond plc platform and Triodos Bank’s crowdfunding platform, helped open up the bond markets for charities, with the total amount issued by small and medium-sized charities in the UK increasing from ~£35m, comprising 11 issues at the time of the Fund’s launch in 2014, to more than £335.5m to date comprising 29 issuances.\(^\text{20}\)

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\(^{18}\) NPT UK, 2018 UK Donor-Advised Fund Report

\(^{19}\) Seb Elsworth & Evita Zanuso, Investing Together for Impact: The need for different types of capital when investing for impact

\(^{20}\) BSC market data
The Thera Trust Charity Bond is an example of a charity bond and the impact it achieved (see Annex B).

e) **Subsidies such as tax breaks.** Tax breaks are a recognised tool to support early-stage growth enterprises. Social Investment Tax Relief (SITR) is aimed at encouraging investors into early-stage, high-risk, high-growth charities and social enterprises, but has been limited by low cap levels and many exclusions. Extending the scope of eligible business activities and raising the cap, opening it to other types of investor beyond individuals, such as institutional investors, or creating a Social VCT mechanism, would enhance effectiveness. The Implementation Taskforce on Growing a Culture of Social Impact Investing in the UK will be formulating policy enhancement proposals to scale up tax-incentivised investment programmes for individuals, such as SITR and Community Investment Tax Relief (CITR).

f) **Guarantees and first-loss systems** are widely used in Community Development Finance\(^21\) and a major programme of the European Investment Fund\(^22\) that could be replicated in the UK; guarantees and first-loss arrangements can make areas currently requiring concessionary finance into market rate opportunities.

g) **Market side interventions** are already used, for example in social housing through rent subsidies, and the creation of social enterprise opportunities in regulated sectors such as s106 requirements in housing development. Improvements in the Social Value Act and government procurement would also assist, by allowing more scope for social mission organisations.

**Box 15: Role of subsidies**

| Whether direct cash, first-loss or guarantees, or tax breaks – subsidies have a significant role in many markets, including for social impact but also commonplace in early-stage venture, government sponsorship, university spinouts and more. Subsidies may be direct to investors or investees. They may also operate indirectly – for example welfare payments allow people on low incomes to rent social housing, which makes it possible for housing associations to raise investment to build more homes. Such subsidies can radically change the potential for social ventures to raise finance that is affordable, and at the same time give investors the prospect of at or near risk-adjusted market returns. Given that there is a limited pool of people who are able to invest for below market return, these measures can allow for greater scale. Is investment on this basis social investment? There are different views on this: it may be the only way for some people to invest for social purpose and for difficult impact areas to be financed. But some would see investment into impact themes where there are significant subsidies allowing market-rate financial returns, more as ESG investment, or at the least a very broad view of impact investment. |

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21 Through the British Business Bank [Enterprise Finance Guarantee scheme](#)

22 See the [EaSI Guarantee Instrument](#) implemented by the European Investment Fund and the upcoming [InvestEU programme](#)
dataset for returns to different types of social and impact investment, will support greater institutional engagement in the market. Similarly, the development of a competency framework that identifies the core skills and knowledge required of anyone working in social and impact investment – and then layers on the specialist skills relevant at different points in the investment chain – will improve communication across the market and encourage greater levels of participation. EVPA also offers a capacity-building curriculum for investors for impact that is open to all. Standards of practice are expected to be introduced for adviser training agencies via the UNDP. Changes to requirements on advisers in the UK are expected in the new term.

i) **Supporting a culture and behavioural change “for impact”** by embedding social impact in decision-making of mainstream financial organisations, so that it becomes the norm. Behavioural economists, social scientists, advisers and experts in marketing and communications could be engaged to change people's perception about the purpose of capital.

j) **Improved regulation, and clarity to advisers** by opening up the opportunity for individual investors to place some of their savings where their values live. The example of the French Solidarity Funds, shows that a simple government mandate to provide the option of a social alternative to long-term savings can attract over a million people into such investments. The common issue of illiquidity may mean that the most relevant areas for retail investment would be long-term savings products.

**Box 16: The French 90/10 Solidarity Funds**

The French solidarity retail investment ecosystem, channels funds from individuals to social enterprises through three possible avenues: solidarity bank savings accounts, solidarity shareholding (direct investment in social enterprises) and the 90/10 Solidarity Funds, which are the cornerstone.

By virtue of the 90/10 mechanism, companies with more than 50 employees are obliged to offer their staff, in addition to regular saving schemes, an optional solidarity savings fund, which allocates 5-10% of its assets to eligible (unlisted) social enterprises. The remaining 90-95% is invested in classic (listed) companies, mostly following SRI principles.

By the end of 2017, over a million French solidarity savers had chosen to place their savings in these various solidarity savings channels, adding up to €11.5bn of sums outstanding. In comparison, in 2008 the available solidarity retail funding amounted to only €1.6bn.

In place since the early 2000s and made compulsory since 2008, the 90/10 Funds have progressively become the main avenue for capturing French solidarity finance. Starting in 2008, the 90/10 mechanism grew from representing 29% of the available solidarity retail funding in 2008, to 64% at the end of 2017.

Some of these measures are already in discussion through the UK National Advisory Board on Impact Investing and the Implementation Taskforce, to open up more retail opportunities.

**6 Investors want to support this movement**

The Rise of Impact report noted that changing social attitudes are driving the growth of social investment and impact investment. For instance, 51% of the overall British public are committed to positive investing in some way, with 39% wanting to invest more than they do today. Research by the Defined

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Contribution Investment Forum\textsuperscript{24} found that 77\% of individuals favoured a social pension fund over a conventional fund if the returns were similar, and 44\% would do so even if their final retirement pot ended up 8\% smaller.

Individuals and businesses are already contributing to social investment in different ways, although on a small scale:

- individual savings in social banks (eg Charity Bank, Unity Trust Bank, Triodos Bank);
- individuals investing in community shares: since 2009, almost 120,000 people have invested over £100m to support 350 community businesses throughout the UK;
- specialist Independent Financial Advisers (IFAs) supporting investors to make social investments (eg Worthstone).

In the future, other tools could help direct more capital towards social investment. Robo-adviser platforms, for instance, are already used in the ESG space. Pensions also represent an important potential supply of capital, although in the shorter term, retail investors are less likely to respond on a large scale to the need for supportive and small-scale capital needs of social sector organisations.

It will take time before individuals put their savings in social investment, despite polls showing their interest, given barriers and the low levels of people changing their pension plans. Capital from retail investors will be spread across the impact investment spectrum. But ultimately if people want their savings to contribute to social impact, investment managers and pension funds will follow. A recent survey conducted by Allenbridge in 2017 with pension funds gave positive indications of an interest in, and broad support for, social impact investment. The main barrier to investing was information. Almost half of respondents (49\%) indicated that they had only limited knowledge on social impact investment, and 15\% said they had no knowledge at all. Only a minority (12\%) were well informed. Of those who had not yet made an active decision about such investment, 42\% of funds felt they lacked an understanding and 30\% felt they had insufficient information. The overwhelming barrier to entry is the lack of hard data on the risk/return characteristics of social impact investments; 53 funds (82\%) mentioned this as a barrier.\textsuperscript{25}

To bridge this information gap, \textit{Pensions for Purpose} was formed in October 2017 as a collaborative industry initiative to raise awareness of impact investment among pension fund trustees and advisers. In France, more than one million individuals are placing their savings in an optional social savings fund (see Box 16 above).

\textbf{Box 17: Pensions for Purpose}

\begin{quote}
Since launch, the platform’s website has had nearly 15,000 visitors, its Twitter feed has had over 250,000 impressions and its LinkedIn page over 90,000 views. This is a very real indication of the growing support of impact investment among the pension fund community. Brunel Pensions Partnership says of its membership: “As an Affiliate of Pensions for Purpose, Brunel is actively able to participate in thought leadership discussions and enhance the general understanding of impact investment within our community and in the wider investment community.”
\end{quote}

\textsuperscript{24} Defined Contribution Investment Forum, Identifying new ways to engage with savers in defined contribution pensions (March 2013)

7 Call to action to grow social investment

Social investment supports organisations dedicated to creating deep and lasting social impact. They have expertise and sometimes long-term understanding of social issues and people living their lives with the problems they face. Thanks to this, they can reach into social issues with levels of success on impact and on financial returns that mainstream investors would struggle to achieve in similar activities.

In an evolving sector we believe it is important to safeguard the original deep impact of social investment, to address more of the most pressing social issues. This requires investors to provide clarity on their intentions, conduct and impacts they achieve. Definitions, characteristics, house statements, frameworks and principles are all useful to clarify to key stakeholders what we mean by social investment.

We will achieve more only by attracting more capital to the sector, including by building partnerships with different types of impact-minded investor along the spectrum. Catalytic capital is key in paving the way for more conventional investment in the sector, alongside the growing interest for impact investment.

We invite investors and supporters to join us in an impact movement to:

- address more of the deep social challenges;
- encourage more investors to provide catalytic capital for social investment, developing partnerships along the spectrum of capital;
- improve transparent impact reporting, with both data and case studies and adopting globally agreed standards;
- improve clarity on investors’ intentions, conduct and returns;
- open doors to invite the public to put their savings and investments in line with their values;
- and above all, to improve people’s lives.

Our detailed recommendations are laid out below by groups of stakeholders.

<table>
<thead>
<tr>
<th>Areas</th>
<th>Recommendations</th>
<th>Who</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social investors, wholesalers, intermediaries and fund managers</td>
<td>Support a culture “for impact” with stronger standards and evidence of impact</td>
<td>Sign up to/engage with global impact investing guidelines, codes of conduct, standards and principles (eg GIIN characteristics of impact investors, IFC operating principles, IMP frameworks, OECD transparency principles among others)</td>
</tr>
<tr>
<td></td>
<td>Improve impact reporting to reflect real impact (including positive and negative impact), using globally accepted impact reporting standards, and contribute to their ongoing development</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td>Adopt IMP impact reporting frameworks</td>
<td>All</td>
</tr>
<tr>
<td>Areas</td>
<td>Recommendations</td>
<td>Who</td>
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<tr>
<td>-------</td>
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<tr>
<td></td>
<td>Develop a library of case studies of social investments, to demonstrate the value of repayable capital and partnerships across the spectrum of capital</td>
<td>All</td>
</tr>
<tr>
<td>Provide catalytic capital</td>
<td>Provide/promote the use of catalytic flexible capital in underserved markets to support mission-led organisations grow and scale</td>
<td>BSC, SIIG, UKVP, government</td>
</tr>
<tr>
<td>Develop partnerships across the spectrum of capital</td>
<td>Develop solution-focused investments/funds in partnerships between investors, philanthropic foundations and development and expert partners, building on pioneering work (eg Fair by Design, housing for homeless people)</td>
<td>BSC, SIIG, UKVP, intermediary social investors</td>
</tr>
<tr>
<td></td>
<td>Demonstrate the possibility and value of blended funds including “for impact” and “with impact”</td>
<td>Project Snowball, BSC external capital project</td>
</tr>
<tr>
<td>Open new or grow existing pools of mission-led capital</td>
<td>Encourage social investments from endowments (foundations, hospitals, universities), DAFs, high-net-worth individuals and housing associations</td>
<td>All, with the Impact Investing Institute (III)</td>
</tr>
<tr>
<td></td>
<td>Develop a platform to raise awareness of social investment among high-net-worth individuals similar to the one for pensions</td>
<td>BSC, intermediaries, Beacon Collaborative</td>
</tr>
<tr>
<td></td>
<td>Encourage greater clarification and more support from the Charity Commission (CC14) on what investments charities can make</td>
<td>Foundations, SIIG, BSC</td>
</tr>
<tr>
<td>Impact Investing Institute (III)</td>
<td>Support a culture “for impact”</td>
<td>III</td>
</tr>
<tr>
<td></td>
<td>Promote social investment in impact investment initiatives and platforms, to ensure organisations dedicated to social impact will benefit from the growth in impact capital</td>
<td>III</td>
</tr>
<tr>
<td></td>
<td>Promote impact investing guidelines, codes and standards for greater impact integrity (GIIN characteristics of impact investors, IFC principles, IMP standards, OECD transparency principles among others) and contribute to their development including to support end-user lived experience</td>
<td>III, Young Foundation</td>
</tr>
</tbody>
</table>

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26 The Charities (Protection and Social Investment) Act 2016 sets out the power of charities to make social investments and the trustees duties in making such investments.
<table>
<thead>
<tr>
<th>Areas</th>
<th>Recommendations</th>
<th>Who</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve impact reporting</td>
<td>Build greater consistency across the sector on language and frameworks for social investment</td>
<td>III</td>
</tr>
<tr>
<td></td>
<td>Contribute to the development of shared standards and practices in reporting impact data (including negative impact), up to the level of independent verification, to reflect and drive real impact</td>
<td>III, IMP Partners</td>
</tr>
<tr>
<td></td>
<td>Engage investors and intermediaries with these standards</td>
<td></td>
</tr>
<tr>
<td>Raise awareness and competency of finance sector</td>
<td>Develop a Competency Framework that supports the development of educational programmes, with the aim of helping finance sector participants to better understand and evaluate impact investments, including social investments and their specific opportunities and challenges</td>
<td>III, Worthstone, Pensions for Purpose</td>
</tr>
<tr>
<td></td>
<td>Support United Nations Development Programme (UNDP) developing training accreditation standards</td>
<td>III, with GSG</td>
</tr>
<tr>
<td>Open up channels for retail investors</td>
<td>Encourage the development of financial products made available to individual investors that include appropriate social investments</td>
<td>III</td>
</tr>
<tr>
<td>UK Government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provide catalytic capital</td>
<td>Provide funds for long-term catalytic patient capital into the most important social issues</td>
<td>Central Government, BEIS, DCLG, DCMS, HMT</td>
</tr>
<tr>
<td></td>
<td>UK Government investments to copy across the EU/EIF social impact investment mandates</td>
<td></td>
</tr>
<tr>
<td>Improve tax relief</td>
<td>Improve SITR and CITR regimes</td>
<td>DWP, TPR, FCA, with III, Pensions for Purpose</td>
</tr>
<tr>
<td>Improve regulation</td>
<td>Develop pensions rules and fiduciary duties to make it clearer what pension fund trustees can or can’t do in social investment</td>
<td>DWP, TPR, FCA, with III, Pensions for Purpose</td>
</tr>
<tr>
<td></td>
<td>Improve regulation of social investment through the FCA rules for IFAs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Create an obligation for companies to offer employees an optional social savings fund based on the example of the French solidarity funds model</td>
<td>Government</td>
</tr>
</tbody>
</table>
Annex A – Existing definitions

In the UK and globally, the term “social investment” is used with different but overlapping meanings.

- In the UK, it is most strictly used to specify the types of investment that are eligible for UK Government tax relief (the Social Investment Tax Relief, SITR). Investment into regulated charities or legal forms of social enterprises (Community Benefit Society with an asset lock or Community Interest Companies) to finance a trading activity run with the view of making a profit is therefore considered as “social investment”.

- However in practice, it is used in the UK with a broader meaning. It is seen as a subset of “impact investment” which is the term most used internationally:
  - “Impact investments” are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors’ strategic goals.” (GIIN website, 2019)27
  - “Social impact investments are those that intentionally target specific societal and/or environmental objectives along with a financial return and measure the achievement of both.” (UK Social Impact Investment Task Force 2014)28

- The UK NAB website defines “impact investment” along the spectrum of capital together with “responsible investment”, “sustainable investment” and “impact-only investment”.
  - “Impact investments go beyond sustainable investments to focus on solutions to pressing societal or environmental issues. Impact investments focus on one or a cluster of issues, with a deliberate intention to make a positive social or environmental impact. Some focus on societal or environmental solutions that can generate market-rate (or market-beating) financial returns. For these investors, there are a growing number of for-profit businesses that help to address a societal or environmental issue through their core product or the place in which they are located. Others are willing to make investments whose impact thesis may or may not deliver a market-rate financial return – social impact bonds, for example, may produce attractive returns but the product is not yet proven. A third category includes those who are willing to make investments whose impact approach requires a trade-off of financial return and therefore deliver a below-market financial return. This could, for example, involve backing social business models that re-invest some or all of their financial surpluses, such as trading charities, mission-driven co-operatives or cross-subsidy models. All three types of investment intend to create positive change in response to social or environmental issues, and so all are impact investments.”29

- In Europe, the term “social investment” or “social finance” is used by venture philanthropy organisations30 to refer to “funding that may generate a financial return, but where societal

27 https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing
28 Social Impact Investment Taskforce, Impact Investing: The Invisible Heart of Markets, September 2014. Note for the purposes of this report, social objectives are referred to as meaning both societal and environmental objectives.
29 http://uknabinimpactinvesting.org/what-is-impact-investing
30 Organisations that apply a “venture philanthropy approach”. Venture has emerged in Europe as a high-engagement approach to social investment and grant making across a wide range of social purpose organisations. It can be applied in both charities and non-profit organisations and socially-driven businesses.
impact comes first – the so-called Investing For Impact strategies” (EVPA, 2019). There is an expectation of some financial return or partial capital preservation.

- The OECD defines “social impact investment” as: “the provision of finance to organisations addressing social and/or environmental needs with the explicit expectation of a measurable social, as well as financial, return. It thus aims to foster economic development while achieving social outcomes.”

- Big Society Capital describes itself as a “social impact investor”, and investor “contributing to solutions” in the framework of the Impact Management Project. It defines social impact investment as intentional about creating impact, by targeting and supporting organisations which are dedicated to delivering and reporting a measured, systemic and sustained social impact, while providing sustainable returns.

These definitions have shared and differentiating features, as set out in the tables below.

**Table 1: Shared and differentiating features of existing definitions of social investment, social impact investment and impact investment**

<table>
<thead>
<tr>
<th>Shared features</th>
<th>Differentiating features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intentionality of investments</td>
<td>Investee’s dedication to impact (regulated social sector organisations and social purpose organisations dedicated to creating a measured social or environmental impact; vs any kind of investee delivering social impact)</td>
</tr>
<tr>
<td>Generate a social return AND a financial return</td>
<td>Investor’s dedication to impact vs impact-first strategies within a finance-first agency</td>
</tr>
<tr>
<td></td>
<td>Attitude to expected financial returns (from market rate to capital preservation and below)</td>
</tr>
</tbody>
</table>

**Table 2: Differentiating features of existing definitions**

<table>
<thead>
<tr>
<th>Definitions</th>
<th>Differentiating features</th>
<th>Investee’s dedication to impact</th>
<th>Investor’s dedication to impact</th>
<th>Attitude to expected financial returns</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Market rate</td>
</tr>
<tr>
<td>Social investment (SITR)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Impact investment (GIIN)</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impact investment (UK NAB)</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Definitions</th>
<th>Differentiating features</th>
<th>Investee’s dedication to impact</th>
<th>Investor’s dedication to impact</th>
<th>Attitude to expected financial returns</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Market rate</td>
</tr>
<tr>
<td>Social impact investment (SII Taskforce)</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Social impact investment (OECD)</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Social impact investment (BSC)</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Social investment/Venture philanthropy/Investing for Impact (EVPA)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
## Annex B – Case studies of social investments

### Box 18: Real Lettings Property Funds

<table>
<thead>
<tr>
<th>Real Lettings Property Funds 1 &amp; 2 and National Homelessness Property Fund</th>
<th>Fund size: £57m + £35m + £48m</th>
</tr>
</thead>
</table>

**The problem.** In 2014, there were over 6,500 people sleeping rough in London and 42,430 households living in temporary accommodation, which is expensive and not sustainable. There was also a lack of suitable transitional accommodation for people at risk of or experiencing homelessness.

**The solution.** St Mungo’s, a homeless charity, set up the Real Lettings Property Fund in 2013 to provide affordable accommodation and support to homeless families and individuals who are ready for independent living, but struggle to access private rented accommodation.

Resonance, an intermediary, partnered with St Mungo’s to organise the Fund. The Fund leases its apartments to St Mungo’s, and St Mungo’s leases them to people who may be at risk of homelessness. Investors are repaid through the rental income from the properties, which is largely from housing benefit and by proceeds from sale of the apartments at the close of the seven-year Fund. BSC invested £15m into the £56.8m Fund. The Fund aims to pay a 6% return.

**Systems change impact.** With the launch of the National Homelessness Property Fund in Bristol, Milton Keynes and Oxford, Real Lettings now houses over 1,000 tenants around the country. Meanwhile, the launch of the Real Lettings Property Fund 2 in early 2017, means that the initiative in London is continuing to grow, as further properties are added and more investment is raised, including from new sources of capital (local authorities, trusts and foundations, high-net-worth individuals). The Fund is also supporting the capacity building of front-line organisations through a partnership model.

**The impact on people.** By end of March 2018, the three Real Lettings Property Funds had raised £155m investment and were offering stable accommodation to 1,248 people, including 613 children. Most of these are families who have moved from unsuitable conditions, typically in temporary accommodation.

### Box 19: Thera Trust charity bond

<table>
<thead>
<tr>
<th>Thera Trust charity bond</th>
<th>Fund size: £5m + £2m</th>
</tr>
</thead>
</table>

Thera Trust has been providing support for people with learning disabilities since 1998. In 2010 Thera Trust began providing property for people with disabilities. In 2015 Triodos Bank helped Thera to raise £2m through a successful bond offer. Since 2015 the number of learning-disabled people supported rose from 1,800 to 3,000.

In 2018, a second charity bond offer was launched to raise £5m to purchase up to an additional 15 homes for 25 people with a learning disability, and to provide working capital over the next five years. The bond was subscribed through a crowdfunding platform, with £100 minimum investment over six years and a 5.5% gross interest per year.

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33 [https://resonance.ltd.uk/real-lettings-property-fund-social-impact-report-2016-17/](https://resonance.ltd.uk/real-lettings-property-fund-social-impact-report-2016-17/)

**Box 20: Bridges Social Impact Bond Fund and Ways to Wellness Social Prescribing Social Outcomes Contract**

<table>
<thead>
<tr>
<th>Bridges Social Impact Bond Fund</th>
<th>Fund size: £25m</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Bridges Social Impact Bond Fund provides investment and support to charities and social enterprises, to deliver programmes, via social outcomes contracts, designed to improve social outcomes in areas such as education, therapy, adoption and care for vulnerable young people. These contracts can facilitate the funding of early-stage, preventive interventions, which are more effective and cost-efficient than treating social issues after they have arisen.</td>
<td></td>
</tr>
<tr>
<td>Social investors provide the required up-front funding for interventions and services delivered by charities and social enterprises, knowing their returns will be made only if the intervention achieves specific target social outcomes.</td>
<td></td>
</tr>
<tr>
<td>The Fund has invested in 27 social outcomes contracts, benefiting 18,000 individuals, generated £70m+ outcomes payments worth £130m+ to government in children’s services, school support, homelessness and health and social care.</td>
<td></td>
</tr>
<tr>
<td>For example, the Fund has funded Ways to Wellness through a £1.7m social outcomes contract. Ways to Wellness provides a community answer to a deep local health problem. Launched in 2015, Ways to Wellness aims to help over 11,000 people during the seven-year investment, so the potential to improve the health and wellbeing of local people is very significant.</td>
<td></td>
</tr>
<tr>
<td>Bridges launched a successor fund, Bridges Social Outcomes Fund II, in July 2018.</td>
<td></td>
</tr>
</tbody>
</table>

**Box 21: Big Issue Invest SEIF and Sandwell Community Caring Trust**

<table>
<thead>
<tr>
<th>Big Issue Invest Social Enterprise Investment Fund I</th>
<th>Fund size: £8m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sandwell Community Caring Trust (SCCT) is a registered charity that provides housing and social care services for the disabled and elderly in the West Midlands and Devon. It aims to support people who need help to live independent and happy lives through the provision of high-quality social care.</td>
<td></td>
</tr>
<tr>
<td>In 2013, SCCT took a £725,000 fixed rate and revenue participation loan from Big Issue Invest Social Enterprise Investment Fund I. This has allowed it to buy a purpose built property that's secured the long-term future for ten adults with profound learning and physical disabilities.</td>
<td></td>
</tr>
<tr>
<td>Big Issue Invest Social Enterprise Investment Fund I (SEIF I) provided growth capital through unsecured loans for UK social enterprises across a range of social outcomes areas, such as employment, mental health, health and social care, financial inclusion, community development and community-led development. SEIF I launched in 2010, and is now fully committed, having invested over £8m in 21 enterprises. Funds were raised from a range of investors, including corporates, foundations and high-net-worth individuals.</td>
<td></td>
</tr>
<tr>
<td>SEIF II, a £24m fund launched in 2017, is the successor to SEIF I.</td>
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</tr>
</tbody>
</table>

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36 Big Issue Invest Fund Management Social Enterprise Investment Fund L.P. Annual Review for the year ended 31 March 2018
Box 22: Charity Bank and Portsmouth Abuse and Rape Counselling Service

Portsmouth Abuse and Rape Counselling Service: supporting survivors

Kim Hosier, Centre Director, explains how the centre’s new premises, purchased with support from a Charity Bank loan, represents a pivotal move forward for the organisation.

“Portsmouth Abuse and Rape Counselling Service (PARCS) started out as a grassroots organisation in 1981. There had been several rapes around the Portsmouth area, and it became apparent that there were no services in place to support victims. The closest rape crisis centres were in London, and so a group of women from the local community got together and created a phone support service.

“Since then, the organisation and services provided have continued to grow and develop in response to the needs of survivors of sexual abuse and rape. Initially a service uniquely for women, it expanded to offer support to men and eventually children of all ages and their families. Over the past six or seven years, other projects have developed, such as outreach and prevention and providing domestic violence counselling.

“The centre in which our central offices and services had been located for many years was in a declining state, with a huge amount of renovation needed. We spent a long time looking for another premises, but nothing quite fitted the bill. Eventually, just as we were about giving up hope, we found something perfect. An old residential building that had previously housed a GP practice. It was the right balance of professional and contemporary whilst maintaining a homely, welcoming and supportive feel, essential to what we do.

“The next hurdle though was finding funding. As a small charity with no assets or previous mortgage, we were nervous about finding a lender that would take a risk on us. Luckily, Charity Bank believed in what we were trying to do and was willing to invest in this next step for our organisation. Without Charity Bank, we wouldn’t have been able to buy this new centre and I’m not sure what the future would have held for us.

“It was a new experience for us and a complex process, but the Charity Bank team were friendly, approachable and supportive throughout. We moved into the new centre last month and it’s fantastic. This is a really exciting and transformative move for the future of our services and it was made possible by Charity Bank.”

Box 23: Charity Bank and Foresight North East Lincolnshire

Foresight North East Lincolnshire: improving the lives of disabled people

Foresight operates throughout the north and north east of Lincolnshire to meet the needs of disabled people, their families and carers. The charity has received four loans from Charity Bank over the past eight years, supporting the expansion of its service provision. Chief Executive Paul Silvester explains how they have adapted and grown to support and enrich the lives of disabled people in their community.

“Foresight began life in 1999 as a charity assisting blind and partially-sighted people. It quickly expanded into a mainstream support organisation, responding to the varied and complex needs of
all disabled people across the area. In 2005 we were awarded our first service provision agreement with the local authority and have seen phenomenal growth since then.

“The activities and services we provide now range from daycare facilities and supported living accommodation to older persons and children’s services. We have identified areas lacking in service provision, seized opportunities and created diverse income sources to ensure our sustainability. The use of loan funding has also played a significant part in this development.

“We received our first Charity Bank loan in 2011 when we were responding to feedback that our main centre needed to provide food. With help from the loan, we purchased an adjacent property to build a café and community centre, where we now welcome over 12,000 people each year. Since then, several other Charity Bank loans have supported us as we continued to expand and develop.

“We took out the initial loan with Charity Bank because they offered us the best deal. We continue to go to them because we have such a good working relationship. We’re quite a quirky organisation that never stands still and often has multiple projects on the go. We have taken out other loans with mainstream banks but it’s difficult for them to understand our way of working and their due diligence can be cumbersome. With Charity Bank, we have a mutual understanding and a shared mission. Having a named account manager really helps as well. I feel like I can simply pick up the phone and resolve any issue at any time.

“We’re a shining example of the significant social benefit and impact that can be achieved through ethical banking. Social investment has been the catalyst for growth of our charity. If we hadn’t had access to that, especially when we were first starting to expand, we wouldn’t be where we are today. Without the Charity Bank loans we’ve received and the people who save with them, the lives of disabled people in our community would be significantly poorer.”

Key impact. 450 people engage with Foresight services per week. 120 active volunteers work with Foresight.

Box 24: Charity Bank and Adrenaline Alley

Adrenaline Alley: a world-class urban sports centre

Adrenaline Alley was set up to provide local kids with a safe place to skate and is now Europe’s largest urban sports centre, attracting enthusiasts and professionals from across the world. The charitable enterprise received a loan from Charity Bank to enable it to buy its 5.9-acre site. Founder and Development Director Mandy Young explains how this purchase has allowed it to continue to expand and develop, securing its future as a leader in urban sports.

“The idea for Adrenaline Alley came about in 2002 after my son John was attacked in the street at the age of 14 for carrying a skateboard. Following this, we spent two years talking to people in the community and researching the industry with the aim of providing a safe and secure facility for young people to skate, skateboard, BMX and scoot. We started as an outdoor park, which was great but not very sustainable and our real development began when we moved to our current location on Priors Haw Road, Corby in 2006.

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39 https://charitybank.org/charity-profiles/adrenaline-alley-skate-park
“It quickly became obvious that there was a need for a facility like ours not just for local people but nationally. We expanded quite organically in response to a growing membership and by 2012 we had taken over all three buildings to create a multi-complex with over 120,000sq ft of ramps.

“As the charity grows, so does the number of children and young adults we cater for. We’re continually working with them to provide additional activities such as our training club, filming and art projects, volunteering and part-time work. Young people attending the facility are not just given a safe space to ride but can also build confidence and fulfil their potential.

“In 2015, we were in a position to purchase the site. I knew of Charity Bank as I’d met Peter Hughes, who is now our account manager, four years previously and he’d maintained an interest in us and how we were progressing. We looked at a number of lenders but Charity Bank offered us the best deal and we were happy to continue building this relationship.

“Without the Charity Bank loan, we would not have been able to grow and develop in the same way. Owning the site has given us the freedom to quickly adapt to trends, which is vital within the urban sports industry. We’ve also been able to make some significant improvements, such as building a two-storey café, diversifying our revenue income and ensuring sustainability.

“Making a difference is at the heart of what we do. It’s a great comfort to know we can use investment from a social lender like Charity Bank, who is in turn adding value to society and making further social impact. I would encourage anyone who is looking to save or borrow money to look at doing so with a social lender. It’s fantastic that people have the option to save money with a bank that invests back into community organisations and charities to help them fulfil their potential.”

**Key impact.** 115k members now use Adrenaline Alley. 26% increase in participation after Building 1 was redeveloped.

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**Box 25: Golden Lane Housing Retail Charity Bond**

**Golden Lane Housing**

Golden Lane Housing, the housing arm of Mencap, used social investment to buy homes for people with a learning disability.

**The problem.** There is a lack of appropriate supported accommodation for people with learning disabilities, who often live in large institutions that are far away from home, or stay with family members who are increasingly unable to cope.

**The solution.** Golden Lane Housing (GLH) provides quality supported housing for people with a learning disability, so that they have choice about where they live, who they live with and what type of support they receive. It has a 20-year track record of managing and maintaining properties for people with a learning disability. Over that time, it has steadily acquired a portfolio of 430 properties worth £102.6m at historic cost, plus a further 416 properties which it leases (at 31 March 2018).

**Revenue model.** In 2014, GLH raised £11m in eight days in the first-ever charity bond to be listed on the London Stock Exchange. This is being used to buy and adapt 30 properties for people with learning disabilities. Almost all the income is in the form of rental income. Most tenants pay rent at the higher, exempt level of housing benefit. This is paid by the local authorities direct to GLH as the

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landlord. It therefore benefits from a stable, government-backed rental income flow. The income is used to pay interest to investors and cover costs of management and maintenance.

**Impact.** The charity has invested over £83m to buy or lease 700 homes for 1,320 people with learning disabilities to date. 90% of tenants report a high level of satisfaction with their homes and many have found a new lease of life, as they are more confident and engaged in their local communities. The 2014 bond is enabling GLH to provide high-quality, supported housing in the community for a further 120 tenants.
Annex C – Principles and characteristics for impact investors

C.1 GIIN Core Characteristics of Impact Investing

The Core Characteristics of Impact Investing define the growing approach of impact investing, and offer the financial markets greater clarity on what constitutes credible impact investing.

Every investment contributes to short- and long-term positive and negative social and environmental effects. All investors shape these effects through investment decisions. Impact investing is an approach used by investors, to harness the power of their investment capital to actively contribute to improvements in people’s lives and the health of the environment. Investors can incorporate impact investing practices across asset classes and with a variety of return expectations.

For impact investments to contribute effectively to positive social and environmental impacts, and for the approach to remain credible as more capital becomes available for impact investing, the financial markets need clarity on expected practice and the terms of participation in the impact investing market.

These Core Characteristics provide that definition, equipping investors with:

- a list of the practices that will define the credibility of their impact investing approach in the market; and
- reference points for considering the quality and credibility of a potential investment partner’s impact investing approach.

The Core Characteristics of Impact Investing define the growing approach of impact investing, and offer the financial markets greater clarity on what constitutes credible impact investing. These Core Characteristics provide a collective understanding of the actions that:

- define impact investing in practice and differentiate impact investing from other investment approaches; and
- ensure investments have the highest likelihood of contributing to positive impacts.

What are impact investments?

GIIN defines impact investments as investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. There are four key elements:

- **Intentionality.** Impact investments intentionally contribute to social and environmental solutions. This differentiates them from other strategies such as ESG investing, Responsible Investing and screening strategies.
- **Financial returns.** Impact investments seek a financial return on capital that can range from below market rate to risk-adjusted market rate. This distinguishes them from philanthropy.
- **Range of asset classes.** Impact investments can be made across asset classes.
- **Impact measurement.** A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance of underlying investments.
What are the core characteristics of impact investing?

Impact investors adhere to four practices that define impact investing. They describe these as:

1. **Intentionally Contribute to Positive Social and Environmental Impact through Investment alongside a Financial Return.** We intentionally finance solutions and opportunities for social and environmental challenges. This includes:
   - setting transparent financial and impact goals; and
   - articulating an investment thesis that is explicit about these goals and the strategies we will use to realise them.

2. **Use Evidence and Impact Data in Investment Design.** We use the best quantitative or qualitative impact data and evidence that we can to increase our contribution to positive impact. This includes:
   - identifying a social or environmental need aligned with empirical evidence or well-established science as well as one expressed by the population or environmental community the investment seeks to serve;
   - using the best evidence accessible to us to:
     - set targets about our investment's contribution to improvement of that need;
     - design investment strategies based on solutions effective in addressing the needs we identified and an understanding of potential negative impacts in the context of the investments; and
     - identify the qualitative and quantitative indicators we will use to gauge performance against our targets;
   - improving our capacity to conduct impact analytics over time to improve the rigor of our activities.

3. **Manage Impact Performance.** We use impact performance data in decision-making to manage our investments towards achievement of our social and environmental objectives. This includes:
   - embedding feedback loops through the life of the investment as feasible;
   - identifying risks to achieving our stated impact goals and developing mitigation plans;
   - seeking to mitigate the negative consequences of our actions; and
   - disclosing actual impact performance data to investors and investees, in as comparable a manner as possible.

4. **Contribute to the Growth of Impact Investing.** We take action to enable more investors to make impact investments effectively. This includes:
   - being transparent about our degree of use of these impact investing practices;
• committing to using shared conventions, approaches, and standards for describing our impact goals, strategies and performance;

• considering the impact performance and quality of impact management practices of prospective co-investors and investees in our decision-making; and

• sharing non-proprietary or non-private positive and negative learnings, evidence or data.

To learn more about the GIIN, please visit www.thegiin.org
C.2 IFC Operating Principles for Impact Management

What are the Principles?

Operating Principles for Impact Management (the Principles) describe the essential features of managing investment funds with the intent to contribute to measurable positive social or environmental impact, alongside financial returns. This goes beyond asset selection that aligns investment portfolios with impact goals (for example, the SDGs), to requiring a robust investment thesis of how the investment contributes to the achievement of impact.

The Principles have been designed from the perspective of an end-to-end process. The five elements of this process are: strategy, origination & structuring, portfolio management, exit and independent verification. The nine Principles that fall under these five main elements are the key building blocks for a robust impact management system. They aim to ensure that impact considerations are integrated into investment decisions throughout the investment lifecycle.

The Principles may be implemented through different impact management systems, and are designed to be fit for purpose for a wide range of institutions and funds. Also, a variety of tools, approaches and measurement frameworks may be used to implement the Principles. The Principles do not prescribe which impacts should be targeted, or how impacts should be measured and reported. They also complement other industry initiatives, such as IRIS+, and green/social bond principles, which seek convergence towards common approaches to impact measurement and reporting.

Operating principles for impact management

<table>
<thead>
<tr>
<th>Strategic Intent</th>
<th>Origination &amp; Structuring</th>
<th>Portfolio Management</th>
<th>Impact at Exit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Define strategic impact objective(s) consistent with the investment strategy.</td>
<td>3. Establish the investor’s contribution to the achievement of impact.</td>
<td>6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately.</td>
<td>7. Conduct exits, considering the effect on sustained impact.</td>
</tr>
<tr>
<td>2. Manage strategic impact and financial returns at portfolio level.</td>
<td>4. Assess the expected impact of each investment, based on a systematic approach.</td>
<td>8. Review, document and improve decisions and processes based on the achievement of impact and lessons learned.</td>
<td></td>
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<tr>
<td>5. Assess, address, monitor, and manage the potential risks of negative effects of each investment.</td>
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Independent Verification

9. Publicly disclose alignment with the Principles and provide regular independent verification of the extent of alignment.
## Annex D – The five dimensions of impact and related data categories

Measuring, reporting and managing impact requires collection and reporting of performance data across five dimensions of impact.

### Figure 3: The five dimensions of impact

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Data Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>WHAT</td>
<td>Outcome</td>
<td>The outcome experienced by the stakeholder when engaging with the enterprise</td>
</tr>
<tr>
<td></td>
<td>Importance of outcome to stakeholder</td>
<td>Stakeholders’ view of whether the outcome they experience is important</td>
</tr>
<tr>
<td>WHO</td>
<td>Baseline</td>
<td>The level of outcome experienced by the stakeholder prior to engaging with the enterprise</td>
</tr>
<tr>
<td></td>
<td>Other stakeholder characteristics</td>
<td>Socio-demographics and behavioural characteristics of the stakeholder</td>
</tr>
<tr>
<td>HOW MUCH</td>
<td>Scale</td>
<td>The number of individuals experiencing the outcome</td>
</tr>
<tr>
<td></td>
<td>Depth</td>
<td>The degree of change experienced by the stakeholder (Outcome – Baseline)</td>
</tr>
<tr>
<td></td>
<td>Duration</td>
<td>The time period for which the stakeholder experiences the outcome</td>
</tr>
<tr>
<td>CONTRIBUTION</td>
<td>Depth counterfactual</td>
<td>The estimated degree of change that would occur anyway for the stakeholder</td>
</tr>
<tr>
<td></td>
<td>Duration counterfactual</td>
<td>The estimated time period that the outcome would last for anyway</td>
</tr>
<tr>
<td>RISK</td>
<td>Evidence Risk</td>
<td>The probability that insufficient high-quality data exists that impact occurs</td>
</tr>
<tr>
<td></td>
<td>Execution Risk</td>
<td>The probability that activities do not convert to outputs</td>
</tr>
<tr>
<td></td>
<td>Stakeholder Participation Risk</td>
<td>The probability that the expectations and/or experience of stakeholders is misunderstood or not taken into account</td>
</tr>
<tr>
<td></td>
<td>Drop-off Risk</td>
<td>The probability that the expected impact does not endure for the stakeholders</td>
</tr>
<tr>
<td></td>
<td>Unexpected Impact Risk</td>
<td>The probability that significant unintended impact occurs</td>
</tr>
<tr>
<td></td>
<td>Alignment Risk</td>
<td>The probability that the organisation does not continue delivering the expected impact</td>
</tr>
<tr>
<td></td>
<td>Efficiency Risk</td>
<td>The probability that expected impact could have been achieved with fewer resources</td>
</tr>
</tbody>
</table>

*Source: Impact Management Project*