Will impact investing give you more bang for your buck?

Plum Lomax

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Impact investing is in many respects the issue of the day.

Tony Blair, commenting on the fallout for the Labour Party after the General Election, stated, 'We have to be the policy innovators, those seeking new and creative solutions to the problems our values impel us to overcome.' As part of this, he listed social impact investing as one of the 'riot of interesting progressive analysis and thinking' taking place which might revive civil society. This view of impact investing as a potential game-changer is echoed within the government – at the G8 Summit on Impact Investing, David Cameron talked about the power of impact investing to 'tackle the most difficult social problems … problems that have frustrated government after government, country after country, generation after generation'.

Here at NPC we certainly subscribe to the view that impact investing brings significant opportunities. For cash-strapped charities and social enterprises with an existing revenue stream to pay back investors, it is an obvious route to explore, but it is also encouraging others to innovate towards developing enterprise-related activities.

Think of Barnardo's, the children's charity, which received an investment from Big Issue Invest to set up three social enterprises, all of which were successful, and enabled Barnado's to use the surplus generated to fund some of its charitable work and repay its loan (we published more on this back in 2011). Alongside providing vital access to finance, social investment can help organizations become more sustainable over time, and focus their minds on thinking about, delivering and measuring outcomes. It can bring a new discipline and rigour to investees.

The burgeoning impact investing field is also starting to attract new investors into the broader philanthropic field – people who wouldn't before have paid much attention to 'traditional' giving but are more excited about blended social and financial returns. This particularly applies to the younger generation – in Spectrem's 2013 study of US High Net Worth Millennials (individuals aged 32 or younger), 45 per cent of wealthy millennials want to use their riches to help others, compared to only 3 in 10 of an older generation. Add to this the growing (albeit slowly) movement of foundations that are thinking more about aligning their asset base with their foundation's values, and a picture quickly builds of the potential for more money being put to good use.

The 100% Impact Network, a global group of individuals, family offices and foundations, have committed to investing 100 per cent of their assets for positive social and environmental impact. This group, founded in 2013, now comprises 65 asset owners with combined committed capital of around U$4 billion. Were the top 100 family foundations in the UK to allocate just 10 per cent of their overall assets to seek a social return, an extra £3.4 billion would be working to contribute to social impact. Although a crude calculation, this shows that much could be achieved by making existing funds work harder.

The success announced last week by Big Society Capital (BSC) in their third annual report this week shows other signs of progress. Along with co-investors, BSC has made £359 million of social investment capital available since inception (£255 million in 2014 alone), with a more modest £104 million actually drawn down to date by social sector organizations.

But we are wary that too much hype could be potentially damaging at such an embryonic stage of the market's development.

For all the talk around impact investing, in truth there is still much more rhetoric than reality, and that brings risks. Risk that a high-profile social impact bond fails to deliver results, undermining their reputation as a class of investments. Or risk that investors with a supply of funds are unable to deploy them as quickly as they'd like due to a lack of investment opportunities. It reminds me of the early days of the internet, when you'd try out an online shopping website or booking system to find that it was too complicated to use and be so put off that you'd never try again – something that coloured your view of all future online experiences.

A period of quieter advance would be welcomed, then, offering the chance for the evidence base to be built up within impact investing. It would be good to see more impact investing products being developed and more funds reporting on the impact they are achieving. And more organizations proving that they can develop enterprise solutions that provide both a financial and a social return. Again BSC's release of its first impact report is welcome.

And we are excited to be working with Lisa and Charly Kleissner, impact investing pioneers based in the US and founders of the aforementioned 100% Impact Network, to help them evaluate and share the social impact of their KL Felicitas Foundation – now 100 per cent invested for social and/or environmental impact across all asset classes. As more reports like this are shared in the market, hopefully the true reality of the potential of impact investing will emerge.

Plum Lomax is deputy head of the funder team at NPC.

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