



Building the Impact Investing Market: The UK case

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 #ficompass

My purpose



- How to build the impact investing market drawing lessons from the UK
 - Government leadership and policy reforms despite changes in government
 - Redefinition of public and private domains and new forms of partnerships
 - What private capital can do
 - It's more than money: change values, rules, socio-economic structures
- Brief reference to EU and questions to address



UK Vision



We've got a great idea here that can transform our societies, by using the power of finance to tackle the most difficult social problems.

Problems that have frustrated government after government, country after country, generation after generation. Issues like drug abuse, youth unemployment, homelessness and even global poverty. The potential for social investment is that big. So I want to make it a success in Britain and I want to sell it all over the world.



David Cameron, UK Prime Minister at the Launch of the G8 social impact investing taskforce, June 2013



Impact's place in the investment spectrum



Grant-makers

Venture Philanthropy

Impact Investors

Financial Investors

SRI/ESG



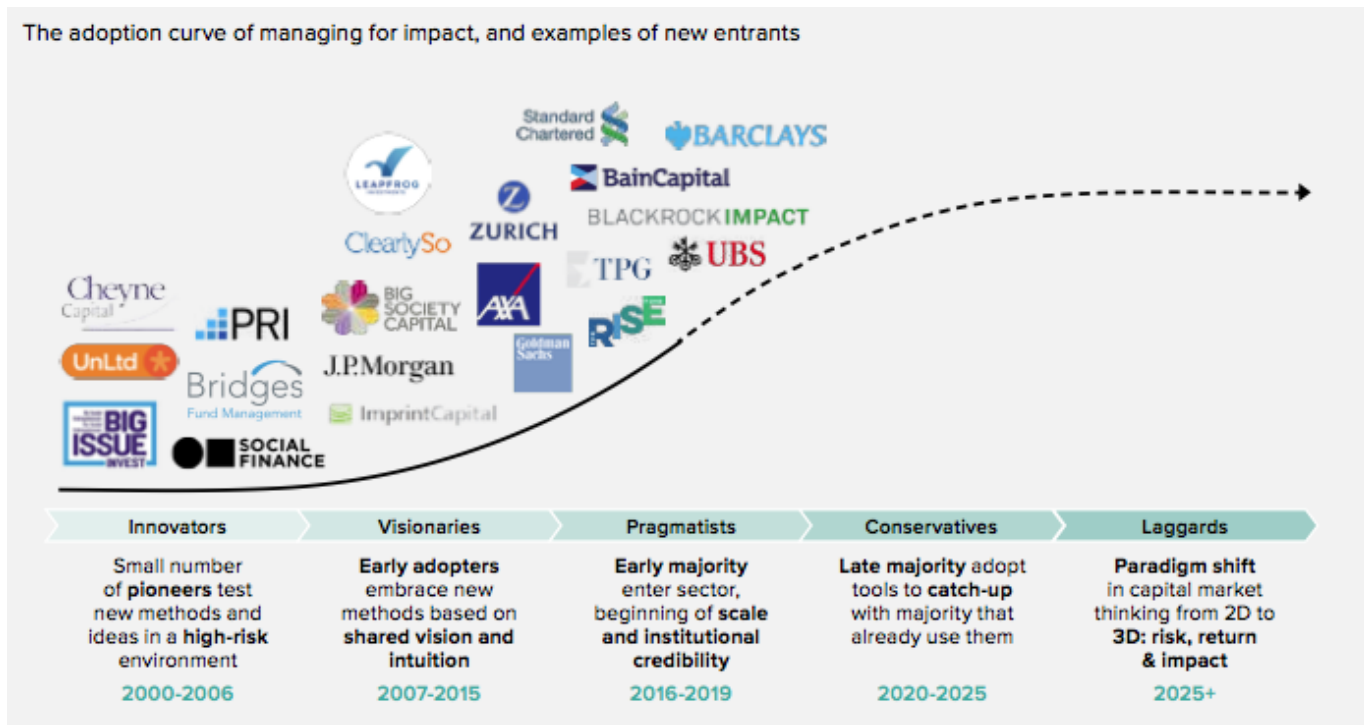
Wholesale Investors



Market growth and key players



With recognised traditional investors such as Barclays, UBS and JP Morgan entering the market we are starting to see Impact investment strategies enter the mainstream.



Some figures on the UK market



- Market Growth (BSC)
 - 2015 - £1.5bn
 - 2016 – £1.9bn (30% increase)

- SIB Market (Social Finance)
 - £43.4m raised
 - 49,000 ‘lives touched’
 - 40 SIBs mainly on job inclusion, housing/homelessness and child and family welfare

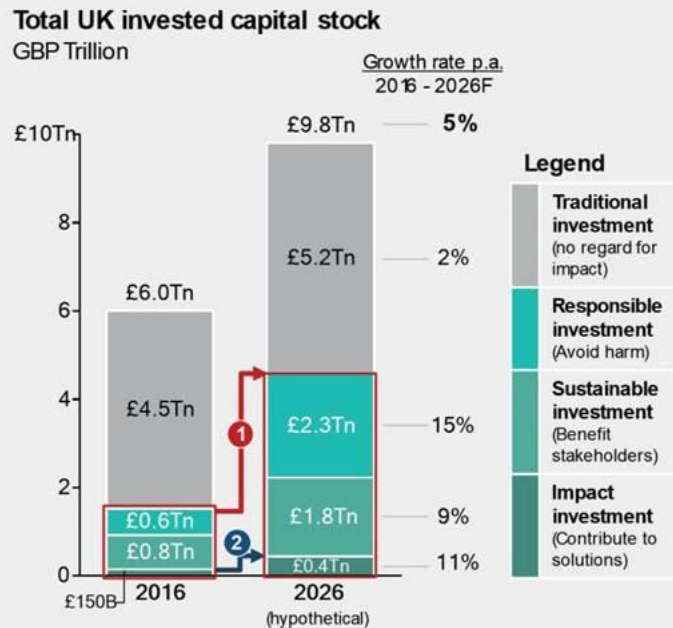
UK ambition



The UK Government recognises the value of both impact and sustainable investment, and is actively working to grow the market over the next 10 years.

Figure 4: Trillions at stake

A scenario for how we can redirect a significant share of UK investment capital to incorporate impact



We could see a **fundamental realignment** of the motivations behind UK investment markets over the next decade...

- 1 ..where **~£3 Trillion** in additional investment capital could incorporate and manage impact to some degree...
- 2 ..of which **~£300 billion** could be directed into impact investing, helping contribute to solutions to a range of pressing challenges

NOTE: Scenario assumptions imply a growth rate of 12% p.a. for 'SDG investing' (the sum of responsible, sustainable, and impact investing), conservative relative to the 33% p.a. growth rate seen over the past three years. Detailed assumptions are available in endnote 26.

Report of the UK National Advisory Board on Impact Investing October 2017



Building Market infrastructure



	Demand	Supply	Intermediation	What is it?
2000	Social Investment Taskforce			Government (Treasury) backed, expert led investigation to develop the social investment market.
2001	UnLtd			Foundation for social entrepreneurs, providing early stage grant funding and capacity development support, building a pipeline for investment.
2002		Bridges Ventures		Community development venture fund, following a venture capital model. £20m was raised for the first fund with government providing match.
"		Charity Bank		A CDFI providing loans to charities and social enterprises.
2004	Futurebuilders			Government fund designed to strengthen social sector's role in public service delivery. Provided grants, loans and investment readiness support.
2007		Social Finance		An intermediary developing new models of social change in the sector. Led the design of the first SIB.
2010	First Social Impact Bond			
2012	Investment and contract readiness fund			Government backed fund to drive investment readiness in the social sector.
"		Big Society Capital		Supplier of capital to social investment intermediaries and market development champion.
"	Social Value Act			Regulation that obliges government agencies to take into consideration social value when commissioning new services.
"			Ethex	An online platform for trading social investment products.
2013			Unit Cost Database	A database that aims to identify the unit cost of a given intervention, thereby allowing a value to be placed on savings resulting from a social intervention.
"			What works centres	Specialist centres to support evidence based policy making and commissioning of effective interventions.
2014		Social Investment Tax Relief		Regulation designed to increase the flow of risk capital into the sector.

Key reforms

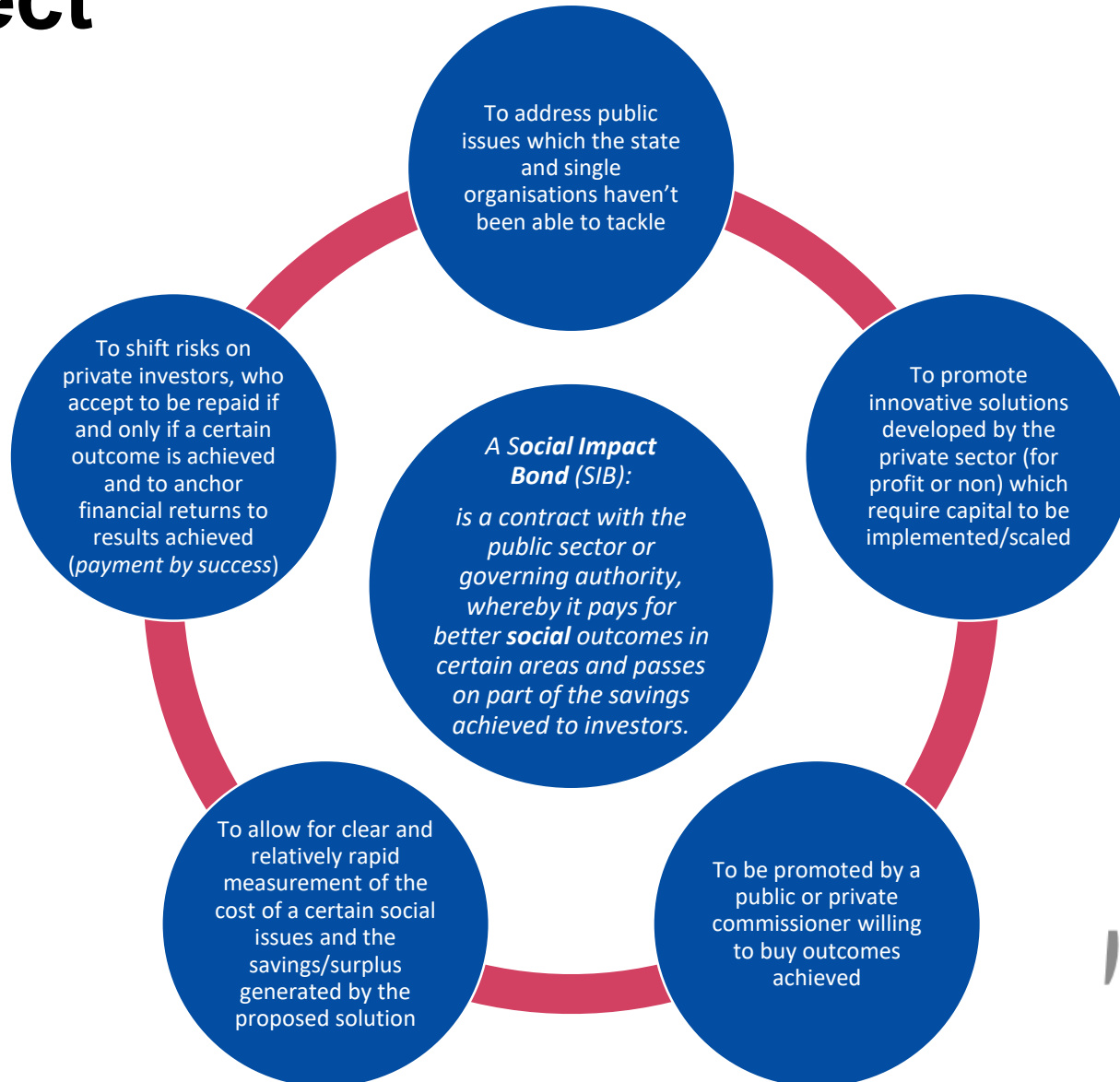


Government action is needed at the outset to lay the foundations for an effective social impact market

- Public and private organisations must have capacity to provide accurate data on costs and outcomes
- Government dept for policy coordination
- New legal forms for companies and funds
- Right to bid and impact included in public tenders as competitive advantage
- Capabilities for commissioners (public authorities), bidders (both for profit and not for profit) and financial intermediaries
- New investment platforms (eg crowdfunding) and incentives (eg tax breaks for all types of investors)



SIB – flagship project



SIB Peterborough 1



The world's first SIB was launched in the Peterborough, UK in 2010 designed to cut reoffending rates of short term prisoners

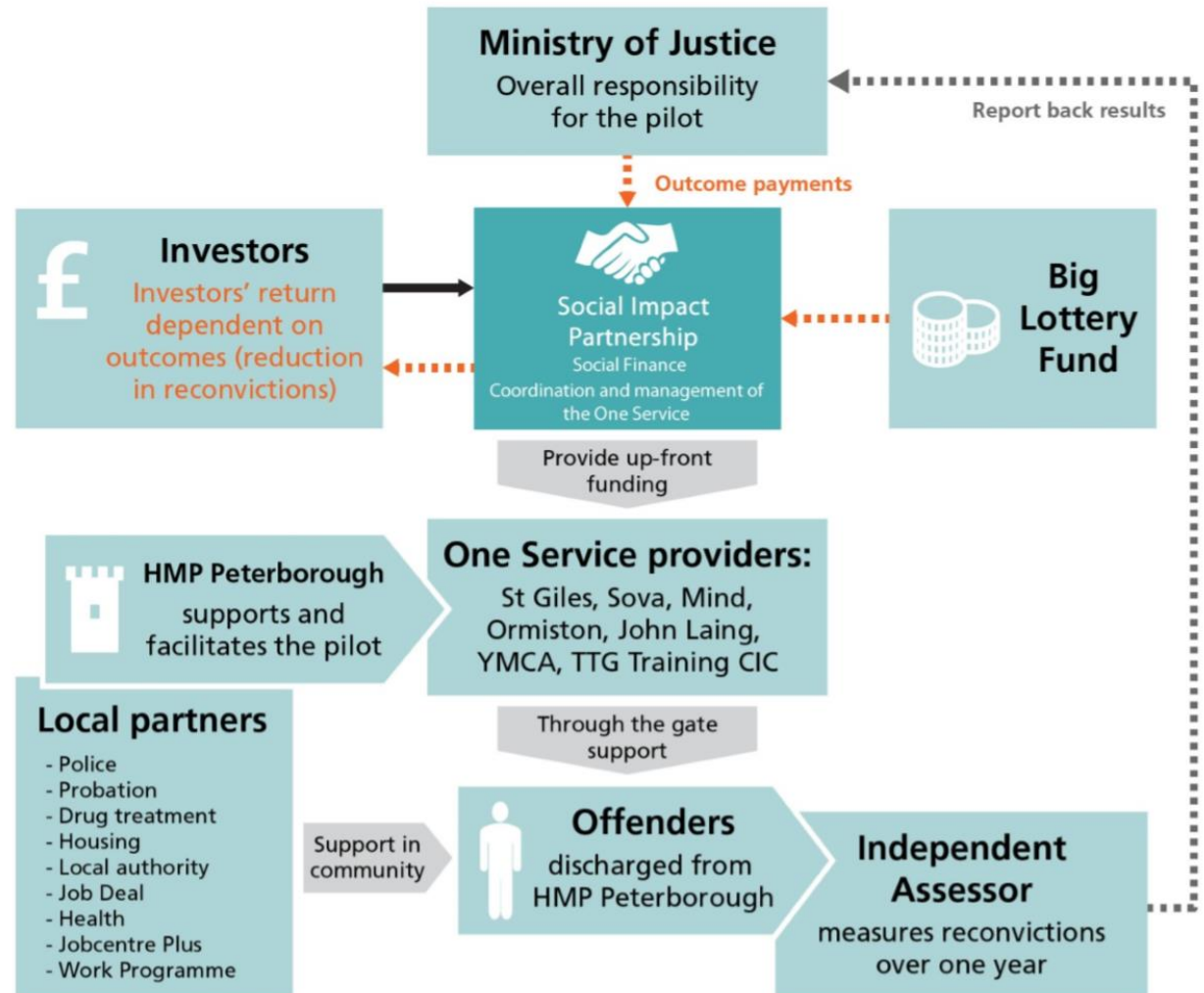
- Cost of reoffending: between £9 – 13bn per year in the UK
- SIB developed and promoted by Social Finance (2010 - 2016)
- To be applied on 3 cohorts of 1000 short-term prisoners + control group
- £5million risk capital invested by 17 organisations
- Backed by the Ministry of Justice
- Support services provided by St Giles Trust, Sova, Ormiston Families, YMCA and MIND which set-up the One Service
- Independent evaluators: Qinetiq, Leicester University, Rand
- In 2014 re-offending rate reduced by 8.4%, not sufficient to trigger the first payment, for which a 10% reduction would have been necessary
- In 2016 re-offending rate reduced by 9,6%, sufficient to achieve the total 7.5% reduction rate across all the cohorts (9% reduction overall)
- Investors repaid in full with a 3% per annum return, but programme suspended after two years and replaced by the 'Transforming Rehabilitation program



SIB Peterborough 2



An SIB in reality is made up with a range of contractual and operational relationships between a range of commissioners, funders, providers and assessors.



ESF and Impact Investing

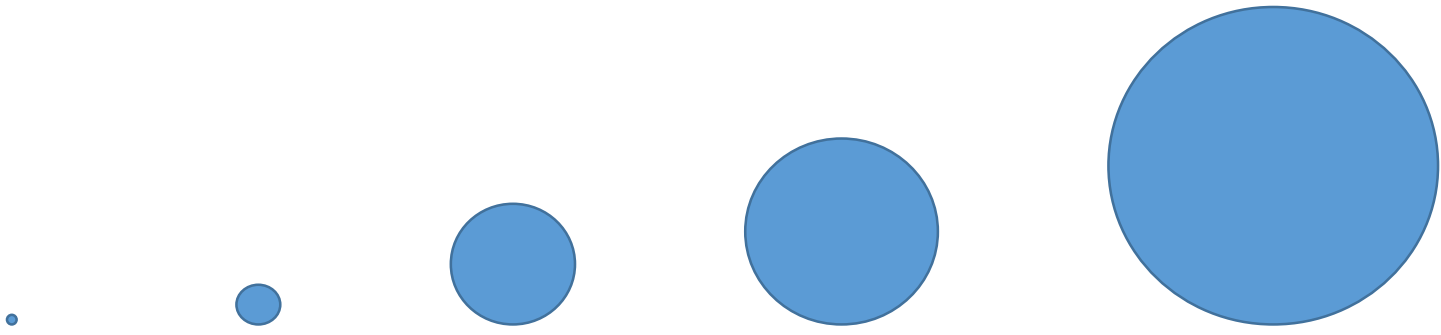


Liverpool City Region Fund:

- Total size of £2m, £1m from EU and £1m from Social Investment Business;
- Planned to invest the full £2m by end 2016
 - However only succeeded in funding £1.25m, in large part due to limits placed on who it could invest in by EU regulation;
- Invested in 8 social enterprises – too early to accurately measure social outcomes, but it did create 75 jobs;
- Failed to attract private investors.



Reality check



Total size of UK Impact investment market in 2016 £1.9bn

Total value philanthropic donations in the UK in 2016: £9.7bn

Annual UK expenditure on beer £17bn

Annual public costs for National Health System: £300bn

Cumulative market cap of the FTSE 100: £2.05tn



Lessons & open questions



- The UK case in building the impact investing market:
 - New Labour invented impact investing, the financial crisis accelerated it, Brexit killed it;
 - Complex, long journey; government's leadership; emerging, complex and diversified ecosystem; much room for innovation;
 - Very little role played by European funding.
- Still some fundamental questions on the social contract have to be addressed:
 - How are the public and private sectors roles changing and can they really partner?
 - What benefits and unintended consequences does the commodification of social values (and related goods) bring?



... for further discussion contact me on
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financial instruments
 revolving capacity building
 added value **ERDF** funding agreement
 governance **ESF** EU guidance
 technical support seminars leverage financial intermediaries ex-ante assessment
 co-financing **ESIF** microfinance case studies
 investments **fi-compass** final recipients
 business plan **Thank you** thematic objectives
 advisory services guarantees banks loans **EaSI** equity
 private investors life cycle combination of support
 conferences **EAFRD** factsheets
 fund of funds **EMFF** investment strategy **CF**
 managing authorities manuals