



# INVESTING FOR GLOBAL IMPACT

2016



**FAMILY OFFICE AND FAMILY FOUNDATION RESEARCH**

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# FOREWORD

## Welcome to Investing for Global Impact 2016

We are delighted to publish our third **Investing for Global Impact** report, which builds on the body of data exploring the philanthropic and impact investing activities of family offices and foundations. With a three-year data set accrued, we are now able to start identifying trends in the behaviour of wealthy families, who have a pivotal role to play in furthering impact investing.

There is evidence of impact investing gaining momentum with wealthy families, through increasing allocations, investment priorities shifting to include financial returns alongside social returns and a majority stating that their impact investments have indeed achieved positive social and financial returns – with both elements meeting and exceeding their expectations (for a sizeable majority).

In fact, this report finds there may be considerable latent demand for impact investments accruing in family offices and foundations, as they struggle to access direct investment opportunities. While direct investment appears to be families' favoured route, this survey has identified a significant lack of direct impact investment opportunities – half of the respondents plan to increase their investments via this route, despite the scarcity.

When coupled with the finding that there is a lack of awareness about impact investing opportunities and that most families are internally sourcing such opportunities, this lack of access becomes an important issue for impact practitioners to work together to address. Equally, as impact investing enters a nascent growth phase among wealthy families, the necessity for conveying universal terminology and contributing towards more co-ordinated and accessible networks to connect interested parties and share best practice becomes more pressing.

The purpose of this report is to stimulate debate, provide insights into current family office and foundation thinking towards impact investing and philanthropy, and to offer inspiring case studies of the practical application of impact investing within different geographical and sectoral contexts.

Building on the library of knowledge accrued by active participants included in previous editions of this report – including Johnson & Johnson Corporate Citizenship Trust, the Roger Federer Foundation, Big Society Capital UK and Rockefeller & Co – this year we introduced a selection of 'Question and Answer' interviews interspersed among the survey chapters, which we hope provides expert insight to contextualise the survey's findings.

Our carefully selected Case Studies for this report demonstrate that making a difference while also making a profit is far more achievable and less complicated than the movement is often credited with – and makes attaining the UN's Global Sustainable Development Goals achingly possible.

We would like to thank all of the participants in this report, not least the 182 survey respondents and the eight interviewees who took time to share their expertise and insights. We would also like to thank our partners **GIST, Banca Prossima and Barclays** who are helping us create a network and platform for the exchange of ideas in this transformative area.

**Anna Lawlor**  
Report Author, Financial Times

**Ben Bonney James**  
Publisher, Financial Times

# COMMENT

**GIST Initiatives Ltd.** is excited to present the third edition of our **Investing for Global Impact** report, in partnership with the **Financial Times**, **Banca Prossima** and **Barclays**.

At a time when both impact investing and philanthropy are in the midst of multiple transformations, we are convinced you will find this research and analysis stimulating, highly relevant, and inspirational.

As part of these advancements our own structure has evolved. We have established a new entity, GIST Initiatives Ltd, “Global Impact Solutions Today” (GIST) following the “Method Impact” brand used to originally launch our novel research. GIST is positioned to be an innovative leader and brand in effective impact investing and smart philanthropy. We serve as a unique vehicle and aggregator for our Members, a select group of like-minded Families, Family Foundations and New Generation Leaders. Through these relationships GIST is successfully cultivating a solid foundation from which to support both the impact and philanthropy communities with “best practices”.

In light of what we have learned through the development of GIST, and simultaneously drawing from several examples of other institutions, we are now ready to help turn this research into a catalyzing “knowledge platform” to serve several mutually reinforcing purposes:

- To continue to analyse and share information about social impact and philanthropy initiatives whilst developing the publication further by building on the selected interviews and effective case studies that feature in the report;
- To utilize GIST’s “confluence of partners” and the sharing of such knowledge to illustrate “convergent” or “hybrid” models and approaches. This reconciles the need for financial viability with “value for money”, thus embedding measurable social impact and long-term benefits for the beneficiaries of such projects;
- To leverage further this “confluence” and “shared interests” to facilitate and enable partnerships, including between Families and Family Foundations and other reputable actors or contributors in this space.

GIST and our Partners are engaged and committed to expanding this dynamic “knowledge platform” and anticipate continuing our interactions and dialogue in the months to come.

We are also pleased to share that GIST is currently in discussions with the OECD about a broader engagement in next year’s edition.

In the meantime, we would like to take this opportunity to thank each and every person who has helped generate this third edition of “Investing for Global Impact” - especially all participants to the questionnaire and all participants in the case studies who shared their personal insights and experiences. We are most grateful.

Your thoughts, suggestions and comments are always welcomed.



**Gamil de Chadarevian**  
Founders, **GIST INITIATIVES Ltd.**



**Giuseppe Dessi**

Founders, **GIST INITIATIVES Ltd.**

**Banca Prossima** is excited to partner, for the second year, with GIST and the FT in the publication of this report. We are a unique financial institution blending our identity as a commercial bank, a subsidiary of Intesa Sanpaolo, with a fully-fledged mission to support the social economy through our banking activity; which in turn is economically sustainable, but customized to fit the needs of social sector organizations and social economy.

This report's thought provokers engage us at Banca Prossima as well as most readers, we imagine. We do impact investing – mostly under the form of loans – as a very large part of our activity. Thus, it is a continuing challenge for us to “clearly define” our type of impact investing and the philosophy behind it. “Assessing the social results” we achieve or facilitate is difficult, but it is something we must pursue and evaluate both in Italy, where we are based and operate today, and abroad where we are looking. We do realize that credit – finance, in general – is a component of a larger “social vista”, that we must recognize and contribute to. Having a first-hand peek, ever more sophisticated, into how others go about it globally offers a very good window to us, and we hope to many other actors and partners as well.

**Marco Morganti**  
**Banca Prossima, CEO**

**Barclays** is pleased to support this year's Investing for Global Impact report. As before, this edition provides valuable insight into the family offices and foundations active in philanthropy and impact investing. It is also especially useful for those interested in participating in the growing impact investing sector.

Barclays is a transatlantic consumer, corporate and investment bank offering products and services across personal, corporate and investment banking, credit cards and wealth management, with a strong presence in our two home markets of the UK and the US. With over 325 years of history and expertise in banking, Barclays operates in over 40 countries and employs approximately 130,000 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

Barclays Wealth and Investment Management provides private banking, wealth planning, trust and fiduciary services, investment management, brokerage services and research to clients that include High Net Worth Individuals, Families and Family Offices, Charities and Foundations, and Institutions.

Barclays recognises that private capital is increasingly seeking to solve the world's most pressing problems through impact investing. We use our expertise to advise investors on ways that they can protect and grow their assets with the additional aim of generating a positive impact on society.

Barclays helps clients to understand their impact investing preferences and ambitions using our behavioural finance tools. Then, from the range of world-leading products and providers that Barclays has identified, clients are advised on how to build their portfolio and find the appropriate solutions to meet their objectives.

For investors who are asking themselves 'What impact do I want my wealth to make?', Barclays supports their ambitions while helping to play a role in addressing the urgent challenges we collectively face.

**Akshaya Bhargava**  
**Barclays, CEO, Wealth, Entrepreneurs & Business Banking**

# METHODOLOGY

Investing for Global Impact 2016 is a Financial Times report, in partnership with GIST. The objective was to explore how family offices and foundations approach impact investing and philanthropy, identify key trends in this field and to build upon the significant contribution made by the past two editions of this report.

To this end, we have explored critical aspects of data and measurement necessary to validate the effectiveness of impact investments, collated learnings from successful practical approaches and surfaced key themes that we consider to be crucial to further cultivating the impact investment movement.

## Survey Data

The Financial Times global survey was conducted online from September to November 2015, attracting 182 respondents from more than 34 countries around the world. The respondent mix was 70:30 family office:foundation; 69 single family offices, 59 multi-family offices and 54 family-backed foundations.

## Impact Investing

**Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.**

Impact investments can be made across all markets and target a range of returns from below market to market rate, depending upon the circumstances. The growing impact investment market provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, clean technology, microfinance, and affordable and accessible basic services including housing, healthcare, and education.

Source: Global Impact Investment Network<sup>1</sup>

Nb: A further noteworthy working definition of impact investing is available from the OECD: Social Impact Investment: Building the Evidence Base (2015).

## Philanthropy

**Charitable giving to human causes on a large scale.**

Philanthropy must be more than just a charitable donation; it is an effort undertaken by an individual or organization based on an altruistic desire to improve human welfare. Wealthy individuals sometimes establish foundations to facilitate their philanthropic efforts.

Source: Investopedia<sup>2</sup>

Survey responses were gathered and processed independently by CoreData Research UK and survey participant anonymity was strictly enforced. The survey data was analysed and interpreted by report author, Anna Lawlor.

While the methodology remains the same as the previous Financial Times' Investing for Global Impact reports (2014 and 2015), the year-on-year comparison data should be treated as a trend guide rather than a direct numerical comparison between findings; different respondents to each survey would invalidate direct numerical comparisons.

All percentages in this report are rounded to the nearest whole number and therefore will not always aggregate to 100%. Charts are produced using the underlying data.

## Case Study and Q&A Interviews

The Financial Times also conducted a range of interviews with senior experts and practitioners in the impact investment field, which were conducted during late 2015 by telephone. These interviews were editorially independent though the interviewees were granted access to their own case study/Q&A prior to publication.

The findings and views expressed in this report do not necessarily reflect the views of the Financial Times, its partners or the report author.

# EXECUTIVE SUMMARY

Impact Investing – the pursuit of positive financial returns as well as positive social/environmental returns – appears to be gaining traction with wealthy families around the world, with the movement transitioning from the start-up to growth phase.

## The Role of Family Offices/Foundations

Wealthy families, surveyed in this report through their family offices and family-backed foundations, have a pivotal role to play in entrenching, maturing and scaling the impact investment movement. This is due to the powerful combination of their access to significant investable assets, their motivation to invest in line with the family's social values, and longer investment horizons than typical for private investors as they seek to invest for future generations, leaving both a financial and social legacy.

Global private wealth has been steadily increasing and now represents in excess of \$156 trillion; private wealth held by ultra-high-net-worth households (those with more than \$100 million) grew by 11 percent in 2014<sup>3</sup> alone. This represents a huge opportunity for impact investing, which seeks to provide a win/win scenario for investors, providing financial and social/environmental gains.

This survey found the vast majority of family office respondents (71%) started initiating impact investments from 2006. 47% of family

offices and 71% of foundations only started exploring impact investing in the past five years. Considering most of these family offices have participated in philanthropy for more than 25 years, this highlights how new the impact investment 'movement' is for most family offices.

This report is now in its third year, so comparative data across this period is now possible. It has identified the gradual but steady increase in family office respondents active in impact investing (currently 60% compared with 53% in 2013) and the slow shift to consider financial returns alongside social returns. We consider this to make the findings of this survey very encouraging given the positive financial returns being achieved and the shift in considerations affecting family offices and foundations' commitment to impact investing.

## Performance & Expectations

This survey finds the majority of respondents to have achieved positive financial returns from their impact investments (59%<sup>4</sup>) and that for 67% of respondents the financial performance element of their impact investments met their expectations (for a further 11% they exceeded their expectations). The social element of these investments had a higher propensity to meet and exceed the expectations of family offices and foundations (94%<sup>5</sup>) and respondents anticipate making further investments targeting both social and financial returns.

## Thought Provokers

**There are risks inherent in weighting the success of impact investments so heavily towards the social impact.**

Applying a philanthropic mind-set to impact investing could result in a disservice to both; the additional resources required to measure social impact versus making a purely philanthropic donation could seem onerous outside the context of combining the hunt for financial yield with social impact. Half of respondents said their due diligence differed for impact investments and was more lax than for traditional investments.

**The role of younger generations in wealthy families' commitment to impact investing is surprisingly flimsy in this survey's responses.**

This survey has not found significant involvement from younger family generations, despite a perception that Millennials (currently in their early 20s) are socially engaged 'global citizens'. Is this a misconception or are there FO structures which subdue their involvement?

**The difficulty of monitoring and measuring impact investments' social returns should not**

The majority of respondents report having achieved - on average - positive financial returns of 3-5% and 6-10%, respectively, across their impact investments "to date" (which is likely to be since 2010). These data 'bands' have remained the most reflective for respondents' financial returns throughout 2013, 2014 and 2015, though last year there was a slightly higher prevalence of respondents reporting gains of 11-15% (20% of the respondents).

### Social Impact Key Motivator

The key drivers for impact investing are all social in nature, across both family offices and foundations:

- The contribution to sustainable development;
- The responsibility to society/community;
- As a reflection of the values of the family.

"Setting the bar as 'best practice' for impact investing" was ranked the most important indicator of success (for 22%) and was ranked within the top two most important indicators across the 1-5 ranking metric. The next most important indicators were "Exceeds the social objective" and "Positive collaboration/relationship with stakeholders", followed by "Provided a learning experience for the organisation (positive or negative), which will inform future investments".

From this we see further evidence of the social objective driving impact investments – exceeding a

targeted financial return, achieving the principle investment objective consistently ranked down – but also that adopting a different mind-set towards impact investing is helping the organisations demonstrate their values in a different way, be that as a learning tool internally or by being a peer leader in a relatively new field.

### Tax – Red Herring

There continues to be a misconception that impact investing is simply a tax-mitigation route for the wealthy. This survey has found to the contrary: Impact investments are socially responsible or social legacy motivated; tax treatment compared to donations was the least significant barrier facing impact investments; it was one of the least pressing factors preventing respondents from increasing their impact investments; and it wasn't even a notable factor in the location of the impact investment (53% said it was 'relevant' but behind four other more relevant factors<sup>6</sup>).

Interestingly, a handful of respondents who do not currently allocate to impact investments stated that "tax incentives"<sup>7</sup> or "tax benefits"<sup>8</sup> would help them consider impact investing, which may indicate that tax considerations are more of a motivation for those outside of impact investing 'looking in' than current practitioners.

### disuade participants from addressing the issue.

A move to outcome-based social impact measurements, rather than output-based, is not insurmountable, as our interviews indicate. If this issue is side-stepped, cynicism about impact investing will stubbornly remain.

### Clearly defining impact investing and associated terminology.

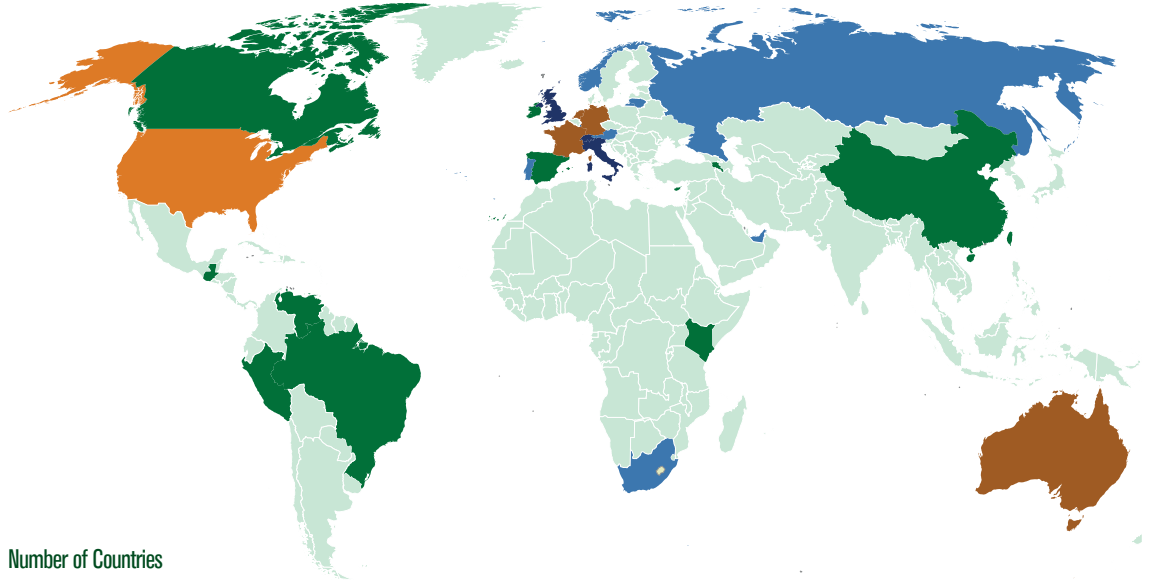
70% of respondents said the definition of impact investing was not widely known and

understood by family offices/foundations, 73.5% said it suffers from a lack of clear definition and measurement criteria.

Opinion is mixed as to whether impact investing is an asset class (akin to Private Equity or Hedge Funds), an investment approach (akin to top-down/bottom-up/contrarian investing), or is a social 'movement' aiming to bring together public, private and NGOs to a mutual aim. It may be all three; but this must be conveyed clearly and consistently by all participants.

# PROFILE OF RESPONDENTS

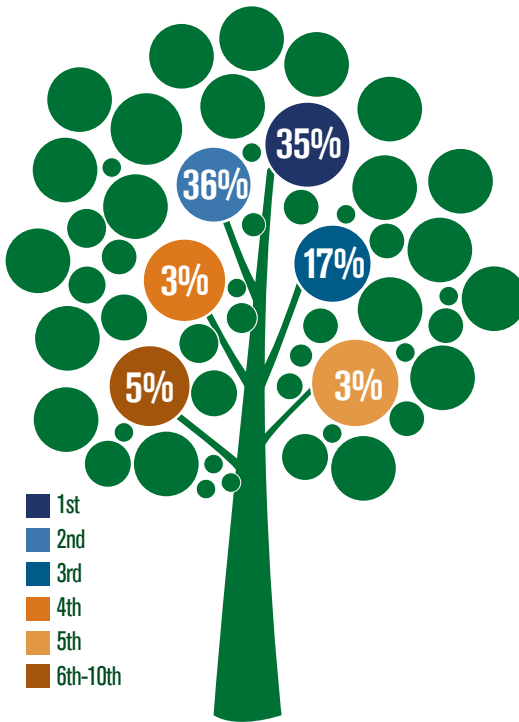
## Head office location



### Number of Countries

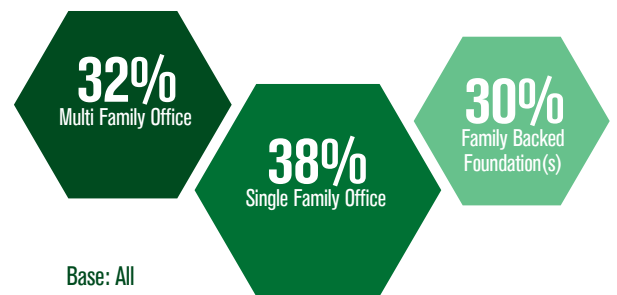
32+	15	4-8	2-3	1
UK Italy Switzerland	US	France Netherlands Australia Singapore Germany	South Africa Jersey Norway UAE Russia Austria Lithuania Luxembourg Portugal	China Hong Kong Spain Brazil Armenia Canada Cyprus Guatemala Guernsey Kenya Liechtenstein Peru Republic of Ireland Taiwan The Cayman Islands Venezuela

## What generation is the family wealth?



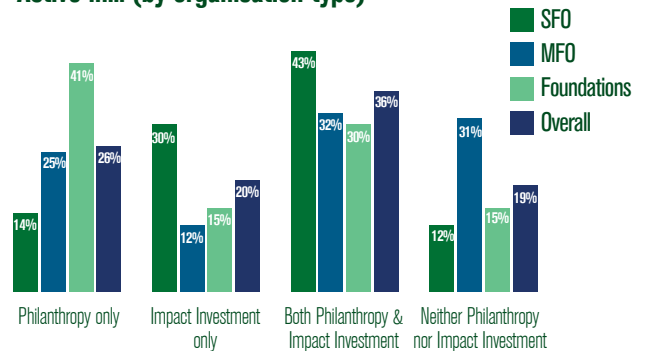
Base: All

## Organisation type



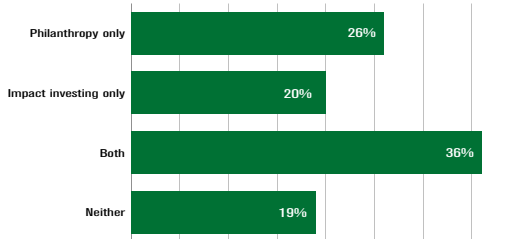
Base: All

## Active in... (by organisation type)



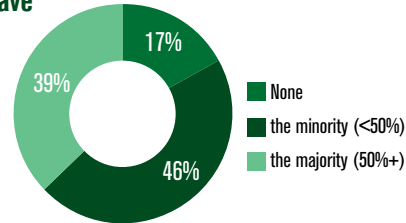
Base: All

### Is your Family Office / Foundation active in Philanthropy and Impact Investing?



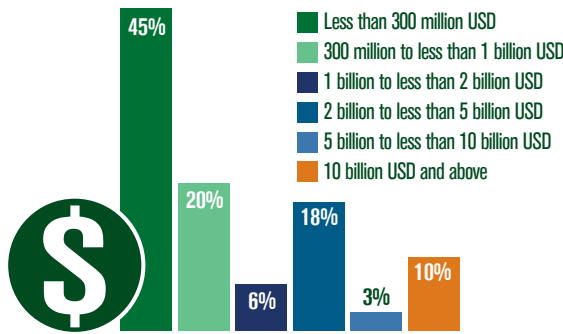
Base: All

### With respect to Philanthropy and/or Impact Investments what proportion of your families have Foundations that you work with?



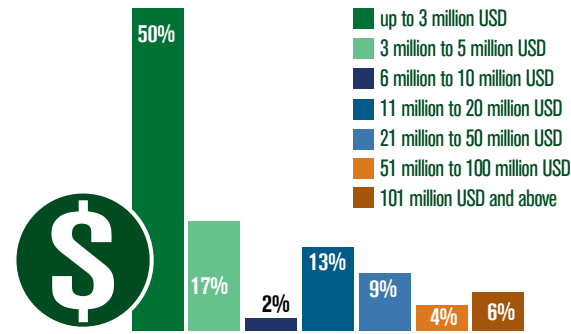
Base: MFOs active in philanthropy and/or impact investing

### AUM (Assets Under Management) in USD



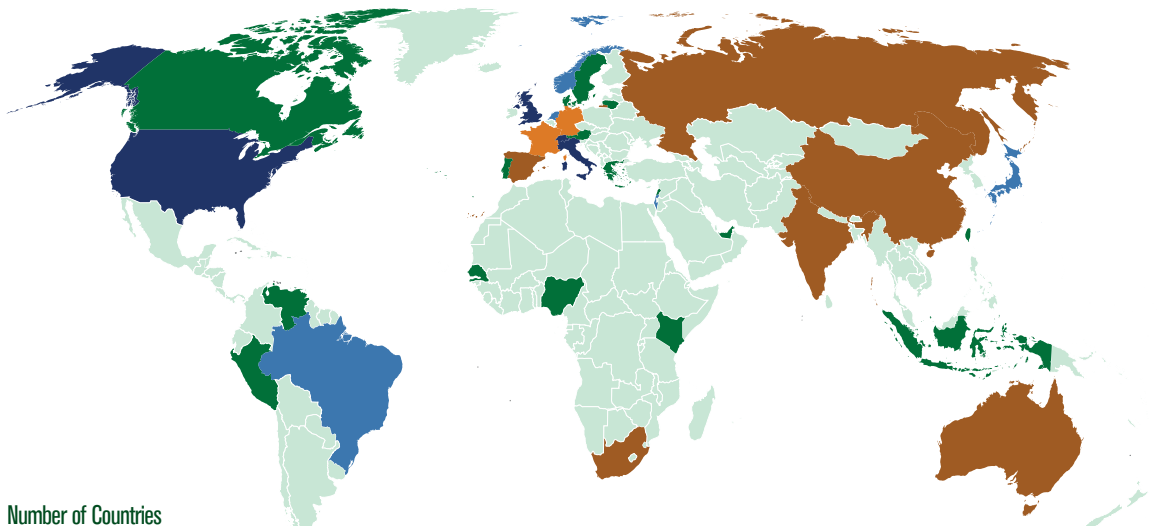
Base: All FOs

### Current annual budget (Foundations)



Base: All Foundations

### Family wealth - countries of origin



#### Number of Countries

38+	22+	11-13	4-9	1-3				
Italy	Germany	Australia	Brazil	Austria	Sweden	Kenya	South America	
UK	France	Hong Kong	Singapore	Canada	Andorra	Lebanon	Taiwan	
US		Russia	Japan	Liechtenstein	Denmark	Middle East	UAE	
Switzerland		China	Norway	Lithuania	Global	Nordics	Venezuela	
			Israel	Nigeria	Greece	Peru		
			Netherlands	Portugal	Indonesia	Senegal		

# CHAPTER 1: APPROACH TO IMPACT INVESTING AND PHILANTHROPY

The vast majority of family office respondents (71%) started initiating impact investments from 2006. 47% percent of family offices and 71% of foundations only started exploring impact investing in the last five years. Considering most of these family offices have participated in philanthropy for more than 25 years, this highlights how new the impact investment ‘movement’ is for most family offices – which makes the findings of this survey so encouraging given the positive financial returns being achieved and the shift in considerations affecting family offices and foundations’ commitment to impact investing.

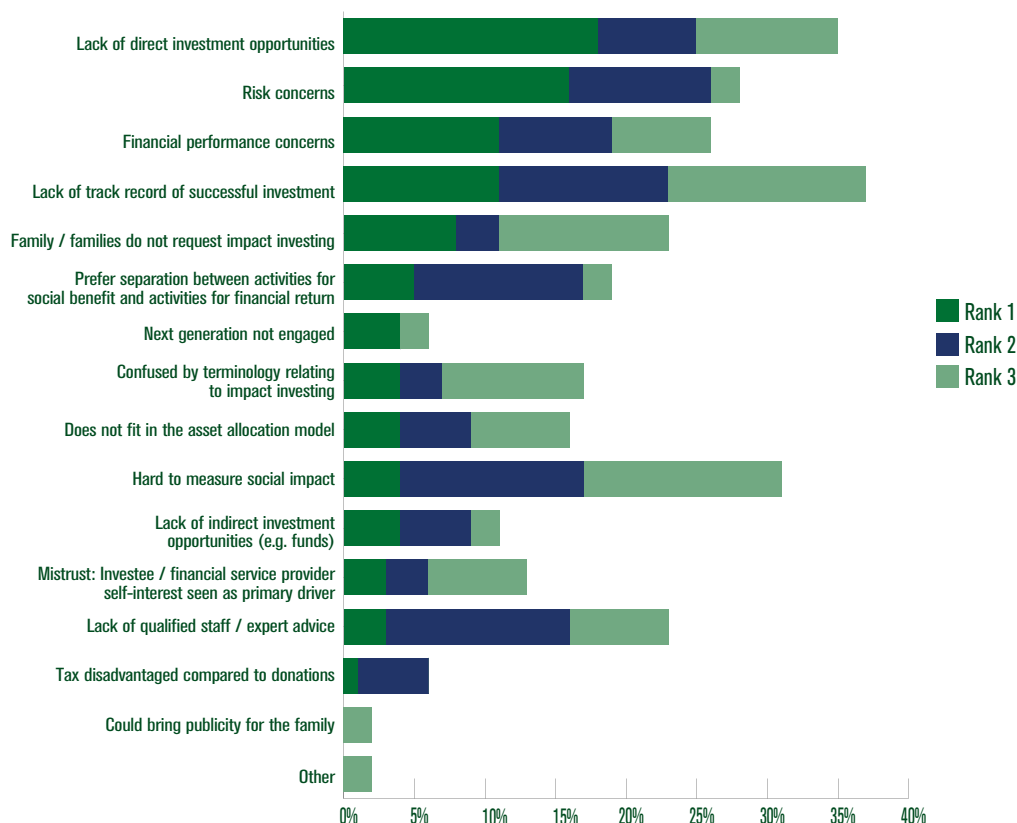
Of the family office respondents, 60% are currently active in impact investing, which is a gradual increase over the past few years (from

53% in 2013). When taken with an increased number of foundations stating that their main priority has shifted from “social return only, no financial return permitted” – which was the leading priority in 2013 and 2014 – and that now “social return is the priority but financial return is targeted” (for 46% of 2015 respondents), indicates the growing acceptance of impact investing among our survey’s respondents.

That said, it is notable that the option “social and financial return are equally relevant” was the least relevant to foundations (20% stated this as their priority) and that this percentage is the lowest it has been across the three years; prioritised for 21% of respondents in 2013 and to a considerable 35% in 2014 (featuring higher than “social return is the priority but financial return is targeted” that year).

CHART 1

## Which of the following are the major barriers to increasing your impact investments?



Base: All active in impact investing

This year, 44% of family-backed foundation respondents were active in impact investing, while the majority (70%) focussed on philanthropy, reflecting the remit of these foundations; 70% are not-for-profit organisations with a quarter of foundation respondents currently combining for profit/not for profit.

### Motivations

Thematically, for both 2015 and 2014, the three major motivations for respondents' impact investments were:

- The contribution to sustainable development;
- The responsibility to society/community;
- As a reflection of the values of the family.

Interestingly, the survey findings for the motivations compelling respondents to impact invest reflect

a similar attitude shift to that displayed in the major barriers to increasing impact investments; a maturation from initial, cautious interest in impact investing through to evidence of a deeper understanding of impact investing.

For example, in 2013 respondents were driven primarily by generating a transfer of wealth (most important for ranking 1 and 2, for 23% and 21%, respectively), followed by succession planning, financial opportunity and contributing to sustainable development. In this year's survey, those motivations didn't feature highly in the 1-3 rankings; generating a transfer of wealth, expectation of a stable return, financial risk management and next generation engagement didn't break double figures in terms of number of respondents ranking them as key motivations for impact investing.

### Investment Themes

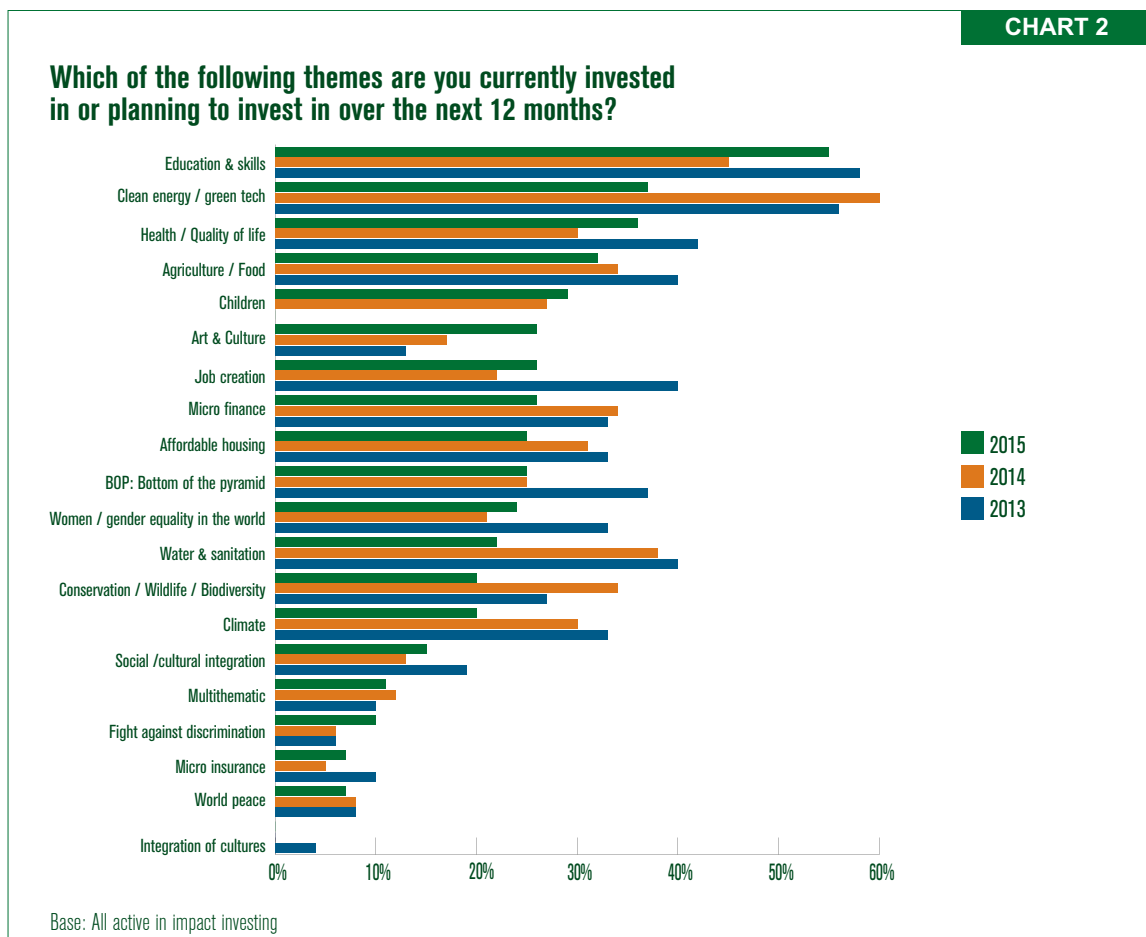
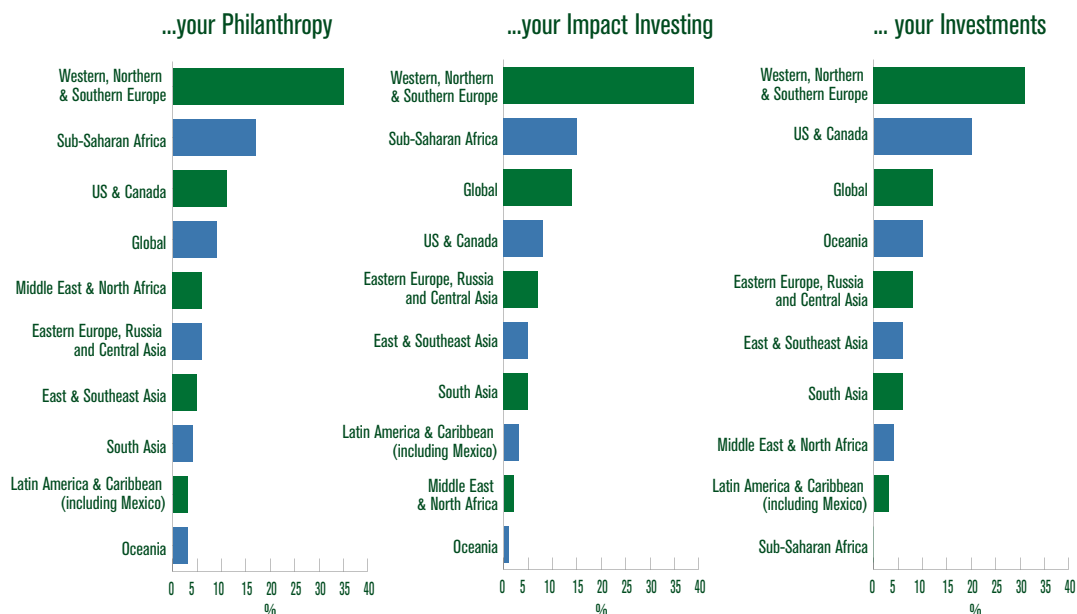


CHART 3

What is the geographic distribution of...



Base: All

Note: Only respondents not active in philanthropy or impact investing answered the 'investments' question

Location of Impact Investments

Understandably, respondents reported that the location of their impact investments was principally driven by where “social/environmental need is high” (95%), “ease of doing business” and “offers legal protection for enterprises” (both 83%), followed by where “government financial/support incentives are applicable” (57%)<sup>9</sup>.

It makes ethical sense for impact investments to be made where the social/environmental need is considered highest, but high-need areas, if so recognised by domestic government agencies and, potentially, international non-governmental organisations, are also more likely to benefit from financial or other support incentives that can significantly enhance impact programs. Ease of doing business is a factor that could refer to the

business environment that certain impact projects (the investees) would need to operate within, or it may refer to the ease of doing business for the impact investor themselves. Similarly, legal protection for enterprises is likely to be a crucial factor for certain investees, depending on the specifics of the impact investment.

Interestingly, currency – while still relevant (43% agreed it was) – appeared to be the least important factor in where impact investments were made geographically<sup>10</sup>; this survey did not specifically ask family offices and foundations about currency hedging approaches or products, but presumably these are in use to insulate the respective portfolios from sharp market movements un-related to the investment itself.



# Heather Grady

Vice President, Rockefeller Philanthropy Advisors



Adviser



Global



Private Business

Heather Grady joined Rockefeller Philanthropy Advisors in July 2014, prior to which she was Vice President for Foundation Initiatives at The Rockefeller Foundation, overseeing an annual grant-making budget averaging \$65m. She now leads the organisation's strategy and program development in global philanthropy, including collaboratives, global programs, research, publications, and presentations. She works with clients in the US, China, Colombia, Indonesia and Europe, among others. She also serves on a number of boards and advisory groups, including The B Team, the Business and Human Rights Resource Center and SXSW Eco.

## ■ What would you say is the connection now between philanthropy and impact investing? Is there a need to further separate the two concepts, or do they help to reinforce each other?

The Rockefeller Foundation actually helped create the term "impact investing" around 2006 during a meeting at the Bellagio Center in Italy. The practices existed before then, but it was at that point that those working in that area decided to coin this term to build a community of practitioners – those investing in ways that aim for social and/or environmental impact, as well as a financial return. I think it is important that the term came from the field of philanthropy, and very important that philanthropy continues to help lead the field of impact investing, in part because, ideally at least, philanthropists can take bigger risks on the financial side than other investors.

If we break it down, philanthropists and foundations want to enter impact investing because they want to do good as well as make a financial return. Why? Because it makes their own endowment more sustainable and socially responsible, or because they believe in market-based approaches to solving social problems, or they think such approaches

can scale up the number of people positively affected. I think those investing with a good heart and philanthropic intention should be looking to take a risk with some of their finance, putting money in enterprises even if they do not promise a high financial return. We have a lot of early stage enterprises that won't have a high pay off. If philanthropists say, "I'll do impact investing, but only if I get 8-10 per cent return," I am not sure that's impact investing – perhaps in a portfolio at least some investments should place "impact first." 1-2 per cent anticipated return on certain enterprises, or higher-risk enterprises, is already a middle step between giving grants and getting a high financial return.

## ■ If investors are taking an "impact first" approach to some of their portfolio, how exactly can we measure that impact and, indeed, maximise it?

The field of measuring the impact of impact investing is still young and imperfect. Mostly people are measuring outputs or outcomes, not impact. For example, most impact investors can tell you the number of social enterprises they are funding, or the amount of funds they have invested. Sometimes they can tell you the number of jobs they have created or the number of people's lives that are touched, but it is really difficult for them to say with certainty, "I have made a real impact on x number of people's lives". Having said that, I do not want impact investors to get too overwrought over the question of measuring impact, as I worry that will drive people away from impact investing. We have to find a balance.

Moreover, we have to work out, if we are going to do more sophisticated measurement, who is going to pay for it? We don't want the cost to be pushed on to the investees rather than the investors. It is similar to how, in philanthropy, foundations sometimes want grantees to measure

impact better, but the grantees get saddled with the monitoring and evaluation costs. I recommend to foundations that if they want their grantees to measure impact, they have to build in, say, 5 per cent of the grant for monitoring and evaluation. The field is still working through these issues.

For me, one solution for impact measurement is creating networks for learning and exchange. This is what has happened in the field of microfinance. First, there were individual microfinance institutions, then there were networks of microfinance institutions, and eventually these networks took it upon themselves to do more monitoring and evaluation that was shared openly between practitioners and funders' groups. As people begin to learn what works and what doesn't, that transfers back into informing best practice for the field overall. That is what we are going to see in impact investing over the next few years.

#### ■ What part does policy play in this?

It seems that a lot of those who support impact investing do not have a high level of trust in government, and don't recognize the importance of public policy. But policy can either foster or undermine the movement toward impact investing. For example, philanthropy was positively affected when there was a change in UK law in October 2014, and a change in US policy in September 2015. These gave foundations more ability to invest their own assets not only for the highest financial return and lowest risk, but for alignment with their foundation's charitable purposes. That sends an important message to boards of directors of foundations that their fiduciary responsibility is not only to make the most money for them to give away as grants, but can also be to use more of their assets for the same purpose their founder created the institution. That is an example of how policy can really have an impact on the amount of capital available to do good.

The second important area of policy is for the social enterprises themselves. Currently, in many countries, if someone wants to establish a social enterprise and attract investors, in order to make a profit but with a social purpose as the primary goal, it is very difficult, as the laws and tax guidance

for a business versus a non-profit are entirely different. This is why countries need new legal frameworks in place to help create fourth sector institutions – hybrids that are either for-benefit enterprises, or social organizations that earn (not just receive as grants) some part of their revenue. In the future, I think this hybrid sector is going to grow and grow. They are not going to put non-profit or traditional business out of business, but they will grow in proportion to other sectors. But for that to happen, we need to have policies that support hybrid organisations.

#### ■ What about policy to encourage sharing of ideas across countries and enterprises? How do you see impact investing developing in terms of a greater level of “joined-up” thinking?

I am involved in a group creating something called the Fourth Sector Institute, and it is exactly to address this problem. What we have seen is there are all these great efforts that are happening around the world, but they are not yet connected – either those doing related work, or the doers and the investors or funders. We have, in general, a field that is often dysfunctional in the sense that there are a lot of givers, and a lot of receivers; and a lot of investors, and a lot of investees - but the mechanisms to connect those groups is not that robust yet. I think creating platforms to connect them, including across national boundaries, is really important.

I am also part of something called the SDG Philanthropy Platform, a platform that RPA created with the Foundation Center and the UN Development Program to showcase the work being done by philanthropy and our partners for the Sustainable Development Goals. It will create the links between foundations, grantees and impact investors who are working on the same issues. This builds on some good work already underway. Let's do more of the same, but on a grander scale, and bring in more people from emerging markets, because they have often been left out of the discourse. We should be looking to create an uber-platform – a network of networks – to gather together the many things that are happening but which are not yet linked.

# CHAPTER 2: CURRENT INVESTMENT PORTFOLIOS

Of the 60% of family offices that participate in impact investments, most (54%) agree a budget allocation for this segment of their portfolio with the family members (44% with a majority) compared with just 2.5% who “never” agree a budget allocation for impact investments.

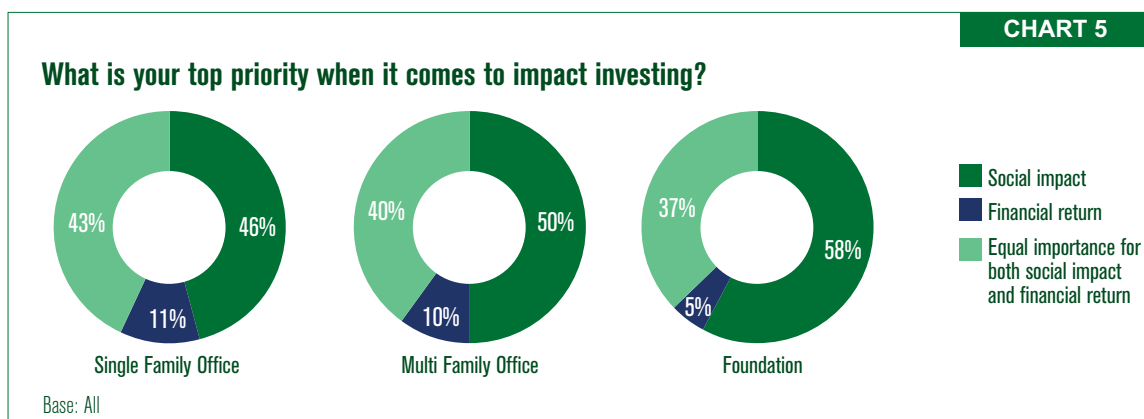
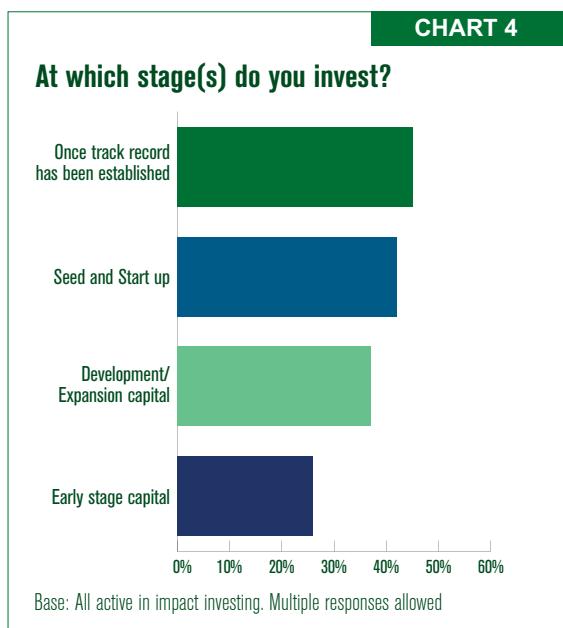
Notably, more than one third (37%) report not setting a budget for this allocation at all, which may reflect the onus put on social impact, not financial return, with regards to the impact investing element of their overall portfolio. When asked for their top priority within the impact investment element, half of respondents said “social impact” was the priority, while only 10% said “financial return” (that said, the rest – some 40% - said the priority was equally to generate social impact and financial return).

While two-thirds of respondents (66%) say their organisation “considers impact investing as part of [our] asset allocation” – a gradual increase from 2013, at 62.5% - half (51%) agree that their due diligence differs for impact investing compared with ‘traditional’ investments.

Moreover, more than half (59.5%) concede that they apply less rigorous financial parameters to impact investments than they do to ‘traditional’ investments, with respect to financial returns. One-third (34%) report applying less rigorous parameters to financial risk related to an impact investment, though 54% say their approach to financial risk for impact or ‘traditional’ investments are the same.

Aside from obvious elements that differ between impact and ‘traditional’ investments - such as “we take into account non-financial criteria” and “we focus on social impact criteria” – respondents additionally reported the following differences in their due diligence:

- “There is less information available”
- “Traditional investment classes are typically established, mostly listed companies with track record. There is more transparent access to financial information and operating environment. The converse is typically true for impact investments”
- “Using different indicators and parameters often less tight”
- “We actively engage in the impact investment, and therefore have a closer control of data”
- “SROI: still difficult measuring”



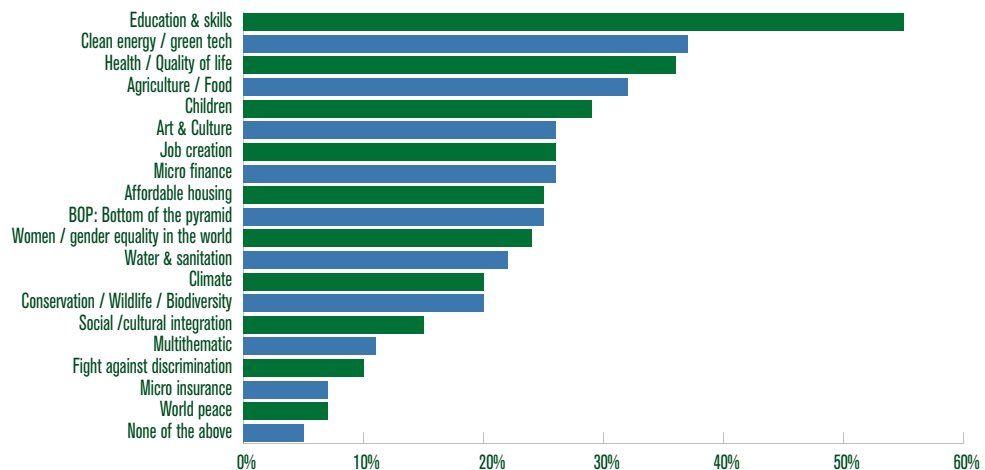
## Sourcing Investment Opportunities

The onus for sourcing impact investment opportunities rests squarely with investors, with 73% of family offices and 84% of foundations reporting these are “internally sourced”. This could provide an opportunity for proactive investee organisations and related advisers/fund managers to ‘pitch’ this type of investor, though this would likely create resource, scale and administrative challenges to do so.

Direct approaches from investees did surface investment opportunities for around one-third of both family office and foundation respondents, though it is not clear from the data what percentage of direct approaches are successful in gaining investment or whether the volume of approaches has increased/decreased or neither. The issue of connecting investors – such as family offices and foundations – with impact investment opportunities is discussed by a number of our interviewees (See

CHART 6

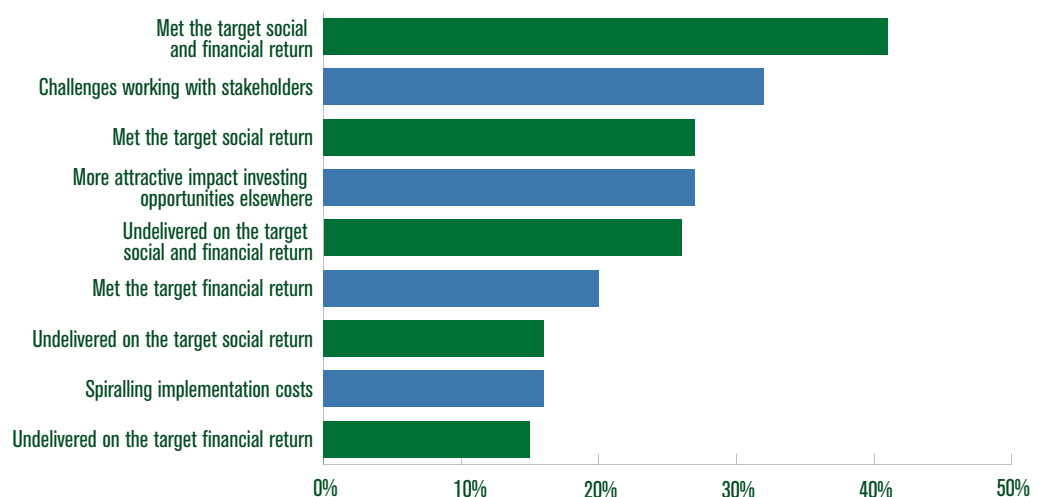
Which of the following themes are you currently invested in or planning to invest in over the next 12 months?



Base: All active in impact investing. Multiple responses allowed

CHART 7

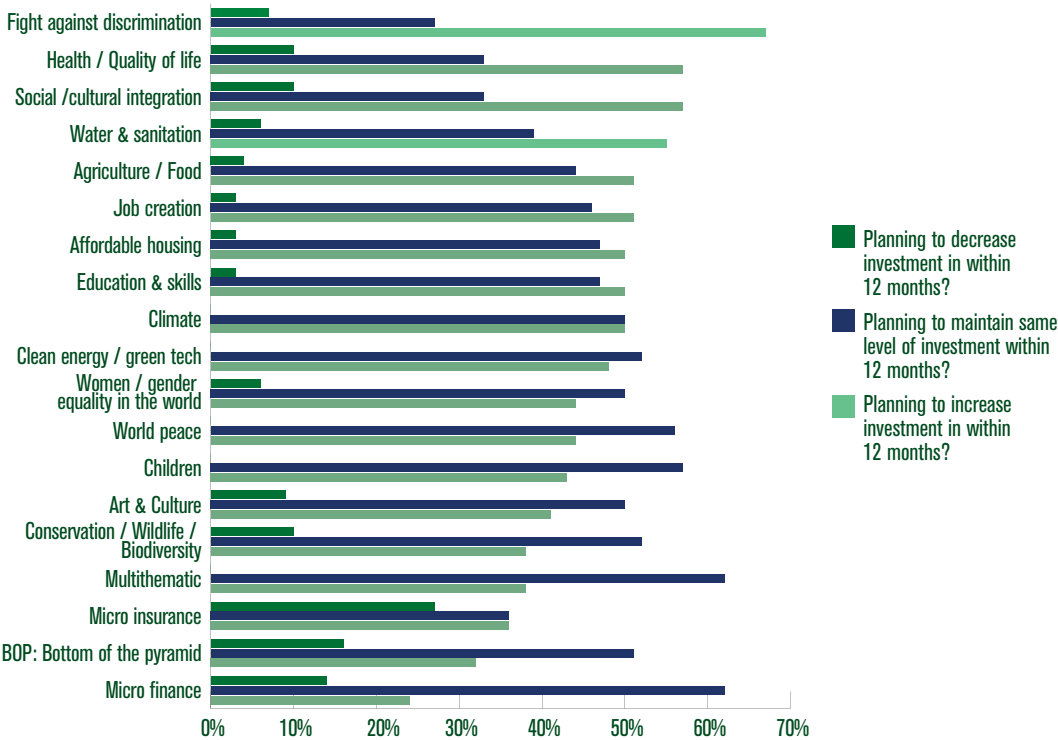
What (typically) triggers an exit from an Impact Investment?



Base: All active in impact investing

CHART 8

**What do you plan to do with your investment in the next 12 months?**



Base: All active in impact investing

Yana Kakar on page 44) and a crucial missing link that is revisited in Chapter 5.

Co-investment opportunities (which may themselves have been internally sourced) were the secondary route to potential impact investments, though dropping from 54.5% last year to 47% this year for family offices and on a par with “clubs and networks” as important sources for family offices. Slightly more foundations reported co-investment opportunities as a key source (53% compared with 47% for family offices), though they also reported “clubs and networks” as third-most prolific source for identifying potential impact investment opportunities.

**Next Generation Investors**

Interestingly, despite widespread perception that younger generations (‘Millennials’, reaching young adulthood around 2000) are more socially conscious and willing to engage in social activism, this survey found that next-generation family

members have the least involvement in surfacing impact investment opportunities (24% for family offices, 16% for foundations). Depending on the age of the patriarch/matriarch of the family involved, this could be due to Millennials being several generations below (not ‘next’ generation).

However, for foundations the percentage is unchanged for opportunities sourced by “family members (not next generation)” and for family offices, family members are as equal a source of surfacing investment opportunities as “external advice” (28%). Next generation engagement is also one of the lowest ranked motivations for impact investing and where it was relevant, respondents<sup>11</sup> suggested an early stage education process; travel, education, visiting projects, continuous information etc. Perhaps this should sound a warning against relying on a perceived notion of who and how family offices and foundations are targeted, communicated with and educated about impact investments.

## Constructing the Portfolio

That impact investing is a relatively new approach for most of the respondents – and as reflected in the broader family office environment – is also evident in which stages of investment these organisations are actively engaged in with impact investees; early stage capital and development/expansion capital. The least invested phase for impact investment allocation (for fewer than a quarter of respondents) was for “once track record has been established”, which would be challenging for most respondents who also noted<sup>12</sup> the difficulties of identifying suitable impact opportunities, the challenges of relying on imperfect and still-evolving measurement metrics/practices and the lack of track record of successful investments available.

For the past three years, respondents have reported typically holding 1-5 impact investments at the time of survey (this was true for 58% in 2015). The survey finds a considerable decrease in the number of respondents holding more than five impact investments, though it appears that between 2014-2015 there was a slight increase in the number of respondents holding 6-10 or 11-20 impact investments. This supports the thesis that our respondents are gradually gaining confidence through their own early experiences of impact investing. However, a whopping 19% of respondents had reported holding 11-20 investments in 2013, which appears to be an outlier in the data set.

In the next 12 months, half the respondents planned to add 1-6 new impact investments to their portfolio and such investments are likely to be held for around five years (most respondents, 48%, said 5-10 years, followed by 18.5% who reported typically holding impact investments for 3-5 years<sup>13</sup>). This is encouraging given the nature of generating positive social impact (rather than investment targeting purely financial return) and is more in line with the longer-term liabilities of family offices and foundations than is typical for most private investors.

Just over one in six respondents said investment duration depended on performance; investment managers typically have an exit strategy for traditional investments so this finding could be

construed as family offices/foundations' lack of experience with impact investments (and the challenges of monitoring and measuring performance), or may indeed indicate that 17% of respondents employ parameters that would trigger an exit from the investment.

For example, any investment meeting the target social and financial return would trigger an exit for 41% of respondents. Around a quarter of respondents would exit the investment if it either met its social return target or a more attractive impact investing opportunity arose, while one-third of respondents said they would exit if they had “challenges working with stakeholders”.

## Respondents' Average Impact Portfolio

- Impact investing budget typically agreed (and with a majority) prior to allocation
- Impact opportunity sourced by the family office/foundation internally
- Currently hold 1-5 impact investments
- Portfolio likely to grow to 2-11 holdings during 2016
- Currently invest via a fund, as struggle to source suitable direct-investment impact opportunities
- Investments typically held for around five years
- Direct investments (equity) are more vulnerable to being exited early, potentially because they are more vulnerable to “challenges working with stakeholders”
- Most impact investment exits are made when the investment has achieved its target social and financial return



# Ben Goldsmith

Chief Executive of Menhaden Capital Management

Director of Cavamont Holdings, the Goldsmith family investment vehicle



Investor



Global



Environmental Sustainability



Private Business

Ben Goldsmith is recognised as a leading participant in sustainable investment and he is a director of Cavamont Holdings, the Goldsmith family's investment holding vehicle. He is Chief Executive of Menhaden Capital Management, a £79 million investment trust, which invests across the environmental sustainability sector. He co-founded sustainability specialist investment managers WHEB Group in 2002. He is also co-founder of the UK Environmental Funders' Network and a member of the Conservative Environment Network and is an Advisory Council member for the Oxford Martin School.

## ■ Does Cavamont Holdings invest for positive social/environmental impact?

It's a pretty typical endowment style family investment business. The challenge in that group is how to minimise [negative] environmental impact and in line with the values that we have as a family, as opposed to how we create positive impact - we're not quite there yet.

I also sit on the board of WHEB, which I founded, and that is a pure positive impact fund management business and we're interested in principally financial return, but additionally - or in parallel - generating a positive environmental impact. So, we are essentially a green investment business. WHEB manages about Euros 500 million across private and listed equity.

## ■ And now you run a new London listed investment trust, Menhaden Capital.

Yes, that vehicle also has a for-profit motive, so we're interested in generating the best possible risk-adjusted investment returns and with it we're also interested purely in the green industrial shift. So we're interested in investing in things, which by their very nature, will create positive environmental impact. The difference between this vehicle and

the funds we manage at WHEB is that it has an unconstrained mandate. In other words, we can invest in whatever we want to invest in, equity or credit, publically traded or private.

## ■ Do you think the evidence is there now that one doesn't need to sacrifice financial return in order to achieve a positive non-financial impact or return?

I think, when it comes to the environment, we're living in an age where you can make more money than everyone else whilst also creating positive environmental impacts. That is because we're going through a green industrial revolution. Across industrial sectors, everywhere in the world, businesses and governments and individuals are trying to find ways in which they can use resources more efficiently. Principally energy, but also water, raw materials and waste.

Global commodity markets have become much more volatile in the last 15 years or so. The price of everything is up and down like a yo-yo and that causes sleepless nights to Chief Executives and Finance Directors, so if they can insulate themselves from that volatility by using resources much more efficiently; they sleep better at night and also they reduce their costs and they're finding that actually what they're doing is picking up hundred dollar bills off the factory floor by becoming more efficient in energy and other resources. What that's done is it's unleashed a wave of innovation and investment in efficiency markets.

## ■ Is there an example of that?

Sure. Who had even heard of LED lighting five or six years ago? Now it's the dominant form of lighting across all applications and 90% more efficient than traditional lighting. The same is true across water desalination, water efficiency, energy



smart metering and that whole array of energy smart grid technologies.

Companies like Johnson Matthey and Borg Warner, General Electric, Johnson Controls, these have all become energy resource efficiency companies. So, I think that if there is a green industrial revolution going on, at the heart of the story is the drive for the much more efficient use of resources and that has created some very, very fast-growing markets in which investors who've been aware of it have made a lot of money and continue to make a lot of money.

“

**By using resources much more efficiently... they're finding that they're picking up hundred dollar bills off the factory floor**

”

Then as an extension to that, the same is happening in renewable energy, so we're witnessing an energy revolution as well. The price of a solar panel is down by between 80-90% in the past five years, and it continues to come down by 10% per year. The list of places in which power generated through solar panels is the cheapest option is getting longer every single year and the solar industry believes it can continue delivering 10% annual cost reductions into the future, which means that solar really is winning the day.

There is a famous saying: 'The Stone Age didn't end for a shortage of stones'. Well, the business opportunity in solar and wind is becoming overwhelming and that's due to increasingly effective and increasingly cheap technology. Once you've built it of course there's zero marginal cost. When you build a gas plant you're still tied to the gas price. If you've got a solar park your investment's done and your input, which is sunshine, is free, so there's zero marginal cost. That makes it an attractive asset to own if you're a pension fund or insurance company, so there's a tidal wave of investment going into renewables.

So all of these things, they're trends that offer the opportunity to make massive amounts of money and also create massive positive impacts and they go hand in hand.

**■ Do you find that investors will still say 'I just want to be able to compare my investment returns to a stock indices; I want to outperform this or that'?**

The evidence suggests over the last five years, there has been outperformance by investing in energy and resource efficiency companies. Companies that supply the efficiency stuff have experienced faster growth than people expected and have performed better than the stock market as a whole. You can look at energy and resource efficiency tracker funds (funds that track the companies that make the equipment, for example) then you could take an overweight or underweight investment strategy, or simply invest in 'best of breed', companies that are doing better than their peers as far as energy and resource efficiency goes.

**■ Is there anything that typifies what a good sustainable investment looks like?**

I think that every investor has different preferences and therefore different ideas as to what makes a good investment. From my perspective, which is not dissimilar from a family office or pension fund or insurance company in that we are reasonably risk averse, we're long-term investors but we're opportunistic. We like solid assets with predictable cash flow and we like to buy assets run at attractive prices.

**■ Is that the crux of it, that what is perceived as an alternative investment should actually be treated exactly the same as any investment?**

Yes, I think that's exactly right. All we're doing is applying absolutely normal and fundamental investment principles to a newish sector. It just so happens that this sector creates positive environmental impact. The world is undergoing a green industrial revolution and that's great news for all of us and it's great news for investors because when new disruptions take place, investors can make a lot of money.

I think we are past the time when you need to think about certain environmental markets as an area in which to invest for impact, because they are just areas in which to invest for financial return - the impact is a happy coincidence. Everyone has their own asset allocation and their own set of weightings and their own reasons for doing various things. So I think you need to distinguish between this particular area that I focus on and the pure impact stuff where perhaps the financial return is a little shaky and it's more about pure impact. That's somewhere in the line between investment and philanthropy and that's a very different place than the one in which I operate.

**■ What kind of lessons have you learned from your experiences of environmental impact investing?**

I think the biggest lesson for me personally has been that venture capital is a very difficult game. You can't just have a bet on a particular technology company and hope for the best. You've got to have a portfolio of 50, 60, 70 positions and you've got to try and support your winners and let your losers slip away rather than trying to keep them all alive. So, I've learnt that non-diversive type venture investing is not a great place to be and that's a mistake that lots of people make.

Americans diversify much more greatly and then they allocate their reserves thereafter to a handful of winners and let the rest die, whereas Europeans diversify much less and do their best to keep all the investments alive. I think for me that's the biggest lesson; unless you really know what you're doing and you tend to diversify and be quite ruthless, stay away from venture capital.

**■ What are some of the biggest challenges that environmental investors still face?**

Where renewables are concerned, in the UK and most developed markets they're not quite at grid parity yet. In other words, they don't quite yet compete with fossil fuels on cost and governments are making life harder generally by continuing to dish out massive subsidies to the incumbents. Fossil fuels in the UK receive ten times more financial subsidy in absolute terms than renewables do, and 97 per cent of the budget of

the Department for Energy and Climate Change in the UK is spent cleaning up the mess left by the nuclear industry.

Nuclear and fossil fuels receive absolutely vast subsidies and there's lots of data out there with varying numbers. The IMF says that the world's governments spend more than \$1 trillion subsidising fossil fuels each year. Whatever number you choose, it's just multiples and multiples bigger than what renewables receive, so problem number one is that there is no level playing field at the moment.



**Once you've built it of course there's zero marginal cost... That makes it an attractive asset to own if you're a pension fund or insurance company, so there's a tidal wave of investment going into renewables**



And by the way, those figures exclude the cost of the mess created by these things. There's also a cost in terms of human health of the coal industry. There's a cost to the health service of polluting industries and so on, and the cost of climate change. So without factoring any of those externalities which are currently un-costed, there's no level playing field, there's just direct cash subsidies being thrown at the incumbents and the renewables are being asked to compete.

Problem number two is the policy framework around renewables, which is in disarray. One minute we're supportive of solar, the next minute we're removing all support for solar. It's this kind of uncertainty investors hate more than anything. What we should have done is said "We will support solar in the UK at 'X' level and that level will be cut by ten per cent a year so that in nine years' time or ten years' time or whatever it is there'll be no subsidy at all". Incidentally, this is the reverse of what we've done for fossil fuels and nuclear which has been to give an open cheque book that gets bigger every year for 50 years.

# CHAPTER 3: PERFORMANCE & DETERMINING SUCCESS

**W**hat makes for a successful impact investment? This is a crucial question which demands a more nuanced and indeed personal answer for each investor than a simple reiteration of “to generate a positive social or environmental impact alongside a financial return”. While the majority of family offices and foundations report positive financial returns from their impact investments that at least meet their expectations, they report higher levels of satisfaction with the social element of these investments and that is also reflected in how they rank what is important in a successful impact investment.

“Setting the bar as ‘best practice’ for impact investing” was ranked the most important indicator of success (for 22% of respondents) and was ranked within the top two most important indicators across the 1-5 ranking metric. The next most important indicators were “Exceeds the social objective” and “Positive collaboration/relationship with stakeholders”, followed by “Provided a learning experience for the organisation (positive or negative), which will inform future investments”.

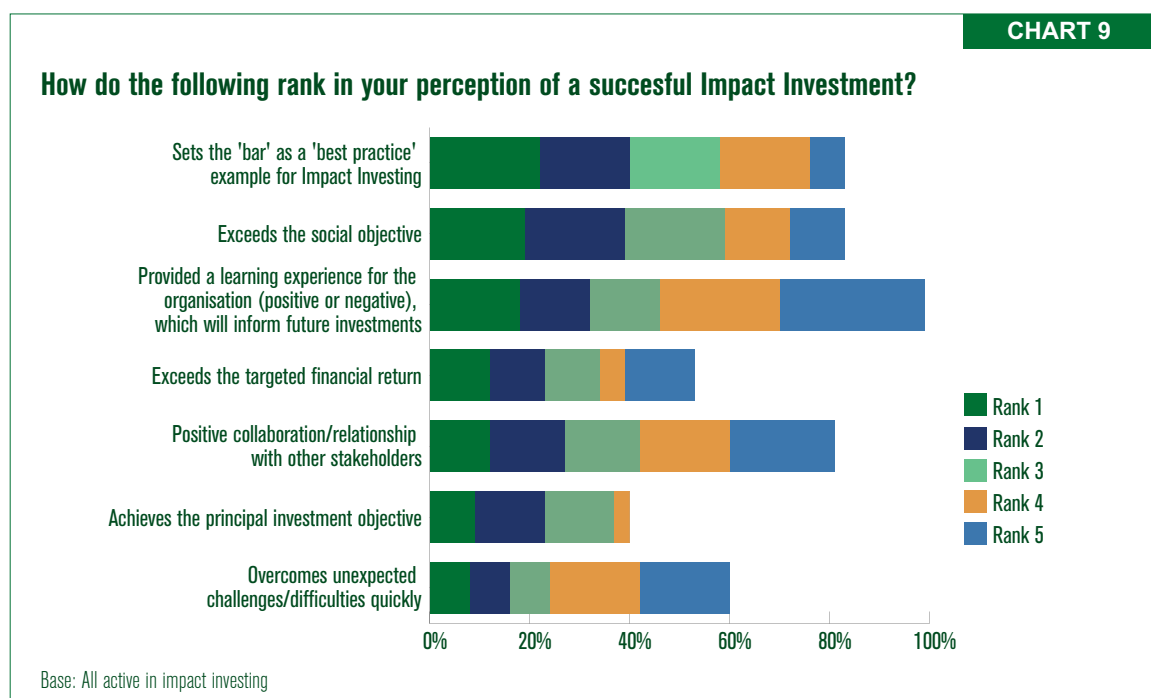
From this we see further evidence of the social objective driving impact investments – exceeding

a targeted financial return, achieving the principle investment objective consistently ranked down – but also that adopting a different mind-set towards philanthropy is helping the organisations demonstrate their values in a different way, be that as a learning tool internally or by being a peer leader in a relatively new field.

## Financial Performance

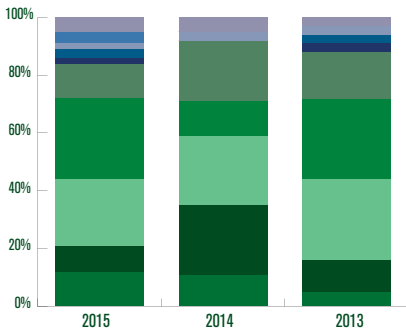
The majority of respondents report having achieved – on average – positive financial returns of 3-5% and 6-10%, respectively, across their impact investments “to date” (which is likely to be since 2010, given the high volume of respondents who reported starting to allocate to impact investments then). These data ‘bands’ have remained the most reflective for respondents’ financial returns throughout 2013, 2014, 2015, though last year there was a slightly higher prevalence of respondents reporting gains of 11-15% (20% of the respondents).

Confirmation of the prevalence of the 3-5% and 6-10% ‘band’ for financial returns is echoed in the expectation of family offices and foundations for financial returns over the next 12 months; the majority at 23.5% expect gains of 6-10%, followed by 21% expecting gains of 3-5% and 14% expecting gains of just 1-2%, which would constitute

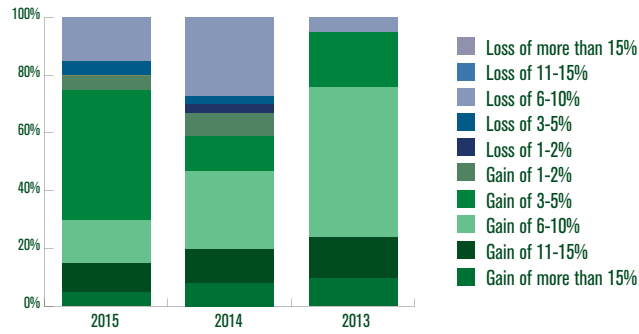


**CHART 10**

**What has been the average annual financial return on your impact investments to date?**



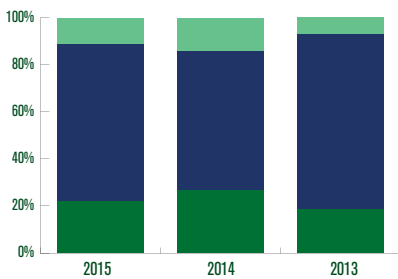
**What has been the average annual return on your investments over the last 3 years?**



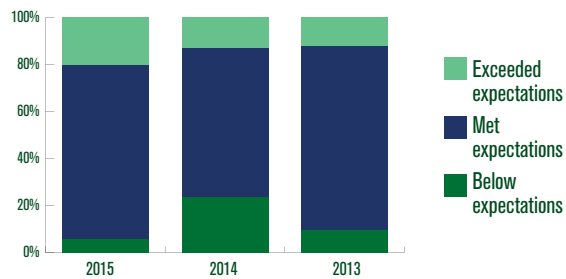
Base: All active in impact investing then all not active in impact investing

**CHART 11**

**How did the overall financial performance of your impact investments compare to your financial objectives?**



**How did the social performance of your impact investments compare to your social objectives?**

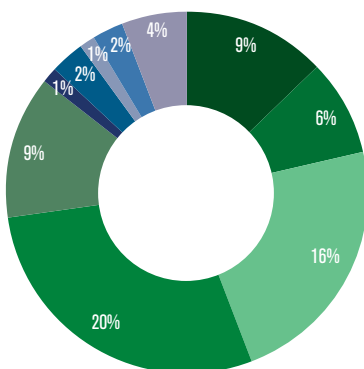


Base: All active in impact investing

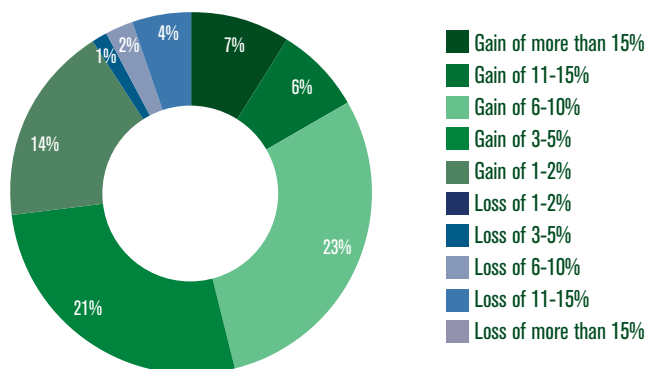
**CHART 12**

**What has been/is expected to be your average financial return on your impact investments...**

**...to date?**



**...in the next 12 months?**



Base: All active in impact investing

an outperformance of all of the major indices based on their discrete 12 months performance to end of last year (they posted losses of 2-5%).

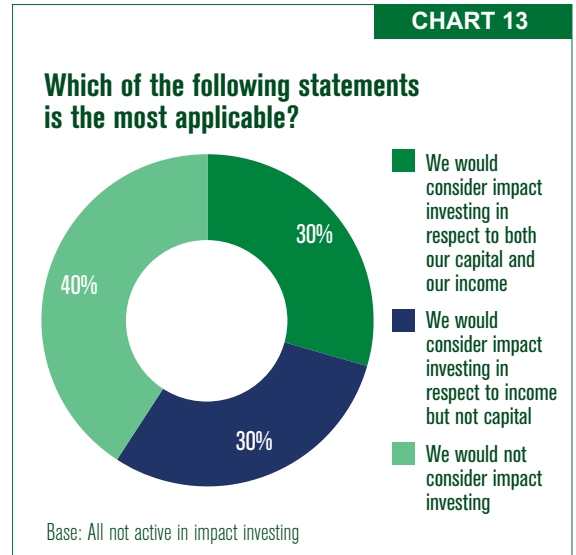
Of the past three years, 2014 saw more respondents record positive financial returns (91%) compared with 2013 and 2015, for which 89% and 84% respectively recorded positive financial returns. 2014 also had the lowest volume of respondents reporting a financial loss (9%; 11% in 2013 and 16% in 2015).

### Traditional Asset Comparisons

Of course, as this survey has demonstrated, there are very different motivations driving impact investment decisions and many of the stocks included in the major equity indices have varying Environmental, Social and Governance (ESG) standards, let alone operate in varying sectors of business (including so-called 'sin stocks').

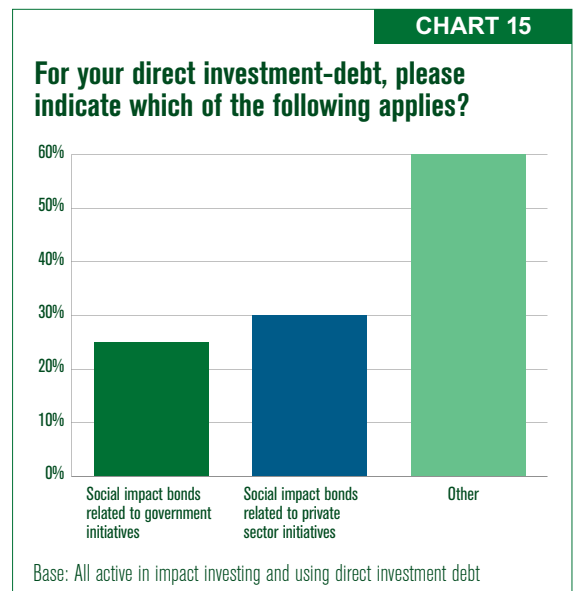
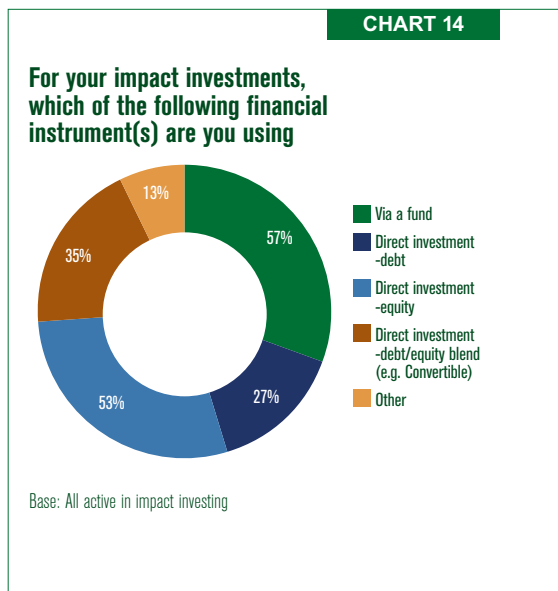
Equally, this survey's respondents indicated a tendency to hold impact investments for five years or more, so to some extent these reported performance returns could constitute interim-reporting, with more years left to go before the investment return can be realised.

It is also worth noting that overall financial performance 'met expectations' for the majority of respondents across all three of the surveyed years



(67% in 2015), though the volume of respondents reporting that the social objective of their impact investments 'met expectations' has been consistently rising over the three years (74% in 2015). This year's data shows that financial performance was 'below expectation' for 22% compared to just 6% for social performance, and 11% reported financial returns "exceeding [their] expectations" compared with 20% for social performance.

The number of respondents who did not wish to disclose any financial information has remained stable across the three-year research period, at around 20%.





# Alice Chapple

Economist & Specialist in Impact Investment Measurement Impact Value



Adviser



Global



Measurement



Private Business

Alice Chapple is an economist and a specialist in impact investment and impact assessment. She worked as Director of Sustainable Financial Markets at Forum for the Future prior to founding Impact Value, which advises businesses, impact investors and not for profit organisations on how to assess activities for real and lasting impact value. She is also a board member of the Carbon Tracker Initiative.

Prior to Forum for the Future, she worked for many years at UK development finance institution CDC as financial analyst, fund manager and social and environmental advisor. In the late 1990s, she established a programme for evaluation of development impact and in the 2000s she designed processes for fund managers to assess the environmental, social and governance (ESG) aspects of their investments.

## ■ Are you seeing a growing, shrinking or steady interest in impact investing, from company management and investors?

I see a growing interest in impact investing, and an associated demand for better reporting of impact. The funds I work with tend to focus on impact; therefore while they've always wanted to measure it, finding a tighter, more rigorous way of doing so is important. I see those methods of measurement moving from measuring outputs, to measuring outcomes.

Measuring outputs is about the products or services you deliver, for example the number of hospital beds you have provided, whereas measuring outcomes looks at how many people have been made better, or improved the quality of their lives. The very basic output level indicator is using all the quantitative numbers, but looking at outcomes is going beyond those numbers

to say what has actually changed, which is far more complicated.

Another pattern is where people haven't really yet thought about impact per se, but they are focusing on managing their negatives – i.e. making sure they're not doing anything too 'bad' - but struggle more with communicating their positives.

As one clear positive from a business is generating returns to shareholders, while they have that in hand, they are starting to think of other things alongside. I see it a lot in the financial world as some kind of reaction against the negative reputations as 'bad guys', but there are always lots of reasons why a business wants to enhance its positive impact, beyond the obvious public relations exercise. As a strategic decision you might boost your competitive advantage if you understand your customers better, or your suppliers, which in turn improves your marketing or buying abilities.

## ■ What is driving that desire to improve their measurement rigour?

For both funds and companies there may be pressure from external sources– investors in the case of funds or analysts, or public perception, for example –and they realise that they don't necessarily have the depths of information that they would like to have on their level of impact.

Now people recognise there are 'best' ways to measure impact and are beginning to ask for them. Before I think investors in particular have simply been given excuses and accepted them for reasons of perceived difficulty, or cost of getting more accurate measurements, for example. And companies have been able to get away with making assumptions about their impact, without often asking the supposed beneficiaries.

■ **Have technology and social media helped with that?**

Yes. The way in which people gather their data is increasingly efficient through using technology. But while you can question a larger sample in a shorter period of time, saving time and costs, the questions still have to be cleverly designed to ensure they are meaningful.

Through social media, it is easier for everyone to gather data on how they are doing; perhaps encouraging that rigour because they know people can question them more easily. Social networks are being used to try and gather statistically robust data – on sentiment or positivity ratings, for instance – but there is an inherent bias because it only counts feedback from people who have bothered to reply. You have to design your way of evaluating feedback in a way that can be held up to scrutiny.



**The way in which people gather their data is increasingly efficient through using technology**



■ **Where do you fall on this debate about financial return as a first priority, and the social sustainable economics second, or vice versa?**

It is a really interesting debate. I used to work for CDC, a development finance institution. I joined because development was its priority and it had to make a reasonable return. Over the time I was there it shifted, starting to believe that making a good return must be better socially because it's more sustainable and financially viable, therefore you're going to be able to sustain those social impacts much more effectively.

But if you prioritise the financial return then you tend to want to maximise that, and the social impact is very much deprioritised.

I go for the third camp: one certainly has to optimise the financial return, in a way that will make it sustainable. Over a certain point, one can divert some of that financial gain to generate longer-term thinking, which requires thinking about the longer-term impact on customers, suppliers, employees and so on and delivers better social outcomes.

■ **What data or matrix do you think should be used, or should company investors be looking to ensure they get that longer-term social impact, without sacrificing returns?**

There are lots of studies that show a company investing in its employees, and in understanding the market, customers and suppliers better, will tend to generate better financial returns over the long term. I would like to see some sort of measure of the investments a business puts into those elements.

Where there is a close relationship between the business and its local community and you can see the direct impact, that can also be an indicator of how well that business is going to do in the long run.

For example if there is a dominant employer in the local area, if they help with apprenticeships, or support various activities in the local community, that can really generate a positive sense that people want to support that business, want to buy from them, and want to be employed by them and so on. There is a positive loop there if you invest.

■ **What are some of the challenges you see in monitoring and evaluating these outcome-based elements, rather than the output elements?**

It is expensive. Counting the output -how many people you employ, how many suppliers you use - is straightforward: it can be done within the business, they gather that data on their books anyway and there's nobody else involved.

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**I see a growing interest in impact investing, and an associated demand for better reporting of impact**

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The moment you try to understand in more depth what the impact has been, including all the indirect impact, it is less likely to be data the business could naturally gather.

The more in-depth understanding of all the impact a company has actually had, it gets very complex to gather, and ultimately more subjective.

**■ What is happening in order to address these issues?**

A number of initiatives are trying to address some of those problems. At a basic level, Global Impact Investing Network (GIIN) is putting standards in place (IRIS) to ensure comparable indicators. For example if somebody says they are measuring number of employees, there is a certain type of indicator for part-time, temporary, or full-time. But they haven't got any outcome indicators, they're really just output indicators at the moment.

Similarly comparing data between businesses: do different companies measure carbon emissions in different ways? If you have a company stating it has a certain number of suppliers, who has been counted in that number? Have they counted all the people supplying the supplier?

I think until that measurement gets in place, people are reluctant to make any noise about how they are measuring impact, because they are not sure how it will compare to other people's numbers. However, good work is going on behind the scenes and I think this will bear fruit in the near future.

**■ Given that there's no single accepted or integrated indicators which simultaneously**

**satisfy traditional economic and financial measures and social environmental return indicators, what processes would you advocate people considering?**

The nice answer would be to find a single number that aggregates rates of return across social and financial, allowing you to compare all businesses across the piece; if they haven't got a good social return, you will be able to compare that with other businesses.

I don't think we are anywhere near that. I think the cost and the resource involved in trying to translate social impact into financial is probably not worth it.

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**I don't think one can have a universal measure of the outcomes. I think it ends up being a lot more difficult to aggregate and to compare companies spanning different sectors**

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I don't think one can have a universal measure of the outcomes. I think it ends up being a lot more difficult to aggregate and to compare companies spanning different sectors. So in the energy sector it will be about carbon emissions perhaps, as one of the key factors on which to measure impact. In the agricultural sector it might be about the number of people they're buying from, or the extent to which suppliers are profitable that they're buying from.

So I advocate people thinking through how their own particular business or fund aims to create an impact (exploring their 'route to impact' or 'theory of change') and using this to select a few indicators that they can best track to measure progress on the most important elements.

# CHAPTER 4: IMPACT CASE STUDIES

This selection of Case Studies was hand-picked for the diversity of investment themes – ranging from the food ecosystem, education and poverty reduction to environmental sustainability, social inclusion and health – and the diversity of impact investing structures applied by this varied group of ‘actors’; Kimbal Musk as a social entrepreneur, Qazi Azmat Isa as a development specialist, and Miguel Maduro and Filipe Santos who provide a governmental perspective.

This builds on the library of knowledge accrued by active participants included in previous editions of

this report; including those from Johnson & Johnson Corporate Citizenship Trust, the Roger Federer Foundation, Big Society Capital UK and Aga Khan Development Network.

This year, you have likely already noticed that we introduced a selection of ‘Question and Answer’ interviews interspersed among the survey chapters. The aim of this was to provide expert insights that help to contextualise the survey’s findings.

(For more information on past editions of Investing for Global Impact, see page 48.)



## Kimbal Musk

Co-founder and Chief Executive, The Kitchen and The Kitchen Community



Impact Investor



US



Food Ecosystem



Education

Kimbal Musk is an entrepreneur, philanthropist and restaurateur. He has founded and advised several high-profile companies that have subsequently been acquired for significant sums or listed on the Nasdaq stock exchange. Mr Musk currently serves on the Board of Directors for Tesla Motors, SpaceX, The Anschutz Health and Wellness Center and Chipotle Mexican Grill. His personal mission is to improve every part of the food culture and ecosystem to generate thriving communities. The Kitchen has locations across Colorado in Boulder, Denver, and Fort Collins, one location in Chicago and three locations coming soon to Memphis.

“There has never been a better time in history to be a social entrepreneur,” Kimbal Musk boldly announces. From anyone else this could sound like hyperbole. Coming from the entrepreneur who has founded, invested in or advised such business luminaries as PayPal (acquired by Ebay), Zip2 (acquired by Compaq), Everdream (acquired by Dell), OneRiot (acquired by Walmart), SpaceX, and listed companies Tesla Motors and SolarCity – well, then it deserves consideration.

Mr Musk is on a mission to apply his business acumen to impact investing – though he prefers the term social entrepreneurship – focussing on the “power of good food to connect communities” and for Learning Gardens to educate children about “real food”, empowering them to make healthier food choices.

### Hybrid Approach

To achieve this, the organisations take a hybrid approach, which appears stark in its simplicity: The Kitchen is a for-profit community restaurant group with social as well as financial objectives, which provides an income stream and generates charitable fundraising for the not-for-profit (NFP), The Kitchen Community. By its NFP status, The Kitchen Community is also able to access investment from foundations as well as from a wide spectrum of impact investors.

The Kitchen Community constructs Learning Gardens in eligible elementary, middle and high schools, providing an outdoor classroom and experiential play-spaces that connects children to real food. The organisation also provides on-going

maintenance support for the gardens and regular teacher training to help develop lesson plans and activities in Science, Engineering, Art and Maths that draw from the Learning Gardens. When scouting for new locations across the U.S, there must be a business and social case to establish both The Kitchen restaurant and The Kitchen Community Learning Gardens (the NFP commits to establish Learning Gardens in 100 schools in each metro area it operates in).

## The Kitchen

Mr Musk describes the vision he and co-founders Jen Lewin and Hugo Matheson based The Kitchen on, saying: “We wanted to create restaurants that would really set the benchmark for social impact restaurants; working and building relationships with local farmers, to really support them in growing their industry, in hiring people, in investing in people, working to support local schools and educating kids.”

The Kitchen prides itself on high corporate social responsibility, measuring the impact of each restaurant on the local food and produce ecosystem, investing in a supply chain that the organisation tiers:

- Tier 1 is locally-farmed produce within driving distance of the restaurant; the Farm to Fork movement’s philosophy. In Tier 1 are also local bakers, ranchers and other purveyors.
- Tier 2 are what The Kitchen calls “relationship vendors”, high-quality producers of products that cannot be sourced locally, such as seafood for in-land locations. In most restaurants, Mr Musk says, it is more typical for around 50% of their produce to be sourced from Tier 1-2 vendors, whereas for The Kitchen Tier 1-2 produce accounts for 80% of the food served.
- Tier 3 is the traditional supply chain, Mr Musk says, which enables out-of-season produce to be bought from around the world – “strawberries in January, for example”.

“This is really critical,” Mr Musk explains, “because these farmers need support. They need people who are going to be around and are going to buy

their product not just today, but next week as well. We measure all of that.” The Kitchen restaurants themselves are built by a community of craftsman and are also committed to environmentally-friendly practices, such as composting, recycling and use of eco-friendly packaging.

## Proven Results

Mr Musk agrees that without proven outcome-orientated impact measurements, investor buy-in is far more challenging. He says that The Kitchen founders initially wanted to target the propensity of obesity or diabetes in a community but, he says, “that just became too big a problem for us as there are 50 or 100 things that cause obesity and we’re not going to solve all of them with Learning Gardens”. “I think in any area if you have too broad of an impact [target], it’s very, very difficult to measure,” he adds.

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**[The positive feedback loop] is what separates impact investors from traditional investors**

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One example of The Kitchen restaurants’ impact on a local food ecosystem, Mr Musk says, is Colorado’s local farming industry which was valued at around \$5 million 10 years ago and is now a \$20 million industry, with The Kitchen restaurants the biggest purchaser of local produce in that state.

Each restaurant also runs a monthly fundraiser in support of The Kitchen Community; “In Chicago we raise about \$1 million a year just through one restaurant. It’s pretty amazing,” Mr Musk says, adding “the restaurants become a very regular consistent fundraising hub for the Learning Gardens.” Each restaurant donates 10% of its annual revenue to the NFP too, so “The restaurants basically provide an ongoing revenue stream for the Learning Gardens and ensure that our support there never wanes,” says Mr Musk.

Only four years after founding The Kitchen Community in 2011, the NFP built 250 Learning

Gardens in Chicago, Los Angeles and Colorado schools reaching more than 140,000 children every school day, improving students' vegetable intake and academic achievements.

By applying the hybrid model, The Kitchen restaurants generate huge community buy-in for its NFP organisation, which benefits its guests' own children and those of their extended community – and, though he doesn't say it, one assumes that a social business benefiting local producers and businesses, buoying the local economy, creating employment and providing Learning Garden facilities in 100 local schools will experience community goodwill and patronage to the benefit of the for-profit restaurant business, generating impressive financial returns. "The people who were invested in The Kitchen from the early days have made 20 times their investment," Mr Musk says, though he concurs that financial returns have moderated as the business has matured, post start-up phase from launch in 2004.

### Creating Sustainable Impact

Mr Musk says that what separates impact investors from traditional investors is their approach to investment time horizon, which in turn ensures a long-term commitment to the for-profit restaurant business and the NFP Kitchen Community, increasing the prospect of making the social impact deep-rooted and sustainable.

"We only talk to investors that have a ten year horizon, though mostly we talk in terms of adding value and getting value back," Mr Musk says, adding that the rare investors who exit tend to do so for liquidity reasons – "That's just reality, but very few of them say 'I'm out now' [for good] or 'I'm going to stick my money in oil; they're differently motivated". He also noted that there is not lack of need, even just within the U.S, but it all starts with identifying an impact investor with the desire and financial commitment to support the organisations' presence in a new metropolitan location.

Mr Musk credits the Internet-enabled freedom of information for encouraging more responsible consumer decisions, which in turn are increasingly rewarding businesses that embrace their corporate

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**The restaurants become a very consistent fundraising hub for the Learning Gardens. In Chicago we raise about \$1million a year just through one restaurant**

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social responsibilities, and not just in a tick-box fashion. He explains: "I think the old days of ignoring the social impact of your product was possible because the consumer didn't care, but with the effect of the Internet consumers can actually be much more aware of what the impact of this [product] is on themselves as well as the environment and elsewhere.

"Companies that do actually follow the customers, I think they do very well [financially]. In my experience, at least in the car business and in the food business, the companies that are having a social impact are actually gaining their [financial] return, they're being rewarded enormously by the customer as well as by the markets," he says.

The organisations' founders are following an ambitious growth strategy, targeting ten more communities over the next ten years for The Kitchen restaurants, building on its Colorado, Chicago and, latterly, Memphis locations. For the Learning Gardens, he says, "we move very fast: a call for applications in February will be decided by April and will have been built by June. We're expecting to have done 20-30 new Learning Gardens by next June."

The organisations' target is to grow from 260 Learning Gardens to 1,000 by 2019. "When I say that, it's not that it's not hard. It's really, really hard, but you look at the world of schools, there are 100,000 schools in the US that need help and need Learning Gardens. Even doing 1,000 in eight years is really not fast enough, so our goal is to go as fast as we can and we think that is doable," Mr Musk says.

## Corporate learning applied to Impact Investing

According to Kimbal Musk, these are the corporate lessons he has applied to impact investing:

- **Scale.** “I think this is the biggest thing that I have applied to the non-profit and the restaurants,” he says, noting that from the outset he considered scale to be a critical component to the organisational decision-making, firstly for the business but then also applied to the not-for-profit Kitchen Community.

He says: “Many, many non-profits just don’t think of scale”, they think only in terms of whether the project can achieve its targeted social/economic/environmental impact, rather than considering ways of introducing impactful projects that can scale to reach larger numbers and ultimately have a larger impact.

- **Excitement.** Social entrepreneurs should pursue impact investment themes and

projects that “get their juices flowing”, which for Mr Musk is food and communal dining. He said that part of his enjoyment of The Kitchen and The Kitchen Community was its long-term viability and scalability; “It doesn’t really get my juices flowing to do a small thing”.

- **Bureaucracy.** By selecting impact investments that (paying) customers want – in this case, high-quality, farm-to-fork, relaxed dining – and matching this with a social action that is also welcomed by the target group – in this case, elementary, middle and high schools – the project can encounter less resistance and have a greater impact, more efficiently.

“What we do has very few enemies,” he says, “Everyone wants to eat better, no-one wants their kids to have diabetes, everyone wants their kids outside more and learning better. The Learning Gardens are a beautiful addition to the school yards. The teachers love it, the kids love it.”



### Qazi Isa

Chief Executive, Pakistan Poverty Alleviation Fund (PPAF)



Impact Investor



Pakistan



Social Inclusion



Not For Profit



Public/Private Partnership

Qazi Azmat Isa is a rural development specialist. He has previously held roles at the World Bank in Pakistan and Afghanistan, the UNDP/World Bank Water and Sanitation Programme and the Balochistan Rural Support Programme (BRSP).

Initially seed-funded with a \$10million endowment from the Pakistan government, during the past 15

years the Pakistan Poverty Alleviation Fund (PPAF) has supported access to \$1.2billion in micro-finance loans and provided \$90million in grants to develop private sector institutions.

“I don’t like to use the word ‘poor’; poverty is not homogenous,” Mr Isa says. “If you look at Occupy Wall Street to ‘We Are the 99 per cent’ to a village

in Pakistan, it is primarily about the lack of voice and accountability and inclusion that is at the base of this anger, this sense of disempowerment, disenfranchisement.”

In a country in which more than half of its diverse population of 185million live below the international poverty line (of \$2 per day, Rs 205 per day), Mr Isa says there is a strong philanthropic impulse in the country – particularly for financial giving (rather than volunteering) – but that this fails to provide a long-term, sustainable and empowering solution.



**From \$10 million government endowment to \$130 million generated from micro finance loans**



“There is very little impact investing in Pakistan because they have created a dependence syndrome in recipients,” he explains. “You see their apathy setting in and that whole entrepreneurial spirit being killed and people [the philanthropists] don't realise that they are doing serious harm.” When ‘donor fatigue’ sets in the would-be recipients wait for unconditional hand-outs. This is not a satisfactory cycle for any of the stakeholders, Mr Isa argues.

### **The Necessity Of Commitment**

As a result, PPAF seeks a commitment from those it works with, from financial institutions through to the ‘ultra-poor’ in its programmes, be that a financial or time commitment. For example, the PPAF’s Livelihood and Enterprise and Development (LEED) programme targets the “ultra-poor”, providing a mixture of asset transfers (grants) matched with mandatory business skills training, with the aim of acting as a foundation from which they would ‘graduate’ to mainstream microfinancing.

Mr Isa says: “However small an asset, it has to be complemented with some business acumen in terms of how to open a bank account, to a basic kind of rudimentary cash flow. So we do

this home based investment plan. We have village space investment plans, but individual households also create investment plans. And if they're setting up a little shop or running a... part of the training is how do you maintain your assets? How do you invest in the asset? How do you make that asset sustainable?” Mr Isa says this programme has provided asset transfers averaging Rs 30,000 (\$300) to 90,000 people across Pakistan, with “profound results”. In two years, 4,000 people have ‘graduated’ through the programme to access mainstream microcredit, Mr Isa says.

A new PPAF initiative that builds on the theme of commitment from participants is its NYK Centres, which Mr Isa describes as “match-making employment centres”. Registrants at these NYK Centres must pay a small registration fee of Rs 100 (equivalent to roughly half a day's wages), which is small enough to be achievable to gain financial and emotional buy-in from participants but not large enough to be a significant barrier. “Where people can't contribute themselves, there is no ownership [over the process], they just take it for granted and don't attach a value to it,” Mr Isa says. “I've seen it myself, if they don't pay a nominal fee their attendance isn't so good. There is huge regional disparity in Pakistan, so even in the poorest region we demand at least a 10 per cent contribution from the community to contribute towards the public good or the loan.”

The essential commitment, or buy-in, extends in PPAF's work developing and investing in institutions. PPAF takes a two-pronged approach to developing institutions, providing grants to bring to fruition necessary investment such as in external auditing or investing in credit check information, while also investing in those same institutions through an endowment. Mr Isa explains: “We do not expect a return on the endowment, it is given to strengthen our partners balance sheets and ensure their sustainability; our returns come from our lines of credit to these institutions.” The organisation invests in private sector institutions in order to support them in achieving PPAF's five core values: inclusion,

good governance, transparency, participation and sustainability.

### **Innovation And 'Islands Of Excellence'**

In so doing, the organisation is creating "islands of excellence", as Mr Isa terms it, learning from smaller projects to ensure they can withstand the rigour of scaling. "Only with commitment from private sector financial institutions can capacity and scale be achieved," Mr Isa says.

For example, PPAF started small with its initial microfinancing projects, investing in just eight partners in 2000 so that it could test approaches and learn lessons before scaling the successful elements through other, additional partners. But, Mr Isa affirms: "Without commitment, capacity is meaningless."



**Where people can't contribute themselves, there is no ownership, they just take it for granted and don't attach a value to it**



Mr Isa says the PPAF invests a lot in research and development, which he believes is crucial to addressing the complex, multi-faceted and often changing challenges that inform and compound poverty. One example is the creation of an index-linked micro-insurance product designed to accurately reflect small-scale family investment in livestock.

Mr Isa explains that poor families who invest in livestock for slaughter during the Eid al-Adha religious festival may have purchased the asset at Rs 10,000 and invested in fattening up the animal to achieve a weight-based price of Rs 25,000 could purchase insurance to offset the risk of the animal dying, but this insurance was not linked to the animal's weight (the additional investment), just the initial purchase price.

PPAF spearheaded a unique livestock insurance product in which the livestock is weighed

throughout the ownership period and that weight recorded and measured against a valuation index, providing a more accurate reflection of the investment accrued in the asset. More than 100,000 animals have now been insured using this product, Mr Isa says.

### **Financial Return**

It is these types of grass roots insights that the private sector often misses, "because they don't really know the needs of these people or understand what influences the spikes in their cashflow," Mr Isa explains. Yet, he says, this is where those 'islands of excellence' can gain scale through aggregation; 100,000 animals is not only evidence of demand for such index-linked micro-insurance but is also more commercially viable for commercial banks or commercial insurance companies when aggregated.

Investing in financial services that provide loans in an emerging or frontier market would typically be considered a high-risk investment. However, Mr Isa says such investors may be surprised by the risk profile of such investments once they conduct due diligence: "We have to prove the concept that poor people can have bank accounts and that they can be given a loan. We have barely had any write-offs in our 15 years," says Mr Isa. The only default in 15 years, he admits, was of \$450,000 – a paltry amount compared to those experienced by mainstream financial institutions.

In fact, from the \$10 million government endowment in 2000, the PPAF has generated Rs 13 billion (\$130 million) in reserves from its micro finance loans. The PPAF portfolio is valued at \$180 million. "In the beginning, there was a lot of scepticism. They said we lacked capacity," Mr Isa recalls. "In the first year we only dispersed \$2 million and everybody was on my back saying: 'You know, we told you so'. I said 'Listen, we're putting the systems in place. I don't want to just throw money away'. Once the systems are in place, the community organisations are there, what we call 'institutions for the people' are there... we've now dispersed more than \$2 billion."



## Miguel Poiares Maduro

Portuguese Minister for  
Regional Development  
(April 2013- October 2015)



Miguel Poiares Maduro is a Portuguese academic and politician, who in his role as Portuguese Minister for Regional Development spearheaded the first social innovation programme to be financed by structural funds from the European Union. Mr Maduro was previously Director of the Global Governance Program and professor of law at the European University Institute in Florence, Italy, and was also visiting professor at the Faculty of Law at Yale University in the U.S.



## Filipe Santos

President of Portugal Social Innovation



Filipe Simões dos Santos is a Portuguese academic and entrepreneur who is leading Portugal Social Innovation – a public initiative that aims to develop a social investment market in Portugal. Mr Santos was previously a professor of entrepreneurship at INSEAD Business School and head of the INSEAD Social Entrepreneurship Initiative. He co-founded IES Social Business School and the Laboratory for Social Investment, two organizations that helped launch the social entrepreneurship and social investment ecosystems in Portugal.

Portugal is at the forefront of a bold, ambitious programme – and a first for the European Union (EU). Portugal not only aims to inject ‘impact investing’ into public policy, but in fact aims to transform the way the country’s entire economy operates by focussing less on immediate financial return and more on the “positive externalities” of its economic investments.

### An EU First For Impact Investing

Inspired by the UK’s Big Society Capital initiative and driven by the socio-economic tumult following the global financial crisis – during which the Portuguese economy contracted for three consecutive years from 2011 - Portugal Social Innovation is a pilot initiative funded by Eur 150 million in EU structural funds. This is the first time the EU’s flagship development funding, which is designed to smooth economic disparities between richer and poorer member states, has been used for financing the growth of social entrepreneurship and impact investing.

“That’s one of the reasons why the European Commission is paying particular interest in this, as it’s seen as a possible case study to be replicated in other European states,” Miguel Poiares Maduro says. “In this sense, expectations are high but it’s a positive pressure. The Commission has been very positive on the way it has approached what we have been doing in Portugal.”

### The Four Pillars

Filipe Santos, President of Portugal Social Innovation, says: “Portugal Social Innovation is a truly cross-sector initiative that aims to strengthen and grow the social innovation eco-system in Portugal. It will have both a technical team to develop and manage the financing programmes, as well as an ecosystem activation team, working in the different regions of Portugal to nurture the pipeline of social innovation projects and develop partnerships.”

Portugal Social Innovation takes a four-pillared approach through which it aims not only to promote and facilitate impact investments, but also to identify, connect and strengthen the ecosystem required to support social innovation

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**To an extent, we are creating the market for these kinds of instruments**  
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initiatives and organizations. Through these four pillars, the initiative hopes to address the whole life cycle of social innovation projects.

**1. Capacity-Building for Social Investment**

A financing programme that will allocate grants of up to Eur 50,000 for capacity building interventions in social impact organizations, to strengthen their managerial capabilities and prepare them for receiving impact investments.

These interventions will be provided by expert organizations in chosen domains (such as impact measurement, impact business modelling, financial management), based on an initial diagnosis, and will aim to strengthen the quality and impact potential of the existing social impact initiatives and projects.

**2. Venture Philanthropy Matching Programme**

This programme equally matches the financial contributions of foundations, corporations or public entities that are provided to social impact initiatives in a logic of venture philanthropy – medium term grant financing for the growth of impact initiatives, accompanied with mentoring and impact measurement requirements.

Mr Santos says: “The goal of this program is to change the fragmented nature of philanthropic giving, allowing it to be more strategic in its goals and promoting a pipeline of stronger and more sustainable projects that can receive further rounds of financing.”

**3. Social Impact Bonds (SIBs)**

Also known as ‘Pay for Success’ Contracts, this new type of financing instrument enables medium-term financing to social mission organizations for the development of specific impact interventions. However, repayment to investors is contingent upon

specified social outcomes being achieved, which are tied to clear economic savings or public policy goals, as validated by independent evaluators.

“SIBs can thus become a powerful engine of innovation in public policies. The first such contract in Portugal, and one of the first in Continental Europe, was promoted by the Lisbon municipality in early 2015 and funded the teaching of computer programming to primary school children,” Mr Santos explains. “Portugal Social Innovation will act as an outcome payer for this type of contract, thus fostering social investment in measurable impact interventions by foundations and private sector organizations,” he adds.

**4. Fund for Social Innovation (FIS)**

The FIS is a pioneer initiative, as it will be the first financial instrument for social innovation set up with EU structural funds. The wholesale fund aims to promote impact investments in innovative initiatives of social economy organizations, and is the benefactor of the Eur 100 million EU structural funding. FIS will not make direct investments in these initiatives but instead aims to incentivise financial intermediaries to engage their own capital, therefore bringing private sector funds and expertise to the financing of social innovation.

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**One of the ways social innovation differs from traditional social action is its sustainability**  
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At the time of going to press, a range of credit and quasi-equity instruments were being considered, in partnership with banks, business angels and venture capital operators, which Mr Santos says should allow, due to the private leveraging effect, the allocation of Eur 200 million until 2020, which would strengthen the innovation potential of the social economy sector in Portugal.

Mr Santos says that all four pillars should be in place and allocating social investments during 2016, the first three pillars in the first semester, and the Fund for Social Innovation in the second semester. An independent ex-ante assessment was completed in November 2015, which validated the existence of a market failure in financing social innovation and provided the green light for the implementation of FIS.

Each of the four financing programmes will report regularly to the funding agencies and the European Union, with the first evaluation scheduled for 2017. Regular communication with stakeholders is ensured through the web-site [www.inovacaosocial.portugal2020.pt](http://www.inovacaosocial.portugal2020.pt) and a monthly newsletter.

Initial sectors targeted by the initiative will include:

- Social Inclusion
- Employment
- Health
- Education

Despite its pioneering nature and ambition, Mr Santos says Portugal Social Innovation is fully aligned with global trends that seek to develop a stronger alignment between financial goals and social impact, and promote the growth and sustainability of the social economy sector. Portugal is one of the members of the recently created Social Impact Investment Global Steering Group (GSG), a coordination body that is promoting the impact investing agenda and instruments globally. “The aim is simple and ambitious – to develop a more human model of capitalism that is oriented to the achievement of social impact,” Mr Santos adds.

### Challenges

While Portugal has what Mr Maduro describes as “a long tradition of social institutions”, he says a key challenge facing Portugal Social Innovation is a familiar one: private sector participants such as entrepreneurs and financial institutions are unfamiliar with impact investing, with making the link between financial and social return and with alternative measurable results; while the public sector and social participants (including foundations and not-for-profit organisations) are unfamiliar with market mechanisms and financial instruments.

Mr Maduro says: “To an extent, we are creating the market for these kinds of instruments, for these kinds of actions and this is a challenge that we have. This is also one of the reasons why in Portugal Social Innovation there’s such a big focus on the promotion of the ecosystem, by having instruments for the support of and providing access to matching funds to new actors who appear, and to increase also the capacity of the existing actors.”

He adds: “One of the ways social innovation differs from traditional social action is its sustainability. This is a new philosophy and while it requires a new understanding that traditional social institutions are not accustomed with, we believe these new instruments [across the four pillars] will be able to promote it.”

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**We need a new form of velocity of action, both in the private sector and in the public sector that we believe social innovation can promote**

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Mr Maduro described fragmentation of the activities of public and private sector participants as “a crucial problem for Portuguese society and for the economy”, especially as the philosophy underpinning Portugal Social Innovation is the inter-dependence of these two fundamental parts. What is required, Mr Maduro says is “integrated ways of working together, a more integrated culture and a more co-operative network culture...a new form of action that is faster to react, more integrated, evidence-based, measurable and quicker to scale, both in the private sector and in the public sector that we believe social innovation can promote”.

While Eur 150 million seed funding may not sound particularly large, Mr Maduro says that in terms of financing “our social innovation programme is the largest and most comprehensive in the world, in relative terms,” acknowledging that the UK’s Big Society Capital is currently the largest in absolute terms.

He says continued funding for the programme will not be the challenge: "The most important difficulty that we will get in this programme will not be the funding, but will be demand. It's not the supply side. We have the money. It's the demand" he urges. This is the reason for the first two pillars to be launched first; releasing the initial set of incentives to stimulate interest across all market participants and to begin to foster the necessary ecosystem within which social entrepreneurship and an impact investment market can flourish.

### The Shadow Of A Global Financial Crisis

At the sharp end of a global financial and sovereign debt crisis, does the government feel that culturally there is greater receptiveness to alternative economic models, perhaps more human-centred models, than provided by Capitalism? "Yes and no," Mr Maduro says.

On the one hand "people are more open to the idea that we need a different economy, that we need an economy that internalises a set of goods and that is not simply focused on immediate economic return, and also that we need public policies

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**The goal of this program is to change the fragmented nature of philanthropic giving**  
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that work on a more integrated, less fragmented manner" he says. "In abstract, everybody agrees with the diagnosis but when you go to the level of implementation, the level of action, then you are faced with resistance; in a context of crisis, people hold even more strongly to the status quo, to the traditional way of doing things," he explains.

By forgoing larger, single and higher-risk approach, the multi-faceted (four-pillared) approach combined with employing an array of different financing instruments is more likely to afford Portugal Social Innovation scale in its ambitions. It can simply focus on scaling only the elements with a proven track record and apply lessons learned from any failures or challenges experienced.

## 3 Ways the EU could – and should – nurture Impact Investing

According to Miguel Maduro, the European Commission should create:

- **A specific programme for impact investing** This would signal the importance of the sector and encourage greater awareness among the public and private sectors across the European Union. If the programme were linked to a funding package that would also focus minds and provide the financial strength necessary for people to understand that this is a European Union priority, as I believe it ought to be.
- **An integrated EU approach to impact investing** Integration between all stakeholders,

public and private, is essential for social innovation and therefore it will be crucial for the Commission itself to have an integrated approach between all the different areas that are related to impact investment.

- **An EU figurehead for impact investing** At the moment, it is unclear exactly where in the European Commission this issue is being dealt with. Who has the political ownership of this issue, which can be categorised as social affairs or business innovation or policy? I think it is very important that there is someone in the Commission who 'carries the flag' and becomes the face of social innovation and impact investment in the European Union.

# CHAPTER 5: OUTLOOK FOR IMPACT INVESTING

## Latent Demand for Impact Investing?

There may be considerable latent demand accruing in family offices and foundations, this survey suggests; those who wish to invest in impact investments, preferring to do so directly rather than via a fund, but are prevented by a lack of direct investment opportunities. Of the “major barriers” preventing respondents from increasing their impact investments, the highest-ranked was the lack of direct investment opportunities (18%)<sup>14</sup>. By contrast, the lack of indirect investment opportunities (i.e. access via funds) was among the lowest concerns, at 4%<sup>15</sup>.

This survey found that the majority of the respondents currently invest via a fund, as they struggle to source suitable direct-investment impact opportunities, though half of respondents wish to increase their allocations to direct impact investments over the next 12 months<sup>16</sup>.

Lack of direct investment opportunities was a key concern for both respondents who are currently active in impact investing and for those who do not currently allocate to impact investments; it was the third-highest ranked barrier preventing their family office or foundation from considering philanthropy and impact investments (12.5%)<sup>17</sup>.

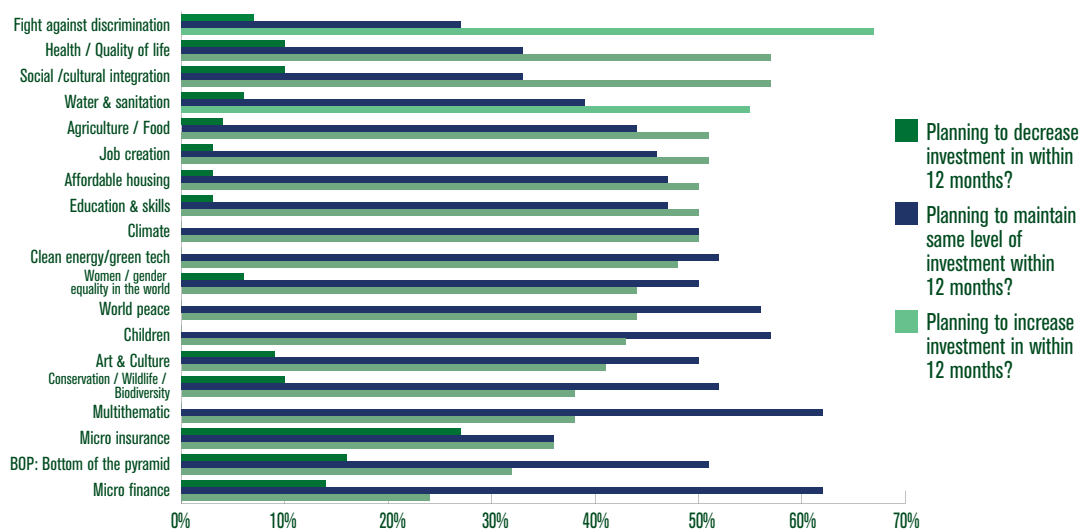
“Impact Investing is not an asset class! It is a discipline, a methodology, a way of thinking about pursuing extra-financial performance that can be expressed/pursued in every asset class and sub-asset class. This media-facilitated confusion is one of the greatest challenges the discipline faces.” – Survey Respondent, 2015

For all respondents, the availability of high-quality impact investment opportunities presented the biggest thematic challenge for the impact investing movement, an element of which seems likely to be the scarcity of direct investment.

While this is not conclusive evidence of a latent demand for impact investments, it is a consideration that should be assessed further. If true, one of the most urgent needs for the impact

CHART 16

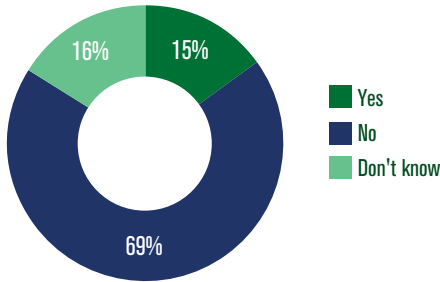
### What do you plan to do with your investment in the next 12 months?



Base: All active in impact investing

**CHART 17**

**Do you think the definition of Impact Investing is widely known and understood by family offices / foundations?**



Base: All active in impact investing

directly pitched (a third of respondents invested via direct approaches from investees). However, for those who do not currently allocate to impact investments, the opposite appears to be true with a lack of available funds to invest the major barrier preventing allocations to impact investments. Of course, this could simply be a reflection of their current priorities, as 72% of this cohort said the “family does devote resources to societal causes, but these are managed separately” and they were split on whether impact investing is a more efficient use of funds to achieve social impact than philanthropy (57% agreed versus 43%)<sup>19</sup>.

**Thematic Barriers to the Practice of Impact Investing**

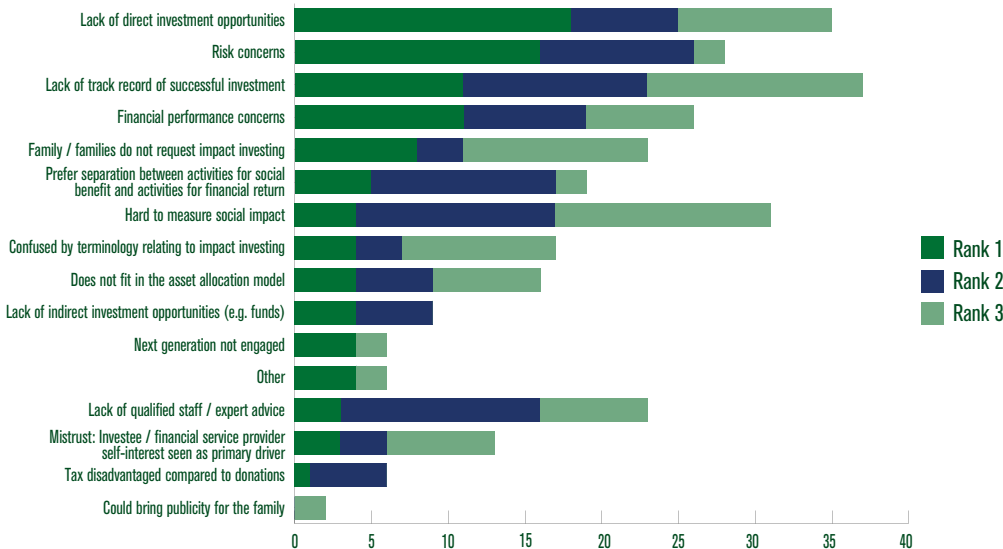
Around two-thirds of family offices and foundations consider impact investing to be part of their asset allocation, yet a whopping 69% of respondents said the definition of impact investing is not widely known and understood (only 15% said it was widely understood) by their peers. There are numerous views on whether impact investing is an approach to investing rather than an alternative asset class to be invested in, akin to Private Equity, Venture Capital or Hedge Funds. While this may seem like distracting semantics, the ability for family offices and foundations to comprehensively

investment movement would be to address the lack of direct routes to invest for impact, especially as this survey found the vast majority - 73% of family offices, 84% of foundations – “internally source” impact investment opportunities. Lack of awareness of opportunities was the second-highest ranking barrier preventing those who don't invest in impact to consider it<sup>18</sup>.

There is huge scope for direct impact investees if only these opportunities can be clearly sign-posted to family offices and foundations, or even

**CHART 18**

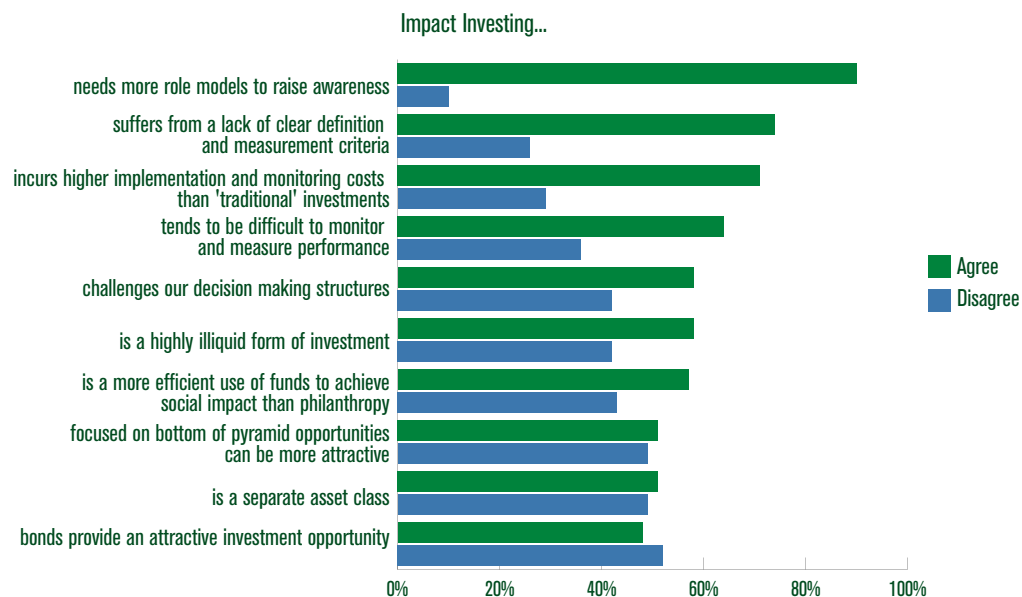
**Which of the following are the major barriers to increasing your impact investments?**



Base: All active in impact investing

CHART 19

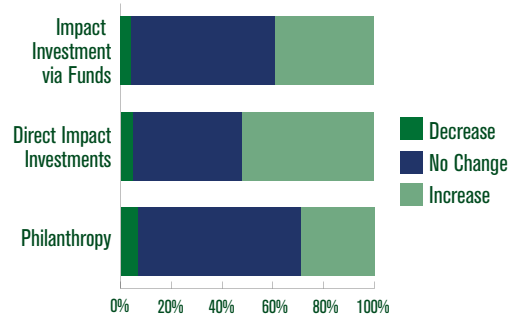
Do you agree or disagree with the following statements?



Base: All active in impact investing

CHART 20

As an estimate, how might your allocation(s) to the following change over the next 12 months?



Base: All active in impact investing

“For a company to be successful a degree of ‘mercenary’ is required, which many impact-centric companies lack. As an investor, we must carefully assess to which extent we can complement the team without sacrificing their missionary culture.” – Survey Respondent, 2015

grasp impact investing – and convey its benefits and risks to family members – will be key to driving increased engagement in this field.

This is evident in the biggest challenges facing impact investing (in general, not for respondents' respective organisations), with “general awareness of impact investing as an asset class” ranking just behind “availability of high-quality impact investments” as the biggest challenge. Other key challenges respondents identified were “family/foundation approval of impact investing”, “the need

for impact investing to mature as an investment approach/asset class” and a lack of “education about how to approach and implement impact investments”.

Given that a quarter of respondents feel “individuals, wealthy families and trusts/foundations” should take the lead in driving positive social impact<sup>20</sup>, these key challenges must be addressed by those already active in impact investing – investors, investment recipients, government organisations, consultants and other stakeholders.

CHART 21

### Major barriers to increasing engagement in Philanthropy

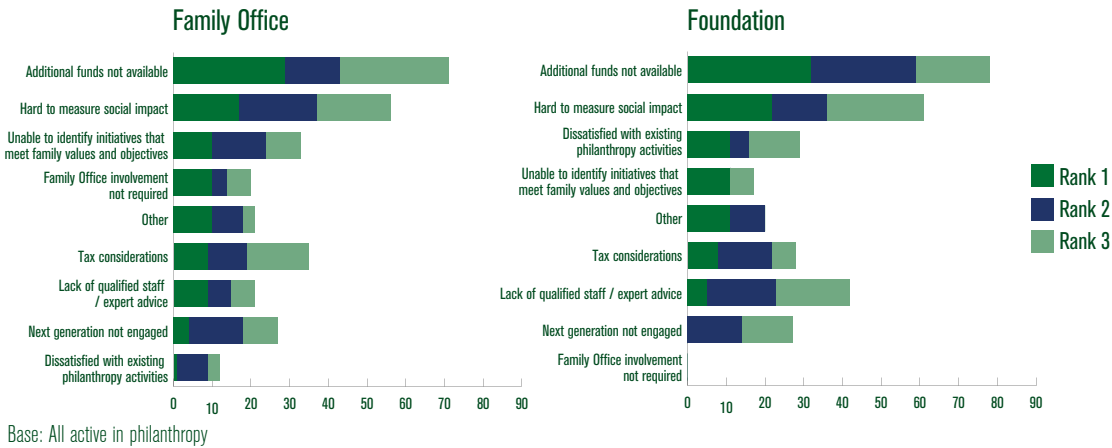
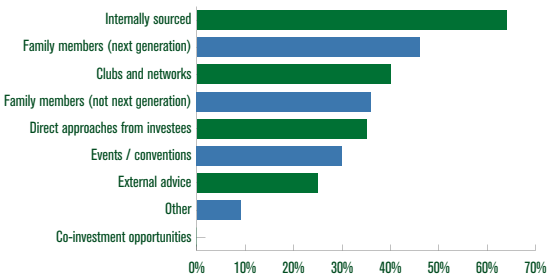
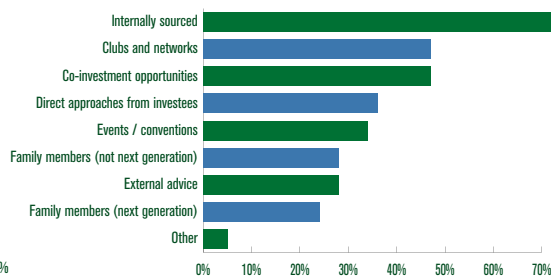


CHART 22

### Where do you source your Philanthropic opportunities?



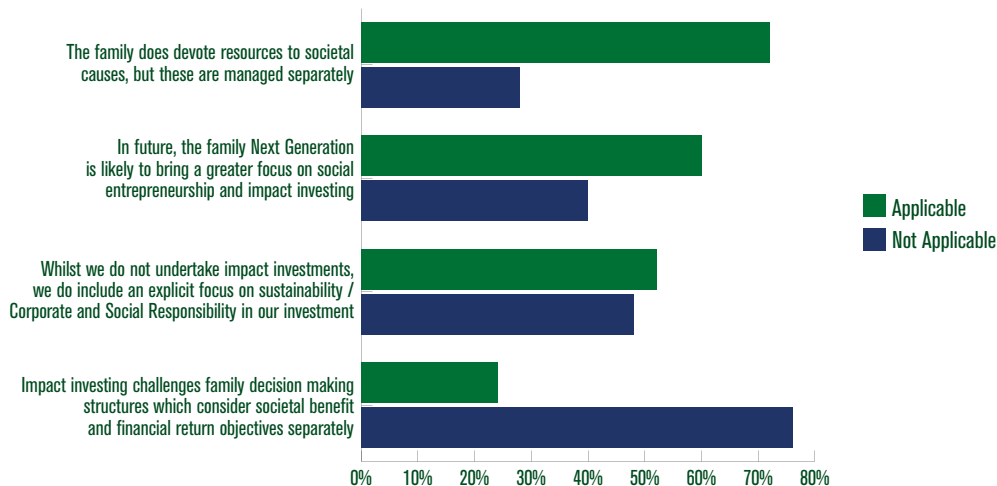
### Where do you source your Impact Investment opportunities?



Base: All active in philanthropy then all active in impact investing

CHART 23

### Views from respondents not active in either Philanthropy or Impact Investing



Base: All active in neither philanthropy or impact investing

## Financial Services' Knowledge Gap

However, where family offices and foundations are comfortable with their understanding of impact investing, their engagement may be hampered by a knowledge and experience gap among the financial service professionals who both advise them and invest the portfolio within agreed parameters.

Several respondents noted this as a thematic barrier for impact investing, and "lack of qualified staff/expert advice" was one of the highest-ranked barriers<sup>21</sup> preventing family offices and foundations from increasing their number of impact investments. A 'lack of investment manager track record' was also a major barrier, alongside financial performance concerns and the difficulty in measuring social impact.

## Tax – A 'Red Herring'

The least significant barrier facing impact investments generally was their tax treatment compared to donations – just 1% of respondents said this was a factor<sup>22</sup>. Family Offices and Foundations sometimes encounter the misconception that impact investing is motivated by tax mitigation, yet this survey has found tax to be one of the least influential factors affecting impact investing. The three key motivations for

**"We experience no primary barriers beyond available capital. There is insufficient capital to deploy."**

– Survey Respondent, 2014

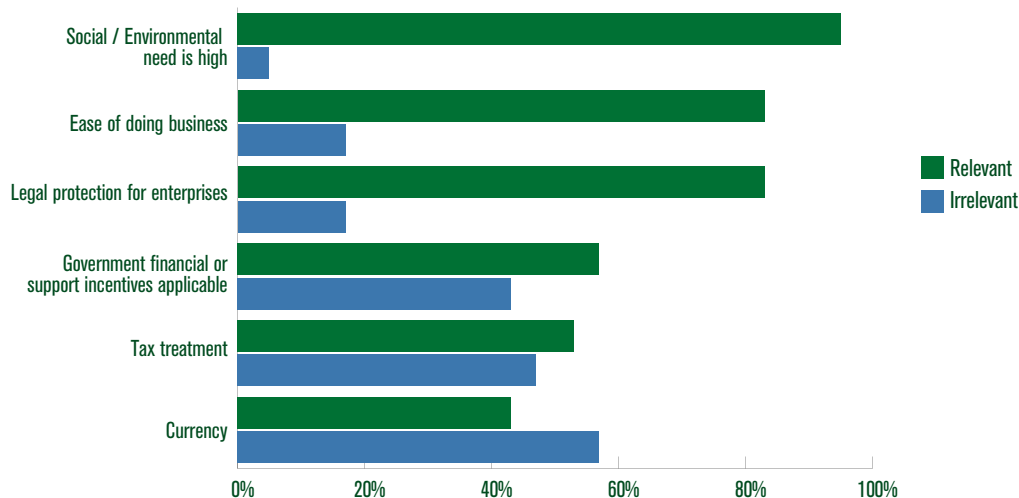
impact investing (in both the 2015 and 2014 survey) were apparently socially and family legacy driven; the contribution to sustainable development; the responsibility to society/community; and as a reflection of the values of the family.

Tax was one of the least pressing factors preventing respondents from increasing their impact investments<sup>23</sup>; 'Tax considerations' was ranked sixth out of eight options<sup>24</sup>. When we split the data by respondents' demographics, we see that only Single Family Offices (2.9%) consider this a serious barrier, while none of the Multi-Family Offices or Foundations said it was among the highest priority barrier<sup>25</sup>.

It wasn't even a notable factor in the location of the impact investment (53% said it was 'relevant' but behind four other more relevant factors<sup>26</sup>). Interestingly, a handful of respondents

CHART 24

### What is the relevance of the following in the location of the Impact Investment?



Base: All active in impact investing

who do not currently allocate to impact investments stated that “tax incentives”<sup>27</sup> or “tax benefits”<sup>28</sup> would help them consider impact investing, which may indicate that tax considerations are more of a motivation for those outside of impact investing ‘looking in’ than current practitioners.

### 2016 Investments Portfolios

In terms of current impact investment portfolios, half of respondents plan to increase their direct impact investments, compared with 39% for increasing impact investments via funds and 30% for increasing philanthropy allocations. As mentioned earlier, direct impact investments appeared more popular than via funds, despite ‘lack of direct investment opportunities’ being the leading barrier preventing family offices and foundations from increasing their impact investing allocation.

Philanthropy allocations were the most likely to remain unchanged (63.5% of respondents), while the volume of respondents that plan to decrease their investments in these three areas were all sub 7% compared to an overwhelming majority of respondents who plan to hold or increase their impact investments.

## What would increase your engagement with impact investing?

“Increased access to funds/  
More available funds”

“More role models and choice; success stories to show our clients to inspire investing and credible investment opportunities”

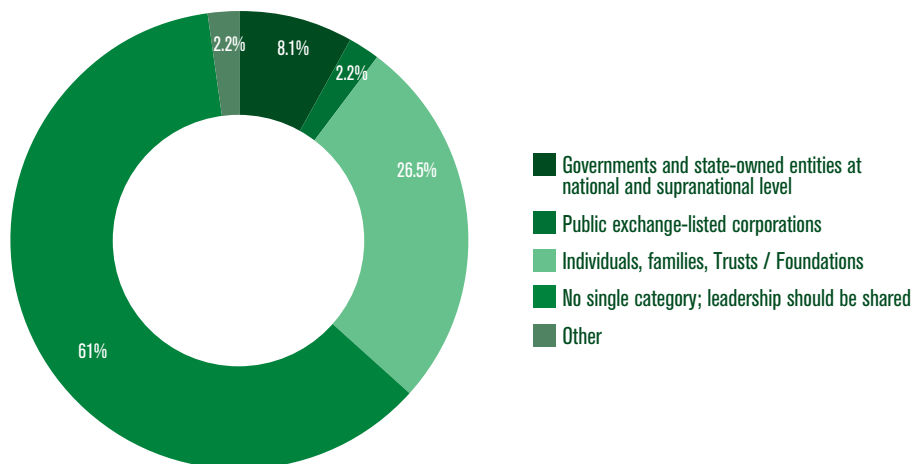
“More co-investment opportunities”

“More evidence of positive measurable outcomes from impact investing”

“More collaboration with government and state owned entities who can help reduce risk. More layered capital type deals.”

CHART 25

### Who should take the lead in driving positive social impact?



Base: All active in impact investing or philanthropy



# Yana Watson Kakar

Global Managing Partner, Dalberg Global Development Advisors



Adviser



Global



Private Business

Yana Watson Kakar is the Global Managing Partner of Dalberg Global Development Advisors, a strategic advisory firm focused on inclusive growth, international development, and impact investing in emerging and frontier markets. ([www.dalberg.com](http://www.dalberg.com))

## ■ Maybe a good place to start is the very terminology we use. Is 'Impact Investing' the right terminology, and is a single definition clearly understood across market participants/stakeholders?

I find it promising that investors are coalescing around the single term of impact investing, which has rapidly become the most commonly used term to describe investments of this nature. The challenge, however, remains that there are many different interpretations and definitions for this term.

I think of impact investing similarly to how the Global Impact Investing Network defines it: investing in companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. What is important to note here is that impact investing is not just about investments in companies, as most people believe, but investments in financing vehicles and other funds that achieve this 'triple bottom line' are also core to impact investing.

## ■ Is 'Impact Investing' the terminology Dalberg uses?

I would actually shy away from the term impact investing and talk about investing writ large. If we are talking about investing in emerging and frontier markets, and if these investments are aligned with the proper environmental safeguards and social protections, they can yield increased social value almost automatically. It is a big if, but one that we are working towards. Dalberg, in fact, was founded

on this general premise: that social, economic and financial values are not inherently separate, quite the opposite – they are interdependent.

Here's an example. Say I am advising a fund on which roads project to finance in South East Asia. The suggested project is absolutely going to give a financial return. But it is also going to create social impact – by linking communities that were otherwise isolated, by providing access to markets that used to be a multi-day journey.

But for a purist, this example wouldn't be called an "impact investment" because the intention was not purely to create social impact. I think this is a false choice. And that's why I prefer to talk about investments more broadly.

## ■ So what you are saying is that this type of investment doesn't need special treatment. A capital allocation that yields financial return and has a social and/or environmental return as well should be considered in the same way as any other investment in terms of due diligence and its role in any portfolio.

I think it is important to get away from the thinking that investments are impactful only if they are done with the primary intent of creating impact. Sure, there are some investments which will have lower rates of return or will require longer to create financial value. It is fair to treat these types of transactions differently in your portfolio and have different expectations assigned to them.

There are many financial investments with strong social impact that have returns similar to a standard commercial investment. We should treat these investments differently only in so far as we make a special effort to measure their impact. Otherwise it should be a standard part of an investor's portfolio.

■ **The discourse around impact investing also mentions philanthropy a lot. Do you think we need to just sever that connection to philanthropy for this type of investment to stand on its own feet?**

I definitely do not think we should sever the connection. There is a strong complementarity between philanthropic capital or even public capital and traditional investing which should in fact be leveraged.

Philanthropic capital can do three things to increase the flow of private capital:

- 1) it can lower the real or perceived risk of the investment;
- 2) it can ensure more stable returns;
- 3) it can increase the impact. For example, when philanthropic capital is used to do pre-project financing, deliver first-loss capital, or provide fungible capital for project preparation or technical assistance, it can mobilize private investors to act and invest.

The role for this type of financing – blended finance – is only going to grow. Since the 2008 financial crisis, we have seen capital market investments shift from developed markets into developing markets, where there have been average or above-average risk-adjusted comparable returns. However, whether real or perceived, there is an increasing concern about emerging market risks and outflows from these countries, particularly in the light of rate hikes in the US. For the trend of EM investing in these markets to continue, private sector investors need to be convinced that the risk-adjusted return will continue to improve. Philanthropic capital can help solidify that trend and catalyse even more private capital. It's a self-reinforcing cycle.

■ **Can you give me an example?**

Sure. A private equity funding example comes to mind: the Fund for Agricultural Finance in Nigeria (FAFIN). The fund invests in small and medium sized agricultural enterprises in Nigeria. The agriculture sector there is very large and makes up 60%-70% of total employment but gets less than 5% of bank lending. So, there's a very strong gap in

access to capital in agriculture, and especially with small and medium sized enterprises (SMEs). Yet, it's a fact that when SMEs receive capital to grow, they create jobs.

FAFIN is distinct because of its unique structure; it typifies blended funding with different asset classes, with different capital providers coming in for different return costs.

The Nigerian and German governments sponsored the formation of the new fund and committed anchor funding, and the Nigeria Sovereign Investment Authority came in as a third anchor investor at the fund's first closing. But while the fund was established by public investors, it is independently managed by an experienced fund management team with a track record in private equity and investing in the Nigerian agriculture sector specifically. It's only in its second year but has \$34 million in committed capital, and seeks additional investment into the fund by private investors and development finance institutions to reach its target fund size of \$100 million over the next 10 years. FAFIN aims to generate competitive financial returns for its Investors, thereby demonstrating the commercial viability of agricultural finance in Nigeria and attracting additional finance to the sector. It's not just about financing these SMEs but about creating a "demonstration effect" to crowd in greater levels of investment to finance other agribusinesses in Nigeria.

■ **So, does FAFIN provide micro-financing to Nigerian SMEs?**

No, it takes a 25%-49% equity stake in SMEs that fit its criteria (so not a majority shareholding) and it works with the company to substantially scale up the business. It may hold this equity directly through common shares or indirectly through quasi-equity instruments (convertible debentures or preferred equity). The fund exits by selling its shares either to a strategic investor, back to the management of the company, or on an open market if the company goes public.

■ **Shifting gears a bit, are there any Sustainable Development Goals that are**

**highlighted by Dalberg's work with clients, which are not included in, or are under-represented in, the current Global Sustainable Development Goals? And how do the SDGs relate to the investing topics we've been discussing?**

When you see the 17 SDG goals and 115 targets, my view is not to say we need more – that already seems like an ambitious enough list! What I do appreciate is the specific goals force an organizing principle – they unite everyone around a common development framework.

The key question in my mind is: how do these goals get financed? That's core to what we've been discussing today.

The capital required to achieve these goals is an estimated \$4.5trillion per year. All the public financing in the world isn't going to meet this need. There is a huge opportunity to leverage public AND private sector investments to meet this gap. However, private sector investments into SDG-related sectors is very low, estimated at \$16 billion, which is a fraction of the worldwide invested assets of banks, pension funds, insurers, foundations, endowments, corporations.

The good news is that the SDGs will hopefully help crowd this type of investment. I'm hopeful for two reasons. First, it is now evident that the SDGs define the global development priorities for the next 15 years. As a private investor, they provide some predictability – I now know where governments, foundations and non-profits are going to be focusing their energy and their financing efforts. Which leads me to my second point – because there is some focus on a few goals now, it becomes easier to design and stand up blended finance structures.

**■ So what do you think is holding the private sector back, then, if the investment case is so strong? What is the barrier?**

One central reason everyone hasn't piled in is because the public sector and private sector don't cross paths all that much. There are very few family offices who know who to call at a KfW German development bank or USAID or whoever, to find

out where there might be opportunities to blend their capital through a public/private investment that supports development in Africa. The major players in the two sectors just don't intersect. That's a significant barrier, both in terms of awareness and also network access. And that is often where Dalberg comes in to play that intermediary role, the connective tissue.

Second, there is an issue of real and perceived risk. Often, local financial markets in developing economies don't function properly. Bond and equity markets are often under-developed and more illiquid. Local fund managers do not yet have a strong track record of financial success. All of this will lead private investors to wonder what their exit opportunity really is. These are real risks to manage.

“  
**Impact Investing... is in financing vehicles to achieve a 'triple bottom line'**  
”

However, some perceived risks are just that – perceived rather than actual. For example, there is a pervasive belief that risk-adjusted returns of emerging market investments are less attractive than what is perceived to be a “standard” investment. In my experience, I've never actually seen this to be the case at all.

Public investors can and should mitigate the real and perceived risks of investing in these sectors and in emerging markets. The public sector can bring deep contextual and technical knowledge to help ease private investor concerns. They can bring seed capital. They can bring guarantees. This can be invaluable to private sector investors.

**■ You mention family offices; are they increasingly engaging in 'impact investing'?**

Family offices are among the most dynamic, interesting and frankly, innovative, of institutional investors. I think the characteristics of family office investors, of family offices' investing objectives and the principles underlying that, I think we're going to see even more participation from them in this space.

# FOOTNOTES

1. <http://www.thegiin.org/impact-investing/need-to-know/#s1> (P. 3)\*
2. <http://www.investopedia.com/terms/p/philanthropy.asp> (P. 3)\*
3. <https://www.bcgperspectives.com/content/articles/financial-institutions-growth-global-wealth-2015-winning-the-growth-game/?chapter=2> (P. 3)\*
4. 2015 Survey: Total of all respondents reporting a positive financial gain for [q0038] What has been the average annual financial return on your impact investments to date? (P. 3)\*
5. 2015 Survey: Total of all respondents reporting 'met expectations' (74%) and 'exceeded expectations' (20%) for [q0040] How did the social performance of your impact investments compare to your social objectives? (P. 3)\*
6. 2015 Survey: [q0036a] What is the relevance of the following in the location of the Impact Investment? (P. 7)\*
7. 2015 Survey: Freehand response to [q0077] What other aspects would encourage you to engage in impact investing? (P. 7)\*
8. 2015 Survey: Freehand response to [q0079a] What would increase your level of engagement with Impact Investing? (P. 7)\*
9. 2015 Survey: [q0036a] What is the relevance of the following in the location of the Impact Investment? (P. 12)\*
10. Nb: The least important of the five factors respondents were surveyed about. (P. 12)\*
11. Nb: Only five respondents used the free write option of: [q0059] If you ranked Next generation engagement as a major motivation for impact investment, how is the next generation involved? (P. 17)\*
12. 2015 Survey: [q0055] Which of the following are the major barriers to increasing your impact investments? (P. 18)\*
13. Nb: The range was "less than 5 years" but this option significantly higher responses than the options "less than 3 years", "less than 2 years" etc. 2015 Survey: [q0042c] How long do you typically hold an impact investment for? (P. 18)\*
14. 2015 Survey: Rank 1 for [q0055]\* Which of the following are the major barriers to increasing your impact investments? (P. 38)\*
15. 2015 Survey: Rank 1 for [q0055]\* Which of the following are the major barriers to increasing your impact investments? (P. 38)\*
16. 2015 Survey: [q0060] As an estimate, how might your allocation(s) to the following change over the next 12 months? (P. 38)\*
17. 2015 Survey: Rank 1 for [q0072]\* Which of the following are the major barriers to your family office considering philanthropy and impact investments? (P. 38)\*
18. 2015 Survey: Rank 1 for [q0072]\* Which of the following are the major barriers to your family office considering philanthropy and impact investments? (P. 39)\*
19. 2015 Survey: [q0076] Do you agree or disagree with the following statements? [is a more efficient use of funds to achieve social impact than philanthropy] (P. 39)\*
20. Nb: A majority, 61% felt leadership on this should be shared, the responsibility of no single group. (P. 40)\*
21. 2015 Survey: 13%, top-ranking in 'Rank 2' for [q0055]\* Which of the following are the major barriers to increasing your impact investments? (P. 42)\*
22. 2015 Survey: 1.4% for Rank 1 of [q0055]\* Which of the following are the major barriers to increasing your impact investments? (P. 42)\*
23. Nb: the lowest percentage of respondents' concerns in Rank 1 for [q0055]\* Which of the following are the major barriers to increasing your impact investments? (P. 42)\*
24. 2015 Survey: 8.7%, listed 6th out of 8 options for (P. 42)\*
25. 2015 Survey: Rank 1 of [q0055]\* Which of the following are the major barriers to increasing your impact investments? (P. 42)\*
26. 2015 Survey: [q0036a] What is the relevance of the following in the location of the Impact Investment? (P. 42)\*
27. 2015 Survey: Freehand response to [q0079a] What would increase your level of engagement with Impact Investing? (P. 43)\*
28. 2015 Survey: Freehand response to [q0077] What other aspects would encourage you to engage in impact investing? (P. 43)\*

# ACKNOWLEDGEMENTS



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### Previous Editions

To view previous editions of Investing for Global Impact, or to find out more, please visit [www.ftadviser.com/impact](http://www.ftadviser.com/impact)

## **OECD Social Impact Investment Initiative**

Over the past several years, the OECD has played a key role in a global social impact investment (SII) initiative launched during the UK Presidency of the G7 in 2013. The OECD's interest in social impact investment centers on its potential to catalyze new capital flows that can bring greater effectiveness, innovation, accountability and scale in achieving economic and social outcomes. The OECD report "Social Impact Investment: Building the Evidence Base", published in 2015, provided a framework for analyzing the social impact investment market. Further work is continuing focused on the role of private sector investment in addressing the universal sustainable development goals (SDGs) in both developed and developing countries. The research and analysis will include data collection, case studies, practice sharing and policies. The goal is to provide further insights into the evolution of the market and lessons learned to date about social impact investment in different countries and sectors.

For further information visit: <http://www.oecd.org/sti/ind/social-impact-investment.htm>

## **About the OECD**

The mission of the Organisation for Economic Co-operation and Development (OECD) is to promote policies that will improve the economic and social well-being of people around the world. The OECD works with governments to understand what drives economic, social and environmental change, to measure productivity and global flows of trade and investment and to analyse and compare data to predict future trends.



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