



Report of the UK National Advisory  
Board on Impact Investing

# THE RISE OF IMPACT

Five steps towards  
an inclusive and  
sustainable economy

October 2017



## About us

### About the UK National Advisory Board on Impact Investing ("the UK NAB")

The UK NAB is the UK's voice in a Global Steering Group of 15-member states plus the EU, which was established as the successor to the Social Impact Investment Taskforce set up during the UK presidency of the G8. It is composed of a diverse group of senior leaders drawn from across the public, private and non-profit sectors of the economy, united by a single vision: "to build an inclusive and sustainable economy" by ensuring that "measurable impact is regularly embraced as a deliberate driver in investment and business decisions, to create better outcomes for all stakeholders and wider society".

The work of the UK NAB is grounded in nearly two decades of experience and expertise developed by the UK impact investment sector since the launch of the UK Social Investment Task Force launched by Gordon Brown in 2000. Recommendations from these earlier taskforces have resulted in a range of policy initiatives, including the establishment of Big Society Capital, a game-changing wholesale model for stimulating social investment that is now being replicated around the world.

More detail on who we are can be found in Appendix A.

# Letter from the chair

**What if...** we could bring together the very best of Government, private markets and civil society to find new solutions to our most difficult social and environmental problems?

**What if...** we could unlock billions of pounds of additional investment to tackle these challenges – investment that could reduce inequality between the regions, mitigate pressures on the NHS, or help us meet our carbon reduction targets?

**What if...** by doing so, we could boost economic growth and establish the UK as a global thought leader?

We believe impact investing can help to make all of this happen. Impact investors seek to create positive social or environmental change while also generating a financial return – a simple idea that is capturing imaginations and gaining traction around the globe.

There is a growing realisation in the business world that ‘doing good’ and ‘doing well’ are not mutually exclusive. In fact, the opposite may be true: as a business, having a clear societal purpose can help to open up new markets, attract new customers, better engage employees, and drive sustainable, risk-adjusted returns.

As more and more organisations embrace this way of thinking, exciting new opportunities for collaboration are starting to emerge between businesses, government, the investment community and civil society.

The UK has long been a leader in this emerging field. But in recent years, some of the big leaps forward have happened elsewhere. We want the UK to remain in the vanguard of this movement.

The UK National Advisory Board on Impact investing and Practitioners Council is a group of leaders from finance, business, impact investing and civil society, who have provided their time, expertise and leadership to help make this happen.

In this report we offer five practical, actionable recommendations that can help the UK be a leader in building a more inclusive and sustainable economy, and tackle some of the greatest challenges of our time. I am excited to present our findings to you and look forward to continuing the discussion about the opportunities and the imperatives that we face.



A handwritten signature in dark ink, appearing to read 'M. Giddens'.

**Michele Giddens**

Chair of the UK National Advisory Board on Impact Investing

# What if...

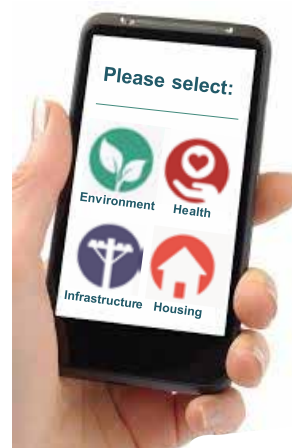
...your pension fund's investments were helping the elderly in your community receive much-needed care, as well as providing affordable housing...



...your bank offered you investments that were helping to preserve forests in Brazil, provide clean energy to Africa, and educate girls in India...



...you could choose to have an impact and receive the same financial returns you make today – or you could put some of your money into lower return investments to achieve particular social goals and complement your charitable giving...



... an app on your phone would let you choose how you wanted to balance your risk, return and the types of positive impact you could have, and your financial advisor could help you make the right choices too...

...Government made your tax pounds work harder by buying goods and services through businesses that created apprenticeships for young people in your community, regenerated your public spaces, and provided jobs for those in need of a second chance...









...and because all this was the norm, trillions of pounds were helping address some of the most pressing issues in society, driving growth in parts of the country that are being left behind, investing in development internationally and protecting the planet.












**It may all be closer than you think.**

# Contents and how to read this report

This report has been written for a broad range of audiences:

Primary Audience	 Business leaders & entrepreneurs	 Central and local Government commissioners, policy makers and regulators
	 Institutional investors & intermediaries	 Pension funds & trustees
Secondary Audience	 Social sector organisations / NGOs	 Employees & individual investors

We know your time is precious – we've highlighted which parts of this report are most relevant to you

Contents	Page	Audience	
Executive summary	6	All readers	
Summary recommendations	8		
The rise of impact	10		
Impact investing – the facts	12		
Examples of the impact economy in action in the UK	14		
The value of the impact economy	16		
What we can achieve	18		
Five steps towards an inclusive and sustainable economy	21	Primary	Secondary
<b>Step 1:</b> Adopt an inclusive and sustainable UK investment agenda	22		
<b>Step 2:</b> Empower savers to invest in line with their values	27		
<b>Step 3:</b> Put purpose at the heart of public procurement	32		
<b>Step 4:</b> Accelerate the rise of purposeful business	38		
<b>Step 5:</b> Strengthen the UK's role in international development finance	44		
Key takeaways and practical tips	50		
Appendices	58		

For an introduction to impact investing, please read this report in conjunction with 'The Impact Investing Guidance Note', intended as a reference on the definitions, history, size, composition and key players of impact investing in the UK. See [www.uknabimpactinvesting.org](http://www.uknabimpactinvesting.org).

# Executive summary

The rise of the impact economy is creating both **opportunities** and **imperatives** for businesses, investors and Government

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## We stand at a critical juncture.

**The world faces some enormous social and environmental challenges.** In the UK, there are huge strains on public services, rising income inequality, and a growing threat of climate change. Achieving the UN Sustainable Development Goals (SDGs) at home and around the world is going to require new ideas and trillions of dollars of investment – far beyond the current capacity of governments and philanthropy.

**At the same time, the debate about the role of business in society is getting louder, and an ‘impact economy’ is on the rise.** A growing number of business leaders, entrepreneurs, and investors are integrating a social and environmental purpose into their core strategies. We refer to these organisations and their activities collectively as the ‘impact economy’. At the forefront of this movement is impact investing, which seeks to create positive social or environmental change as well as generate a financial return.

**The UK has one of the largest and most vibrant impact economies in the world, and is poised for growth.** There is currently at least £150bn of committed capital in impact investments in the UK<sup>1</sup>, and over 120,000 ‘purposeful businesses’.<sup>2</sup> Significant latent capital from both retail and institutional investors is ready to support future growth, and a diverse ecosystem of specialist intermediaries now exists. But while the UK has historically led the world in this field, we are now seeing an explosion of interest around the world – and others are catching up fast.

**Focusing on impact can create tangible value for businesses, investors and Government.** Rather than being just a feel-good exercise, the impact economy is reflecting and responding to changing social attitudes – “doing well by doing good” is rapidly becoming a new mantra for the 21<sup>st</sup> century, and it is creating a wealth of opportunities and imperatives to act.



**For business leaders**, there is an increasingly clear commercial rationale for incorporating a societal purpose. It has been shown to appeal to a wider customer base, attract more engaged and loyal employees, secure investment at lower cost, and stimulate innovation for commercial growth.



**For investors**, an impact lens can increase risk-adjusted financial returns<sup>3</sup>, and expand the universe of investible propositions by tapping into growth themes that are aligned with the SDGs – such as the transition to a decarbonised or circular economy.







**For Government**, the impact economy can play a major role in achieving several of the Government’s objectives (see ‘what we can achieve’ on page 18). As a natural ally, the Government can unlock the full potential of the impact economy through the agenda outlined in this report, in its roles as a commissioner, and as a market regulator, participant and facilitator.

**We may now have reached a tipping point in the mainstreaming of impact into capital markets thinking.** A rapidly growing number of mainstream investors are entering the field, such as Barclays, Bain Capital, TPG, Goldman Sachs, UBS, AXA and Blackrock. We believe impact will ultimately become a standard element of business and investment decisions, alongside risk and return.

**Building on the above opportunities, we offer five steps towards an inclusive and sustainable economy,** which could have profound and wide-reaching implications for the UK. We believe these five steps (outlined on pages 8-9) would allow us to achieve the following, and more:

**Figure 1: What we can achieve**

Unlock significant funding for societal challenges		We estimate that we could influence an additional ~£3trn to incorporate impact to some degree over the next decade, of which ~£300bn could be channelled into investments that are helping to directly address critical social and environmental challenges
Help achieve the UN Sustainable Development Goals		Through effective deployment of the funding that can be unlocked, we could make meaningful progress towards achieving the UN Sustainable Development Goals, both at home and abroad
Drive inclusive and sustainable economic growth		We could help rebalance economic growth to be more inclusive of the whole country, enabling the widest range of people and places to contribute to, and benefit from, economic success <sup>4</sup> – as well as shifting towards an economy that is environmentally sustainable
Establish the UK as a global leader in the impact economy		We could establish the UK as a global hub for impact investment and a role model for the impact economy, attracting talent and capital, and strengthening the UK's place in the world in a post-EU era

**With much at stake and much to be gained, the case for action is clear.**

# Summary recommendations

Five steps towards an inclusive and sustainable economy

## 1

### Adopt an inclusive and sustainable UK investment agenda

Investment markets have a critical role to play in the move towards a system of economic growth that is inclusive and sustainable.

By aligning institutional investment capital to the UN Sustainable Development Goals (SDGs), we can help address a range of pressing challenges, such as increasing investment into parts of the UK that are being left behind.

#### Key recommendations:



**1.1:** Pension funds, foundations and other institutional investors should seize on investment opportunities that help achieve the SDGs in the UK



**1.2:** Government should establish an Inclusive Economy Catalyst Fund of at least £2bn (including a significant portion of junior investment capital), to jump-start investment into communities that have seen decades of underinvestment and no real income growth. This would leverage in significant private investment, that could reach tens of billions of pounds over 5-10 years and meaningfully effect growth and opportunity across the UK



**1.3:** Government should support the UK's global leadership in impact investing, recognising it in its Industrial Strategy as an important tool in helping drive inclusive, place-based growth

## 2

### Empower savers to invest in line with their values

Individual investors have expressed significant demand for their money to be used for the good of society, in addition to generating a financial return. However, suitable products are largely unavailable today, and there is low awareness of those that are.

With the introduction of auto-enrolment, assets in Defined Contribution (DC) pension schemes are expected to increase six-fold to £1.7trn by 2030, making this a great place to start promoting funds.

#### Key recommendations:



**2.1:** DC pension providers should engage members on how they want their values reflected in their investments, and develop 'Pensions with Purpose' products that include an allocation to impact investments



**2.2:** Government should ensure a supportive regulatory environment for 'Pensions with Purpose', and ultimately require pension funds to engage their members on their impact preferences



**2.3:** Government should promote the expansion of the broader retail market for impact investments, and work to protect the integrity of this market, by ensuring the continuation of the work of the Advisory Group on Creating a Culture of Social Impact Investment appointed by DCMS and HMT



**Government**



**Investors**



**Pension funds**



**Business & Entrepreneurs**




## 3

## Put purpose at the heart of public procurement

As the single largest buyer of goods and services in the UK, the Government has an unparalleled opportunity to use its £240bn+ in procurement spend to address social and environmental issues, as well as alleviate budget pressure.

By embracing purpose-driven approaches to procurement which focus on achieving societal outcomes, the government can maximise the long-term social, environmental and economic value created with every public pound.

## Key recommendations:

-  **3.1:** Central and local government should embed social value (SV) in all tender decisions, aiming for a 20% minimum weighting; when fair price is known, tenders should be evaluated on SV and quality
-  **3.2:** Government should expand outcomes-based programmes that show early evidence of positive outcomes and government savings by establishing a central government outcomes fund
-  **3.3:** Government, alongside the National Audit Office, should take specific steps to ensure that transparency and accountability underpin the above; all government bodies should report through websites on how they evaluate contracts, and on SV achieved annually




## 4

## Accelerate the rise of purposeful business

The contract between business and society is changing. Consumers, employees, investors, and business leaders are increasingly demanding that UK companies have a social or environmental purpose, beyond generating a profit.

In response, pioneering businesses are finding ways to tackle societal challenges whilst often enhancing commercial returns. To truly address the societal issues we face, this approach must now be embraced as the norm for all businesses.

## Key recommendations:

-  **4.1:** All UK businesses should seize the opportunity to select, express and manage a societal purpose, given the commercial as well as societal benefits of doing so
-  **4.2:** Government should establish a friction-free pathway for purposeful businesses by creating and promoting an inclusive company legal form in the UK, among other steps
-  **4.3:** Government should appoint a Purposeful Business Taskforce composed of senior purposeful business leaders, to develop inclusive business best practices and recommend incentives for their greater adoption (including potential fiscal incentives)




## 5

## Strengthen the UK's role in international development finance

The UK has first-rate institutions working in international development, domestic impact investment and traditional finance, but they rarely talk. As a result, talent and capital remain on the side-lines, at a time when there is an urgent need for greater deployment of capital to tackle development challenges globally.

We need more of our UK actors to get involved, work together, and ultimately commit much more capital to help achieve the SDGs globally.

## Key recommendations:

-  **5.1:** CDC should visibly 'champion' investment in developing markets, engaging externally to co-ordinate and lead other recognised UK-based investors
-  **5.2:** Asset owners – from individuals to foundations to institutional investors – should put more capital to work using the SDG framework, as well as utilise innovations from the impact investment sector such as outcomes contracts
-  **5.3:** Investors and other organisations currently involved in international development finance should lead the way in committing to transparency of their capital deployments and development results achieved, to help map where supply and demand of capital meet, and measure progress over time

# The rise of impact

We face some enormous social and environmental challenges – but at the same time, an ‘impact economy’ is on the rise

**The world faces some enormous social and environmental challenges.** Achieving the UN Sustainable Development Goals – a set of 17 social, environmental and economic targets, now adopted by almost 200 countries – faces a funding gap that has been estimated to be in the tens of trillions<sup>5</sup>. This gap cannot be bridged using government and philanthropic resources alone.

**In the UK, there is a clear need to invest in more inclusive growth.** Recent political events have highlighted that large segments of the UK population feel left out of or left behind by the global economy. And no wonder: research suggests that the poorest 25% of communities in the UK have seen no real income growth for decades<sup>6</sup>. To make matters worse, the disposable household income of this group is set to fall by around 10% over the next four years, as price rises accelerate<sup>7</sup>. This kind of pervasive inequality has powerful social and political consequences in the short, medium and long-term.

**Our public services and national infrastructure are under pressure due to a combination of fiscal constraints and rising demand.** We face a desperate shortage of affordable housing. A growing, ageing population is increasing demand for primary care, mental health and social care services, at a time when NHS budgets are tight and care homes are closing at an unprecedented rate.

**And we are lagging behind in our efforts to combat climate change.** The UK is not yet on track to meet its commitment to reducing carbon emissions as agreed in the Paris treaty. And our environmental challenges go much further than this: according to the Global Footprint Network, if the entire global population had the same overall ecological footprint that the average UK citizen has today, we would need the equivalent resources of three Earths to sustain it<sup>8</sup>.

**At the same time, social attitudes are changing, particularly as the millennial generation come of age as consumers, entrepreneurs and investors.** In the latter part of the 20<sup>th</sup> century, the prevailing mindset was that business existed primarily to maximise financial returns for shareholders. That is changing: expectations of businesses to be responsible corporate citizens have never been higher, and the dangers of their failing to do so never more stark.

**As a result, a growing number of business leaders, entrepreneurs, and investors are taking a broader view of their role in society,** and integrating a social and environmental purpose into the ‘business of business’<sup>9</sup>. They are using



The 17 Sustainable Development Goals (SDGs) were adopted by 193 countries at a UN Summit in 2015, as successor to the Millennium Development Goals. They cover social, environmental and economic targets for global development, and tackle some of the most serious issues facing people and the planet.

A common misperception is that they are only for developing countries – however, they have been designed for setting goals in developed countries like the UK as well.

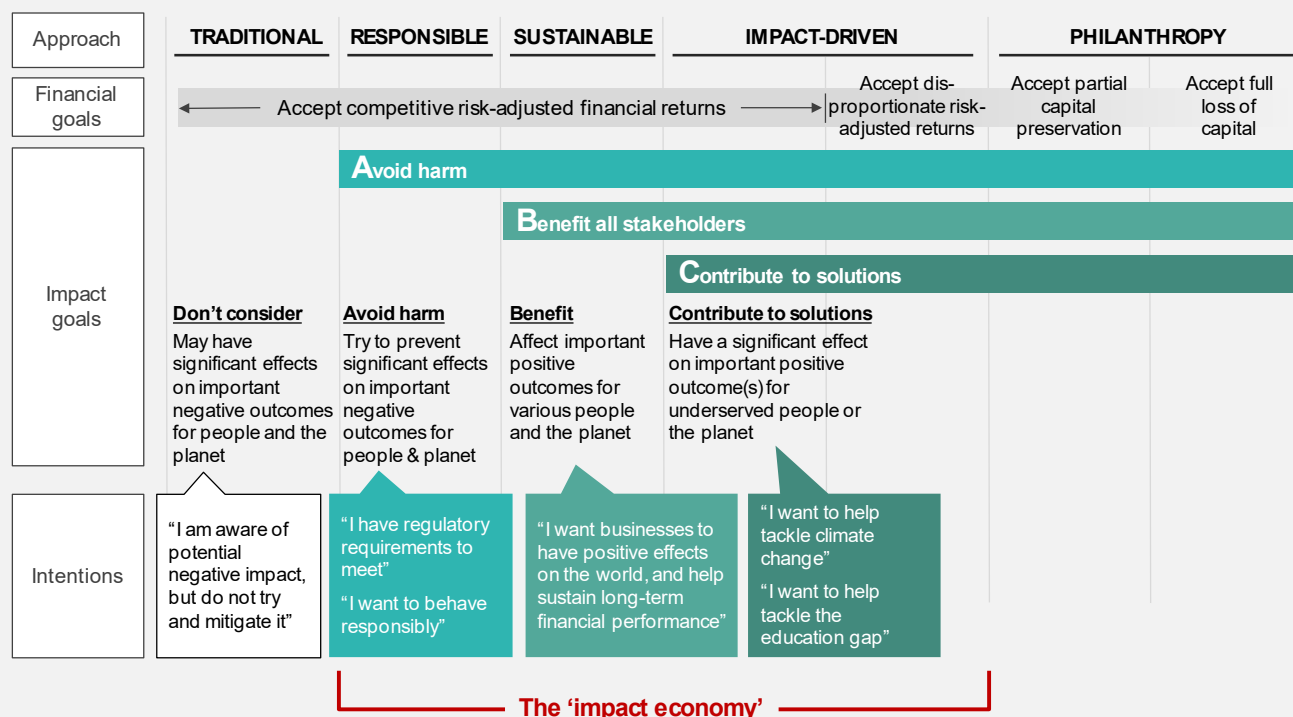
the power of markets and the entrepreneurial dynamism of private enterprise to help address some of our most pressing social and environmental challenges. The idea that impact should be a key factor in all business and investment decisions is becoming much more mainstream. Big players such as Danone, Unilever, Bain Capital, TPG, Goldman Sachs, UBS, AXA and Blackrock are all entering the market with business and investment approaches informed by this idea. We also see large foundations beginning to use their endowments to invest in impactful ways, such as Ford Foundation's commitment of \$1bn of its endowment to impact investing.

**This is the beginning of a paradigm shift towards an impact economy.** This shift is partly being driven by a rising tide of social consciousness, most evident amongst the millennial generation. But as that consciousness permeates through what people buy, where they choose to work, and how they invest, it is also reinforcing the economic rationale for doing so. “Doing well by doing good” is rapidly becoming a new mantra for the 21<sup>st</sup> century and it is laying the foundations for a new ‘impact economy’ of organisations that put social and environmental impact at the heart of their decision-making, managing their impact, alongside risk and return.

This concept of an impact economy is illustrated in Figure 2 below. Based on the work of the Impact Management Project,<sup>10</sup> it explores the “ABCs” of intentions, impact goals and financial goals within the impact economy.

**Figure 2: The spectrum of impact**

Intentions and goals of organisations in the impact economy



We believe the lessons of impact investing can help us to tackle the challenges we face head-on, and to realise the opportunity to build a more inclusive and sustainable economy.

# Impact investing – the facts

The UK has shown a great deal of leadership in the rapidly growing field of impact investing, but others are catching up

**Impact investing seeks to create positive social or environmental change while also generating a financial return.** That typically means investing in businesses, organisations, and fund managers that are contributing to solutions to societal challenges as part of their core strategy.

**Impact investing in the UK is large and growing fast.** There is at least ~£150bn in committed capital in impact investing<sup>11</sup>, with the largest sectors being renewable infrastructure and social housing. Of this, ~£2bn has been committed to 3,000+ social sector organisations, a 30% increase since the end of 2015<sup>12</sup>.

**The ‘purposeful businesses’ it invests in are already a significant contributor to the UK economy** – and their contribution is growing. There are an estimated 120,000 purposeful businesses in the UK<sup>13</sup>, with total turnover of £165bn, that employ about 1.4m people. Around 25% of all start-ups (and over half of millennial-generation entrepreneurs) now claim to be motivated by positive impact as well as financial success.<sup>14</sup>

**Significant latent capital is ready to support future growth.** Across a range of studies, ~50%-75% of the UK public want their investments to contribute positively to society as well as generate a financial return; however, fewer than 20% of the population report making any such investments today<sup>15</sup>. Globally, 21% of pension funds and insurance companies are actively developing impact investing strategies, and a further 44% are beginning to consider it<sup>16</sup>.

**Leading returns are also being generated for investors.** Many people still associate impact investing with a requirement to sacrifice financial returns. And there are certainly many very important areas of impact investment where investors do accept a lower rate of return or higher risk to achieve difficult social change. But a growing number of studies have found that impact funds that target a market rate of return on average match or outperform their mainstream benchmarks<sup>17</sup>.

**The UK has always been a leader in this growing field.** The UK Government first commissioned a Social Investment Taskforce back in 2000; it subsequently launched a second taskforce in 2013, during the UK’s presidency of the G8. It set aside £400m of assets in dormant bank accounts to launch Big Society Capital, the world’s first social investment bank, and more recently established the world’s first dedicated Inclusive Economy Unit. The UK has also seen many other innovations in this field, including the world’s first social impact bond.

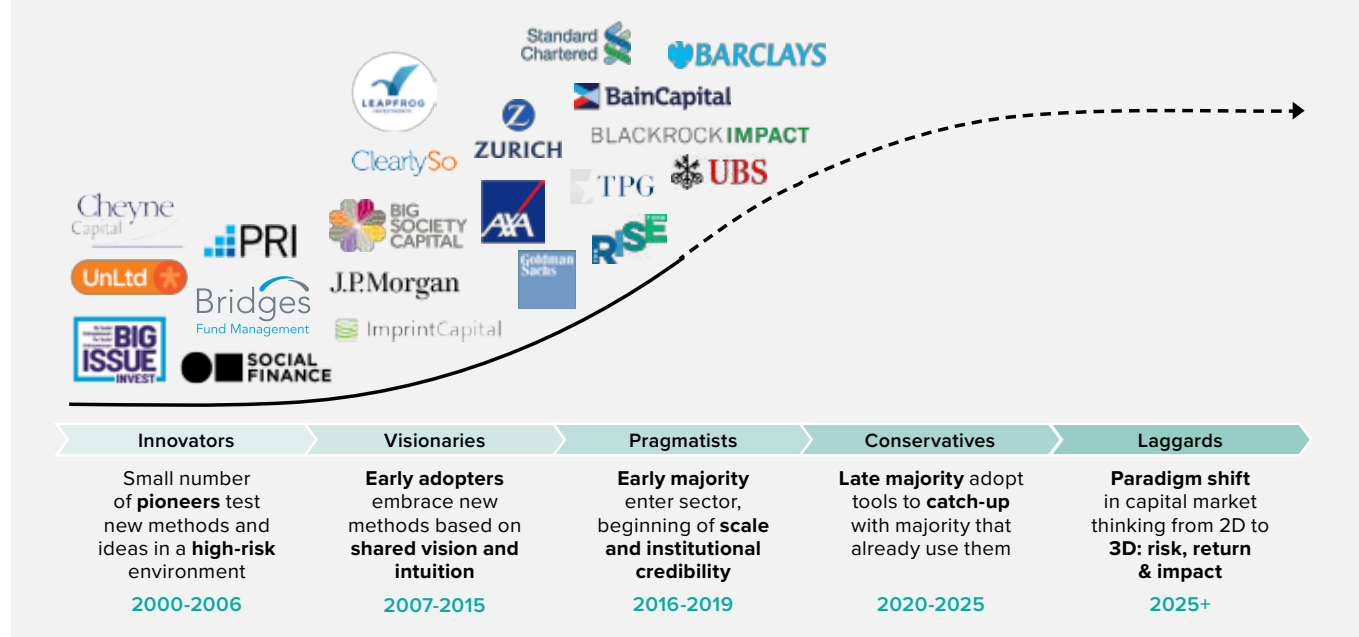
**Our impact investing industry is one of the most developed in the world.** We have developed a broad impact investing ecosystem, with a range of specialist investors, intermediaries and advisors operating domestically and internationally. Mainstream entrants are also entering the fray. Examples in the UK include Barclays’ launch of an impact investment platform for its wealth management clients and retail investors (see case study on page 55), and Columbia Threadneedle’s social bond fund.

**We are now seeing an explosion of interest globally.** Other countries are increasingly waking up to the opportunity impact investing presents. Japan has committed \$500m per year from unclaimed assets to launch a social investment wholesale bank along the lines of BSC. The Brazilian Government is developing a national policy for social finance. Several of the world's biggest asset managers – including BlackRock, Goldman Sachs, TPG and Morgan Stanley – have established dedicated impact investing platforms. A group of leading institutional investors in Europe (with a combined \$2.8trn under management) – have committed to investing in line with the SDGs. Impact investing courses are now being taught at the world's leading Business Schools.

**This suggests we are close to a tipping point in the mainstreaming of impact into capital market thinking.** As a growing number of the largest pension funds, insurance companies, and FTSE 100 corporations are beginning to use impact as a central lens in their decision making, we believe it will become fundamentally interlinked with our understanding of risk and return.

**Figure 3: Reaching a tipping point**

The adoption curve of managing for impact, and examples of new entrants



“We may... peg 2017 as a breakthrough year for the concept of impact investing

The Financial Times

“Given the trends in wealth transfer, and that 85% of millennials say they want to invest with purpose, and investment manager will be out of the running if they don't offer [impact investments]

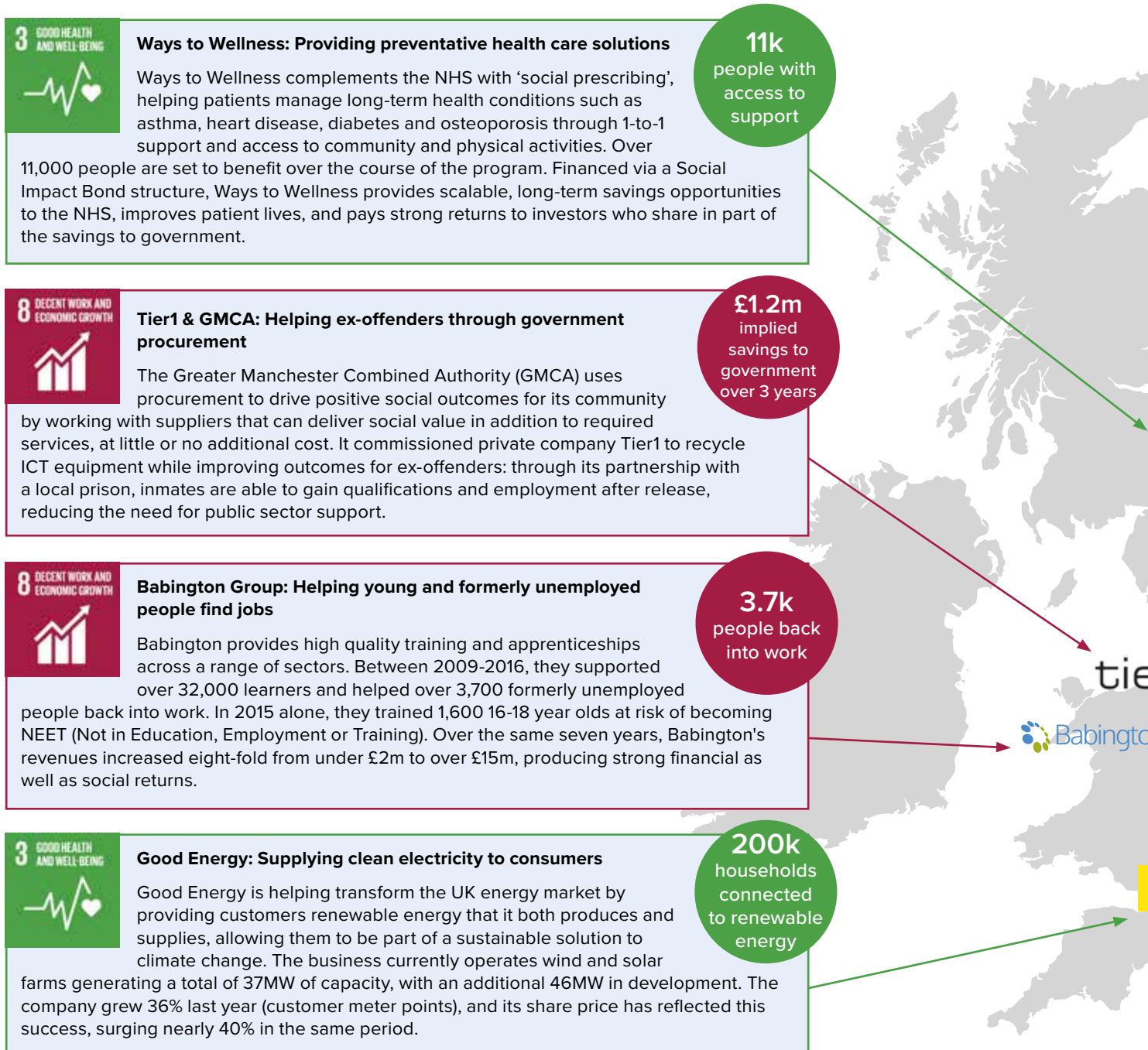
Surya Kolluri, Managing Director, Merrill Lynch

“I think we've reached a tipping point [for impact investing]

Christopher Geczy, Finance Professor, Wharton

# Examples of the impact economy in action

Across the UK, thousands of organisations of all shapes and sizes are helping address our most pressing social and environmental issues, from affordable housing, by helping the most vulnerable people in society back into work, funding better products and services for disadvantaged communities.



## Investors, funds and intermediaries

A range of impact and sustainable fund managers, social banks, and other investors and advisors are helping to grow and support these initiatives with repayable capital – including mainstream entrants:



Triodos Bank

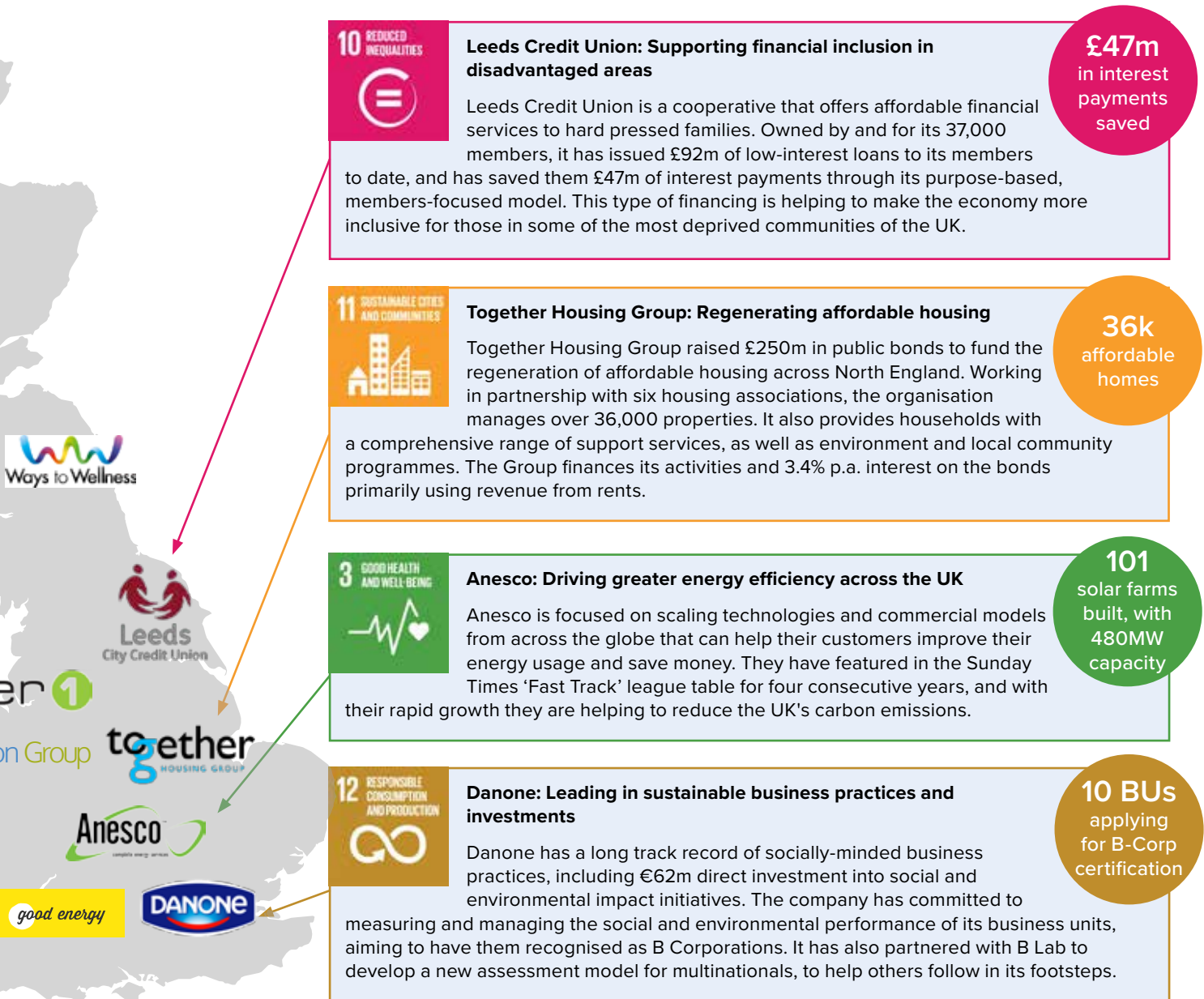


Bridges Fund Management

Cheyne Capital

# on in the UK

mental issues. Here we show examples of how they are addressing shortages in the provision of healthcare and affordable disadvantaged populations, helping to reduce our carbon footprint, and much more.



# The value of the impact economy

Focusing on impact and societal purpose is not just a feel-good exercise; it provides opportunities to create tangible value for businesses, investors and the Government

**The impact economy is reflecting and responding to changing social attitudes.** For instance:

- An international study by Unilever reveals that a third of consumers (33%) are now choosing to buy from brands they believe are doing social or environmental good.<sup>18</sup>
- A survey by BSC found that 68% of employees think it is important for their employer to reflect their social and environmental values.<sup>19</sup>
- 50% of UK millennial entrepreneurs are driven by a desire to have a positive impact, as well as grow their businesses.
- 50%-75% of the population want their investments to contribute positively to society as well as generate a financial return.<sup>20</sup>

As such, it has clear and tangible benefits for business, for investors and for Government.



**For business leaders of companies of all sizes and stages of development, there is an increasingly clear economic rationale for incorporating a societal purpose.**

It appeals to customers – current and potential. It appeals to employees (60% of millennials want to join companies that have a societal purpose)<sup>21</sup>. It helps to mitigate the risks of bad practice, as highlighted by (for example) the Deepwater Horizon oil spill or the Volkswagen emissions scandal, which in turn is reflected in a lower cost of capital. And a growing body of research indicates that these factors ultimately lead to better share price performance in the long run<sup>22</sup>.

“Companies are shifting their focus on social impact from pilot projects and secondary markets to their core markets and strategies.

Michael E. Porter, Professor, Harvard Business School<sup>23</sup>

## Highlighting the evidence

Oxford University and Arabesque Partners conducted a meta-study of more than 200 academic studies<sup>24</sup>, and found that incorporating impact through sustainability or ESG practices leads to:

<b>A lower cost of capital</b>	<b>90%</b> of studies show that sound sustainability standards lower the cost of capital for companies.
<b>Better operational performance</b>	<b>88%</b> of research shows that solid ESG practices result in better operational performance of firms.
<b>Better stock price performance</b>	<b>80%</b> of studies show that stock price performance of companies is positively influenced by good sustainability practices.



**For investors, the impact economy presents an opportunity to invest in line with their values, while also tapping into a huge growth opportunity.**

Evidence shows that incorporating environmental, social and governance factors into investment decisions is a positive driver of risk-adjusted financial returns. It also allows investors to back significant macro growth trends, such as the transition to a more sustainable economy.

The Business and Sustainable Development Commission have estimated that there is \$12trn in commercial value to be created from investing in assets that are aligned with the Sustainable Development Goals<sup>25</sup>, as we explore in more detail in the next chapter.

**“The Sustainable Development Goals offer the greatest economic opportunity of a lifetime**

Paul Polman, CEO of Unilever



**For Government, the impact economy offers a new way to stimulate and finance solutions to some of the biggest challenges of our time.**

The social objectives of the impact economy are clearly aligned to those of Government (see overleaf) – objectives that are beyond Government’s capacity to solve alone, such as rebalancing economic growth, and funding social care for an aging population. Government has the opportunity to unlock the full potential of the impact economy in support of these aims, through all of its roles as a commissioner, market regulator, market participant and market facilitator.

As the single largest buyer of goods and services in the UK, the Government has an unparalleled opportunity to use its £240bn+ in procurement spend to address social and environmental issues. By attaching meaningful weight to social impact in its tender decisions, it can create powerful incentives that alter the way goods and services are delivered. These have the potential to ripple through large sections of the economy, motivating suppliers to help tackle societal challenges and creating opportunities for organisations that deliver strong social value. And in turn, the improved outcomes this achieves will save taxpayer funding elsewhere, increasing the overall efficiency of the public purse.

As a regulator, Government can address market failures that risk leaving impactful private capital on the side-lines, from both retail and institutional investors. As a market participant, it can deploy its own balance sheet in powerful partnerships with private investors. And as a market facilitator, it can use its unique convening and signalling power to help mobilise business and investors to join the movement.

In contrast, the ‘cost of doing nothing’ will be felt in the ever-greater strain on public services such as social and health care, economic instability and public discontent in a system that many do not feel is working for them.

We outline in this report a policy agenda that is aligned to the Government’s objectives, requires almost no new legislation, and would build on existing cross-party support for impact investing. We therefore believe it is feasible and timely in the current political environment.

# What we can achieve

“We are the first generation that can end poverty, and the last that can end climate change

Former UN Secretary-General Ban Ki-moon

This report argues that if business, investors and Government take the five steps we outline in the chapters that follow, it would result in several important benefits for the UK.



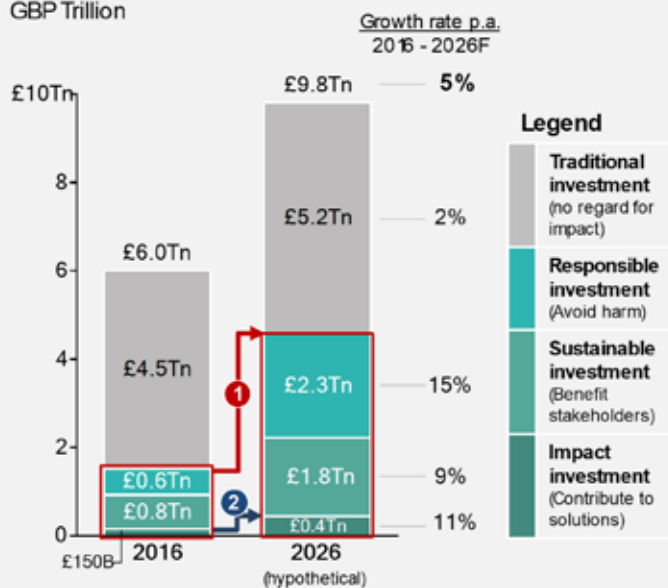
**We can redirect trillions of pounds of investment to help address pressing societal challenges.**

We could move a substantial share of capital markets towards addressing social and environmental challenges, allowing us to make concrete progress towards achieving the UN SDGs. Figure 4 shows a scenario in which an additional ~£3trn could incorporate impact to some degree over the next 10 years, of which ~£300bn could be directed into impact investing. This would represent a fundamental realignment of the incentives behind a large portion of investment markets in the UK.<sup>26</sup>

**Figure 4: Trillions at stake**

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

**Total UK invested capital stock**  
GBP Trillion



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

1 ..where ~£3 Trillion in additional investment capital could incorporate and manage impact to some degree...

2 ..of which ~£300 billion could be directed into impact investing, helping contribute to solutions to a range of pressing challenges

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

In order for this capital to truly create positive change rather than simply be relabelled, the investment ecosystem will need to mature in a number of ways. Better transparency and measurement of impact, as well as trusted accreditation bodies, will be needed to prevent 'impact-washing'. A stronger set of intermediaries will be needed to help connect supply and demand, and a stronger pipeline of investible opportunities will need to be developed. Although challenges remain, significant momentum in developing these and other enablers that will be required is under way, as illustrated by the wide-reaching work of the Impact Management Project ([www.impactmanagementproject.com](http://www.impactmanagementproject.com)).



**We can drive more inclusive and sustainable economic growth in the UK.**

The UK has a clear social, environmental, and political imperative to move towards more inclusive and sustainable economic growth, which we define in line with the United Nations and UK Inclusive Growth Commission:

Inclusive growth		Sustainable growth
<p>“Inclusive growth is broad-based growth that enables the widest range of people and places to both contribute to, and benefit from economic success”</p> <p><i>UK Inclusive Growth Commission</i></p>	+	<p>“Sustainable growth has been defined as growth that meets the needs of the present without compromising the ability of future generations to meet their own needs”</p> <p><i>UN Sustainable Development Goals</i></p>

All businesses and investors have impacts on society, both positive and negative. But in the impact economy they consider those impacts as a core part of their decision-making. Some aim to avoid the harm done to people and planet, such as through products that create negative externalities like public health costs or carbon emissions. Others are able to go much further and contribute to solutions, for example by employing ex-offenders, or creating a product or service that reduces our environmental footprint. As expressed by the Impact Management Project, careful work in this area must be rooted in an understanding of how people directly experience impact.

Together, they support the development of new business models and technologies that underpin inclusive and sustainable growth, until they reach commercial self-sufficiency. And they accelerate the adoption and scaling of those that are already generating attractive profits.

As a result, the impact economy can drive strong, inclusive and sustainable growth, realigning private capital and resources in far-reaching ways.

It can be a source of headline growth the country so badly needs – for instance, industries that support the transition to a decarbonised and circular economy will be major sources of job creation and growth in the future, as our economic growth decouples from our environmental footprint. And the growth created by the impact economy is also higher quality – better for society in the long run.



**We can make the UK a global hub and role model for the impact economy.**

The UK has long been a leader and pioneer in impact investing, launching the first social investment wholesaler, the first social impact bond, the first social investment tax relief, and much more.

We now have the potential to build on this leadership to become an established global hub for impact investment and a thriving impact economy. This would help position Britain as a strong, progressive and outward-looking nation in a post-EU era, and a true global financial centre for the future of finance.

As the scale of capital in impactful strategies rapidly moves from the margin to the mainstream, the established hubs will enjoy the benefits of inflows of capital and talent from around the world.

With other countries such as the Netherlands, USA, France and Australia making rapid strides in many areas, the race for global leadership is on.

Suggested further reading: Developing a Global Financial Centre for Impact Investing (City of London, 2015)<sup>28</sup>

**The following chapters outline five steps that will allow us to achieve these benefits** – these are practical, immediate actions that can be taken by investors, business, Government and civil society to build a more inclusive and sustainable economy.

Elderly left 'trapped in beds' amid fears care sector will collapse

The Telegraph, Feb 2017

Social care: why are we 'beyond the crisis point'?

The Guardian, Dec 2016

Theresa May recognises social care crisis – but solution seems far off

The Guardian, Dec 2016

Social care 'at real risk of collapse', as 1.2 million older people are left without support

The Mirror, Feb 2017

## Case study: How an impact investment approach can help address the crisis in social care

With a rapidly aging population, the provision of social care is one of the biggest challenges the country faces, and has already gone 'beyond breaking point' according to the Chair of the National Care Association.

Socially-motivated impact investors are helping to increase both the supply and quality of care, as well as support long-term preventative health measures that reduce care needs. Providers such as CASA, Ark Healthcare, Golden Lane, Alina Homecare and many others have been supported by impact investors, and now report higher customer satisfaction, higher quality ratings, lower carer attrition, and fewer incidents than their peers<sup>29</sup>. A focus from impact investors on 'caring for the carers' and providing good working conditions is also particularly valuable in attracting and retaining care workers into the sector.

These investments help ease the strain on the NHS as well as on families across the country, who must otherwise take time off work to look after the elderly and others in need. The rising demand for rapid growth in services also often translates to good financial returns for investors, providing a financially sustainable and scalable way to be part of the solution.

### DIFFICULT TRUTHS

- 1/3 of people aged 80 and over suffer from poor health and need help with basics like dressing, getting up, eating, or washing. 30% of this group have unmet care needs
- Almost 20% of the UK population provide some form of unpaid care, of whom over two million are themselves aged 65+
- Over the next two decades the number of over 65s will grow by 50% to 15m, and over 80's will grow by 113% to nearly 3m, placing ever greater pressure on care needs

### Example

#### Impact investors helped CASA scale up low-cost social care

CASA is an innovative employee-owned social enterprise helping to provide better-quality, lower-cost domiciliary and social care services to old and vulnerable patients. They provide more than 16,000 hours of domiciliary care per week in the north east of England.

Investors backed CASA in 2009 to support a significant expansion of services, as well as growing revenues by 250% over a three-year investment period.



### Example

#### Golden Lane Housing provides quality supported housing for people with learning disabilities, giving them a choice about their living situation

In 2014, Golden Lane raised £11m through a charity bond – the first ever to be listed on the London Stock Exchange. These funds are being used to buy and adapt 30 properties for people with learning disabilities. This additional housing reduces pressure on the family members who previously provided care; 90% of tenants report a high level of satisfaction. Rental income, including housing benefits, will be used to pay interest to investors and cover costs of management and maintenance. A range of institutional and retail investors including the Threadneedle UK Social Bond Fund invested in the bond alongside Big Society Capital, with the aim of delivering both competitive financial returns and social impact.



# Five steps towards an inclusive and sustainable economy

**Step 1:** Adopt an inclusive and sustainable UK investment agenda

Primary audience



Secondary audience



**Step 2:** Empower savers to invest in line with their values



**Step 3:** Put purpose at the heart of public procurement



**Step 4:** Accelerate the rise of purposeful business



**Step 5:** Strengthen the UK's role in international development finance



# Step 1: Adopt an inclusive and sustainable UK investment agenda

## In brief

Investment markets have a critical role to play in moving towards a system of economic growth that is inclusive and sustainable. This transition ultimately must be led by the investment community, but there is also a clear role for the Government to help catalyse momentum and address market failures. As a natural partner in achieving these aims, the 'cost of doing nothing' for Government will be felt in the ever-greater strain on public services such as social and health care, economic stability and public discontent.

We urge institutional investors such as pension funds, insurance companies and foundations to increase investment into opportunities that are helping to achieve positive impact; in particular, we call upon them to join many of their European counterparts by publicly committing to invest into opportunities that are helping to achieve the SDGs in the UK.

In the meantime, the UK faces a specific and urgent challenge to ensure that investment is more inclusive of the parts of the country that feel left out of the benefits of global markets. We urge the Government to catalyse scaled investment into communities that are being left behind, and to support the UK's global leadership in impact investing including through its industrial strategy.

## Introduction

Too often, the social and environmental effects of investment decisions are considered outside the mandate of the mainstream investment community. A growing body of evidence shows that institutional investors can and do support this agenda while also increasing their long-term risk adjusted returns, by incorporating impact into their decisions using a range of strategies.

The last decade has seen encouraging growth in the inclusion of Environmental, Social and Governance ('ESG') factors in investment decision-making. But the next decade needs to see this practice become completely mainstream, and to move beyond box-ticking to real transformation of investment decisions.

## A vision for the future

Our vision is that the investment markets become a key mechanism through which the UK moves towards a system of inclusive and sustainable economic growth. Pension funds, insurance companies, banks, foundations, and other institutional asset owners and managers would all incorporate impact into their core processes and decisions, first by seeking to understand the impact they are having, and then by using their investments to help shape the world for the better and achieve the SDGs – while still meeting or even exceeding their financial return expectations. In doing so, they would increase public trust in the financial system.

There would be an institution or coalition of institutions devoted to investing in the parts of the UK that are most under-served by investment today. This would be catalysed by government investment, leveraging in private capital at scale.

“Prosperity requires not just investment in economic capital, but investment in social capital

Mark Carney, Governor of the Bank of England

## What institutional investors can do

As explained in the introduction to this report (page 11), at its most basic, incorporating impact in investment decisions means avoiding harm. This can be by screening out companies that cause significant harm to society, such as tobacco, oil or arms manufacturer. Increasingly, it more commonly means avoiding harm not just to customers but to their full range of stakeholders, such as employees and the environment, often by incorporating Environmental, Social and Governance ('ESG') information into decision-making. This is commonly referred to as Responsible Investment.

There is now an estimated £1.6trn in assets managed by UK investors that incorporate ESG information, up from £500bn in 2013<sup>31</sup>, supported by a growing body of evidence that doing so is a positive driver of risk-adjusted returns<sup>32</sup>. This evidence means that it is no longer a side issue to consider ESG factors, but a core part of an investor's objective to generate risk-adjusted returns.

However, investors can go further by not just avoiding harm but also creating positive effects for people and the planet. This is often referred to as Sustainable Investment. For example, the Business and Sustainable Development Commission estimate that sustainable business can unlock at least \$12trn in new market value globally, in areas from mobility systems to clean energy to supporting a circular economy:

### Incremental global business opportunities from the SDGs in 2030:

<b>Mobility systems</b>  <b>\$2,020B</b>	<b>Healthcare solutions</b>  <b>\$1,650B</b>	<b>Energy efficiency</b>  <b>\$1,345B</b>	<b>Clean Energy</b>  <b>\$1,200B</b>	<b>Affordable housing</b>  <b>\$1,080B</b>	<b>Circular economy</b>  <b>\$1,015B</b>	<b>Healthy lifestyles</b>  <b>\$835B</b>	<b>Other</b>  <b>\$2,855B</b>
------------------------------------------------	----------------------------------------------------	-------------------------------------------------	--------------------------------------------	--------------------------------------------------	------------------------------------------------	------------------------------------------------	-------------------------------------

Investors that successfully navigate these opportunities are increasingly able to identify macro trends and opportunities that others miss.

### Case Study

## Generation Investment Management

generation\_\_

Founded by former US Vice President Al Gore and former head of Goldman Sachs Asset Management David Blood, Generation Investment Management manages over £17B across four investment strategies, all of which are dedicated to investing in sustainable companies that provide goods and services consistent with a low-carbon, prosperous, equitable, healthy and safe society. Their flagship Global Equity fund has significantly outperformed since inception, and was the second highest performing fund of MSCI's survey of 200 global equity funds over the decade to 2015, beating the index by more than 500 basis points per annum.

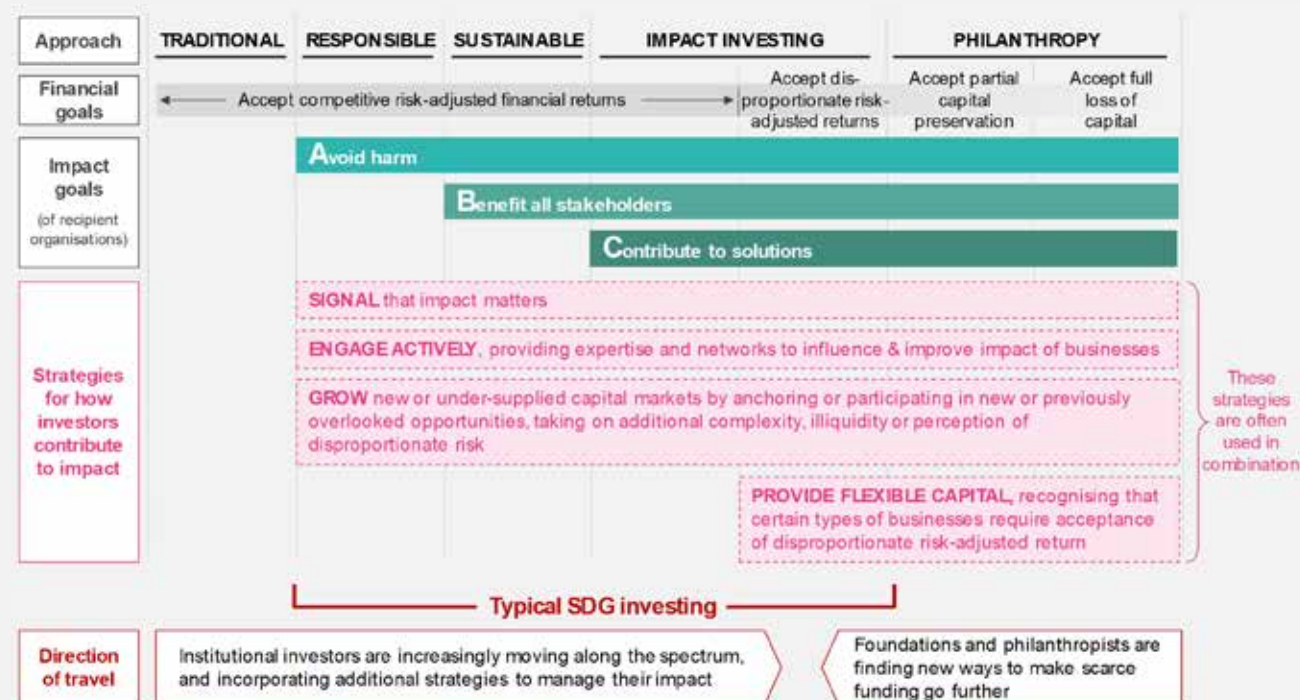
Read more about Generation's approach to driving investment performance at: [www.generationim.com](http://www.generationim.com).

There can be a range of financial goals within impact investment. Many investors seek competitive-risk adjusted returns. Others are willing to provide flexible capital, which can have a multiplier effect in attracting additional private funding when provided as junior capital in blended finance structures. They can also support much-needed investment into areas of need for which market rate returns are not possible.

Increasingly, investors are deploying capital along the whole spectrum of capital, particularly in the context of portfolio construction and allocation decisions. The spectrum allows investors the opportunity to combine different risk, return, liquidity and impact considerations, while aligning more capital decisions with the objective of avoiding harm and generating positive social and environmental results while realising financial return. The Impact Management Project has noted that to do this, all investors use some combination of four strategies to contribute to impact, guided by their intentions and constraints, outlined on the next page.

**Figure 5: The spectrum of capital**

Investors have a range of strategies to contribute to impact and the SDGs



**NOTE:** The impact goals of an investment are the combination of the impact goals of the underlying businesses (in green) that the investment supports, plus the contribution that the investor makes to enable the business(es) to achieve those impact goals (in pink).

We usually separate these two considerations to avoid blurring of the impact of underlying businesses and the contribution that an investor makes to those business' ability to deliver that impact, but have shown them together here for simplicity. Find out more about what this means for you at [www.impactmanagementproject.com](http://www.impactmanagementproject.com).

The imperative to move investment capital further to the right along this continuum is not only driven by the ability to increase impact and risk-adjusted returns. Asset owners are increasingly demanding their values be reflected in their investments, especially millennials, to whom US\$7trn globally will pass just in the few years between 2017 and 2020 (nearly 10% of total global wealth).<sup>33</sup>

### Case Study

## A consortium of Dutch financial institutions commit to SDG investing

In January 2017, The SDG Investing (SDGI) Initiative, a coalition of the largest financial institutions in the Netherlands that includes PGGM and APG, have agreed an action plan for investing in SDG themes. The 18 financial institutions, which collectively manage over €2.8trn in assets, have committed substantial capital, as well as recommending that the Dutch government and the Dutch Central Bank (DNB) take steps to accelerate investments on the themes of the SDGs.



## How Government can leverage investment into areas and communities in the UK that are being left behind

There is a large and widening gap in social and economic outcomes between more and less disadvantaged communities. This imbalance is highly linked to under-investment from the private sector, that naturally biases towards higher-return areas such as in the South East. On average, the lowest income 25% of Local Area districts receive ~20% less investment per capita each year, versus the wealthiest 25%. The potential loss of ~£11bn of annual investment from EU funding will further exacerbate place-based under-investment<sup>34</sup>, given a significant proportion of this funding is targeted at disadvantaged communities, and includes highly valuable guarantees and support to social ventures.

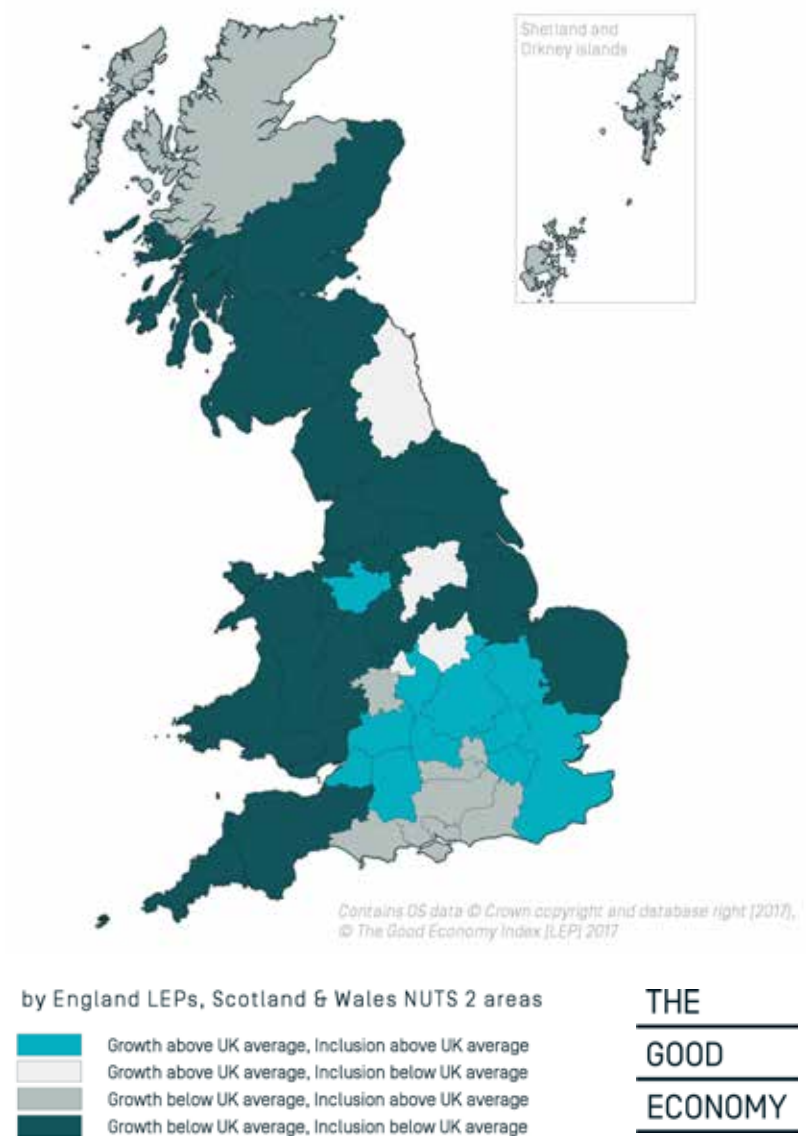
Addressing this challenge and rebalancing growth is no small task. Global management consulting firm BCG has estimated that it will require tens of billions of additional investment over 5-10 years before material results will be observed. Additional investment needs to be transformative in scope and ambition, and substantial private capital will be required to meet this need.

Early research indicates that geographically targeted investment does work, and that there is both demand for such investment, as well as long-term private capital willing to invest if the right investible opportunities can be created. Such opportunities will be most effective when delivered in partnership between the public and private sectors.

Government can play a crucial catalytic role, using its own balance sheet to help leverage in the tens of billions of pounds that will be needed to meaningfully effect growth and opportunity across the UK. Impact investors can help play a key role in the co-ordination and delivery of such a programme.

To show what this would mean in practice, The Good Economy Partnership (TGE) has developed 'inclusive growth' maps of the UK, which show the regional and local inequality in decent job creation and economic growth across the country. Places coloured in dark blue, such as Wales, Cornwall and the North of England, are where investment is needed most. More detailed local authority maps of this landscape linked to compatible growth-inclusion ratings of FTSE companies and sectors are also available.

### The Geography of Inclusive Growth



## Next steps towards an inclusive and sustainable investment agenda for the UK



### Recommendation 1.1:

**Pension funds, foundations and other institutional investors should increase investment into opportunities that are helping to achieve positive impact. In particular, we call upon them to join many of their European counterparts by publicly committing to investing into opportunities that are helping to achieve the Sustainable Development Goals (SDGs) in the UK.**

This follows the example of the consortium of 18 Dutch financial institutions that have committed to investing in line with the SDGs, capitalising on opportunities to increase risk-adjusted returns while also helping address social and environmental challenges. Examples of what this can mean in practice for different types of institutions are given in the 'key takeaways' section of this report.



### Recommendation 1.2:

**Government should establish an Inclusive Economy Catalyst Fund of at least £2B (including a significant portion of junior investment capital), to jump-start investment into communities that have seen decades of underinvestment and no real income growth. This would leverage in significant private investment, that could reach tens of billions of pounds over 5-10 years and meaningfully effect growth and opportunity across the UK.**

The UK faces a clear social, economic, and political imperative to rebalance economic growth towards places and communities that are being left behind. The Government can play a crucial catalytic role in increasing investment, in particular by using its balance sheet to provide junior investment capital that will leverage in significant additional private investment.

This could replace and enlarge ~£11b in EU funding that will likely be lost (ERDF, ESF, EIF), with a program designed by and for the UK, to enable long-term economic development at the local level. The funds should be deployed into a 'menu' of investment approaches, tailored to the needs of each community - including SME finance, affordable housing, infrastructure, social sector investments, and investments in skills & training to help the transition to work.

In the short term, Government should initially provide £200m of junior capital, that could leverage in private capital up to £1bn for pilot investment programs. What works can then be taken to scale across the UK. A consortium of existing institutions can be quickly mobilised to deliver this program in the short term, such as Big Society Capital, the British Business Bank, and Local Enterprise Partnerships, although a new institutional vehicle may be ultimately be needed and this should be explored in the medium term.

Once the next set of dormant assets are released, a portion of these should be allocated towards supporting this vehicle. The scope of the Community Investment Tax Relief scheme should also be simplified and widened so that a broader range of institutions qualify.



### Recommendation 1.3:

**The Government should support the UK's global leadership in impact investing, by recognising it in the Industrial Strategy as an important tool in helping to deliver inclusive place-based growth.**

The Industrial Strategy has rightly identified the need to close the gap between the best and worst performing parts of the country as a key priority. Impact investing can be a major tool in achieving inclusive growth, stimulating private enterprise to support people and places that are being left behind.

This should be recognised in the industrial strategy, and support provided to the sector to help drive inclusive growth and consolidate the UK's leadership in this area. This should include supporting the broader agenda outlined in this report. The City of London Corporation can also help to consolidate London's role as a global hub for impact investing, by supporting organisations that are working to develop the ecosystem in the UK and to promote London as a global financial centre for impact investment.

## Step 2: Empower UK savers to invest in line with their values

### In brief

The UK investment community should respond to significant and growing demand from pension savers and other retail investors for their money to have a positive influence on the world in which they live, as well as generate a financial return.

With the introduction of auto-enrolment, assets in Defined Contribution (DC) pension schemes are expected to grow six-fold to £1.7trn by 2030, making this a great opportunity to meet unrealised demand and redirect investment to help address social challenges.

We call on DC pension providers to engage with savers on their impact preferences, and to develop products that reflect these. We urge government to ensure an actively supportive regulatory environment for these products, as well as promoting the expansion of the broader retail market for impact investments.

### Introduction

As described in the prior chapter, how we invest our money has implications for the society and the environment in which we live, and individual investors are starting to take notice. More than half of the British public want their money to do more than just generate a financial return, a figure that increases among high-net-worth individuals and millennials:

**51%**

...of the overall British public are committed to positive investing in some way, with 39% wanting to invest more than they do today

Source: Ethex (2017), "Understanding the positive investor"

**92%**

...of high net worth individuals see driving social impact through their investments as important, and 60% see it as very or extremely important

Source: Worthstone (2012), "What is social impact investment"

**77%**

...of DC pension fund members prefer a social investment fund to a conventional one, and 44% would do so even if their final retirement pot ended up 8% smaller

Source: DCIF (2013), "Identifying new ways to engage savers in Defined Contribution Pensions"

Against this backdrop, pension providers that ignore savers' views and preferences may be failing in their fiduciary duty to consider beneficiaries' best interests. Financial interests must remain a high priority, particularly in the context of retirement savings; but savers have expressed clear demand for products that reflect their other interests and their values too.

While good progress has been made on ESG investing, very few pension products or other retail funds exist today that include an allocation to impact investments; those that go further by contributing to solutions to social or environmental challenges – and there is low awareness of those products that do exist. This is exacerbated by low awareness among financial advisors of their clients' impact preferences and of the relevant product landscape, limiting their capacity to provide suitable advice. Progress is further hampered by low engagement from savers on a complex topic; a study by Big Society Capital found that 40% of DC pension savers know little or nothing of how their money is invested, and the vast majority are in a default fund.

## A vision for the future

Our vision is that individual investors are empowered to help shape the world in which they live through their investment choices. Through a wide range of retail and pension product offerings, they are connected to the societal challenges they care about most, without necessarily compromising on financial returns (unless they choose to do so, with a full understanding of the risks and trade-offs). Such investments are made ‘easy’ by simple, clear products, and supported by prompted engagement from pension funds, employers, and advisors.

This democratising of the investment system would not only meet savers’ needs, but also build greater public engagement with pensions and trust in the financial system overall.

### Case Study

#### Know where your money goes with Triodos

Triodos Bank have recently launched an online current account with a mobile app that not only enables customers to manage their money; it also allows them to see what organisations their money is being lent to, and the social and environmental impact this is generating.





One way to move towards this vision is through ‘Pensions with Purpose’ products. In these, in addition to best-in-class ESG stewardship, a modest proportion of assets (e.g., 5% to 10%) would be allocated to impact investments that have an explicit objective to help address social or environmental challenges, whilst targeting competitive risk-adjusted financial returns.



In large part thanks to the introduction of auto-enrolment, the assets in DC pension schemes are expected to increase nearly six-fold to £1.68trn by 2030, from £300bn today. These DC schemes present a substantial unrealised opportunity to meet savers’ demand for more impactful investment, while also unlocking significant additional capital to help address pressing challenges in society.

Workplace savings products with an allocation to impact investments are already gaining traction around the world. In France for instance, since 2008, all employers over a certain size (~50 FTEs) have been required to offer a ‘Fonds Solidaires’ option as part of their employee savings schemes, which include a 10% allocation to impact investments. Demand for these products has grown substantially, with over 1.5m savers and ~€10bn in assets now invested through this route.

Figure 6: Something for everyone

Pensions with Purpose would deliver clear benefits for pension providers, government and employers.

<b>Employees/ Savers</b> 	<b>Match your money to your values, and help address societal issues you care about</b>  Picture being able to pull up an app on your phone that shows you the affordable housing developments, clean energy projects or homeless support services that your retirement savings are helping to finance.  Through their workplace pension scheme, savers could have access to investments that connect to the social and environmental issues they care about, while still achieving attractive risk-adjusted returns.
<b>Pension Funds</b> 	<b>A competitive edge, for customer acquisition and retention, and share of wallet</b>  Nearly a third (31%) of DC savers say they would save more if a social pension was offered to them, and two in five employees (39%) said they would be more likely to take up a pension if their employer offered a Pensions with Purpose product. <sup>36</sup>  Pensions with Purpose would allow providers to capitalise on shifting investor preferences, to capture market share and remain at the forefront of innovation in the sector.

<b>Government</b> 	<b>Help stimulate a long-term savings culture, and unlock significant funding for our most urgent challenges</b>  <p>The introduction of auto-enrolment has driven enormous growth in the number of UK savers. However, only 16% of DC savers are putting aside enough for their retirement. Saver engagement remains low with two in five savers knowing little or nothing about how their assets are invested – Pensions with Purpose products could help increase engagement, and foster a much-needed culture of long-term savings.</p> <p>Furthermore, if 5% of assets in DC pension schemes were channelled into these products by 2030, it would unlock an additional ~£85bn of impact funding for societal challenges, as well as supporting the ambition of ‘an economy that works for everyone’.</p>
<b>Employers</b> 	<b>Increase the engagement and loyalty of your employees</b>  <p>Two in five people say having a Pension with Purpose would make them feel more engaged with their employer, rising to half (49%) for millennials.</p> <p>Employers that provide access to a Pensions with Purpose product would be offering a differentiated employee benefit, with the potential to increase staff engagement and retention, and demonstrate to their employees a commitment to delivering not just for shareholders but for society as well.</p>

## An evolution of potential products

Ultimately, savers would benefit not only from the option to address societal issues through their investments, but also from choice on which societal issues matter most to them. However, to prove the concept, early products would likely be simple ones, focused on well-established impact funds that offer market-rate returns.

**Figure 7: Keep it simple at first**

An outline for two ‘generations’ of Pensions with Purpose products

	1st Generation Pensions with Purpose	2nd Generation ‘Thematic / high impact’ products
<b>Impact asset allocation</b>	Suggested 5% of portfolio allocation	Potential to increase impact portion to 10%, if engagement with members indicates demand to do so
<b>Targeted financial returns of impact component</b>	Incorporate established impact investments that target market-rate returns only. Potential further benefits to overall portfolio given low correlation with other asset classes.	Potential to incorporate some higher-impact investments that target below-market returns, where savers are well informed and take that risk on knowingly through a chosen fund.
<b>Impact themes</b>	Pragmatic allocation across themes that matter to most members where possible (according to recent BSC polling, these are health, social care, housing, environment)	Develop a range of thematic products that target specific societal issues, specific geographies within the UK as well as international impact investments
<b>Suitability for default vs. chosen funds</b>	Suitable for chosen fund initially, and potentially for a default fund once a track record is established and the sector has matured	Likely suitable for a chosen fund (only), if incorporating investments that target below market returns, given fiduciary duties
<b>Remaining ~90-95% of the fund</b>	‘Bolt on’ to existing passive screened or actively managed funds	Potential to develop more active funds that are thematically consistent with the themes addressed by the impact investment portion
<b>Current barriers to development</b>	No regulatory barriers for a chosen fund, beyond (misplaced) market perceptions of fiduciary or liquidity concerns	Likely to require ‘proof of concept’ from basic products before considered viable, particularly if using below-market return impact investments

Given the complexities of deploying significant capital into impact investments, construction of the impact portion of these products will likely need to be outsourced to specialist fund managers for most pension providers. Specialists are beginning to emerge that can provide such services, such as Snowball LLP<sup>37</sup> and others.

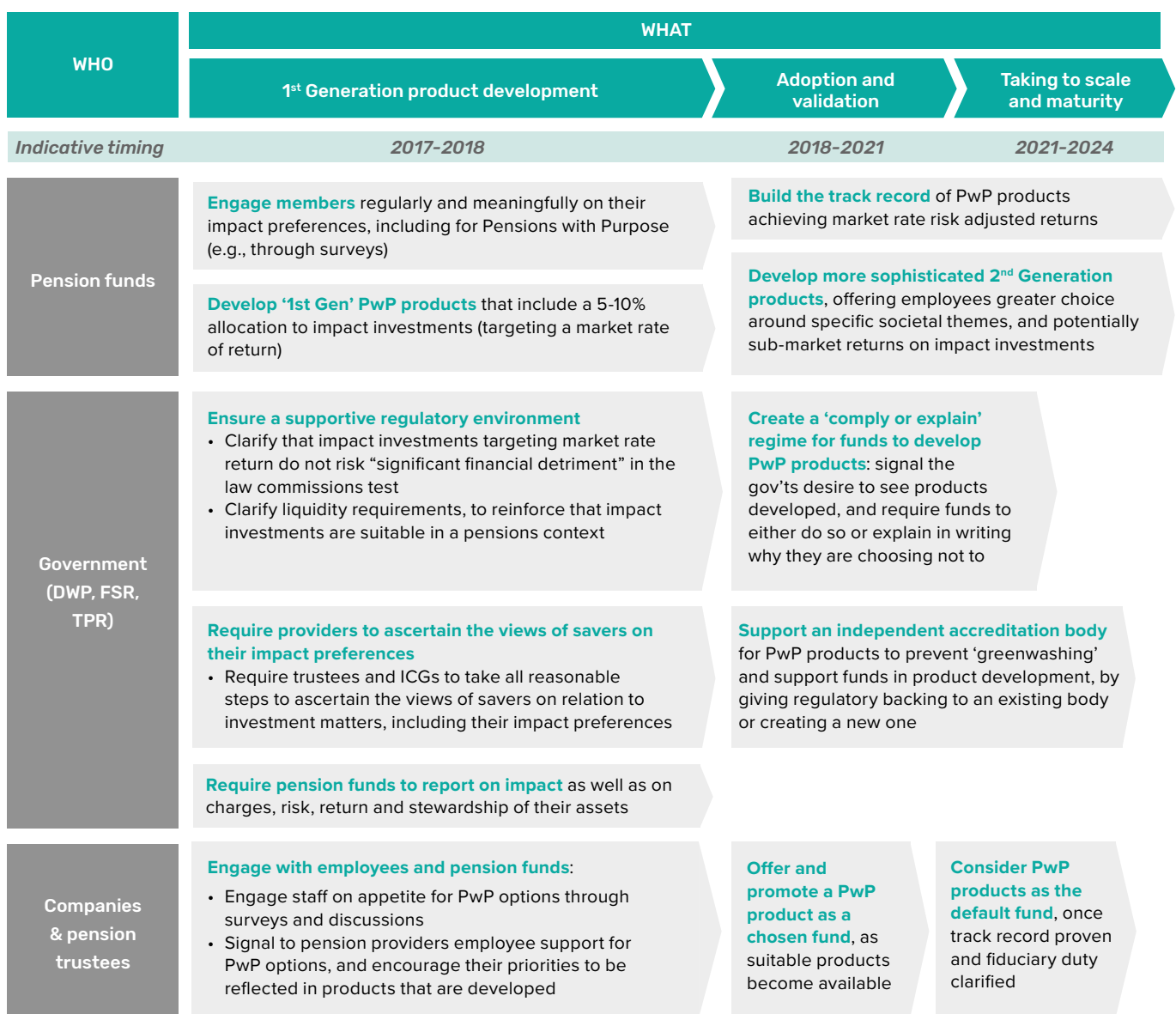
## A roadmap for the development of Pensions with Purpose

Achieving the vision of Pensions with Purpose at meaningful scale is likely a 5-7 year journey. A first generation of products will need to be developed and a performance track record established, to pave the way for mainstream adoption. Employers also have a key role to play in the development of a market for pensions with purpose products by giving their business to providers that offer these options.

The following illustrates a potential roadmap for the development and adoption of Pensions with Purpose products ("PwP" for short), including a 'menu' of potential ways the main actors could support development of the market.

**Figure 8: One step at a time**

A roadmap / set of options that would support the development of Pensions with Purpose



## Next steps towards empowering savers to invest in line with their values

We believe the highest priority actions to work towards a democratised investment system are as follows.



### Recommendation 2.1:

**DC pension providers should develop Pensions with Purpose products that include a modest allocation to impact investments. Providers should regularly engage and survey all members on their impact preferences to build the evidence base for designing these products, as suitable options that savers can select.**

Initially, providers should focus on developing '1st generation' products, which incorporate impact investments that target a market rate of return and cover a mix of societal issues that are important to their members. BSC can provide a survey to tailor for member engagement, as well as more details on potential product design – reach out to Camilla Parke for details at [CParke@bigsocietycapital.com](mailto:CParke@bigsocietycapital.com).



### Recommendation 2.2:

**Government should create an actively supportive regulatory environment for Pensions with Purpose, and require providers to ascertain the views of savers on their impact preferences.**

The Government should clarify the regulations on fiduciary duty to make it clear that in acting fairly and for the benefit of pension savers, providers, trustees and IGCs (Independent Governance Committees) are fully empowered to take account of social and environmental considerations, and of the views of savers themselves. Furthermore, pension regulations should require trustees and IGCs to take all reasonable steps to ascertain the views of savers in relation to investment matters, including their impact preferences.

Down the line, the Department for Work and Pensions could support the development and adoption of Pensions with Purpose products, by requiring the largest DC providers to either make such products available or explain why not. This 'comply or explain' mechanism has proven to be an effective means of breaking inertia without being overly prescriptive in areas such as promoting higher standards of corporate governance.



### Recommendation 2.3:

**Government should help protect the integrity of the broader retail market for social investment, by continuing the work of the Advisory Group on Creating a Culture of Social Impact Investment (appointed by DCMS) after its conclusion.**

Beyond DC pensions, there is a broader opportunity to democratise the investment system, providing retail savers and investors opportunities to invest in line with their values with products such as impact ISAs and bank accounts. This broader democratisation will help restore trust in the financial system, as well as ensuring that impact preferences are reflected in investment decisions. However, as this market develops, the Government has a crucial role in protecting against 'impact washing' and ensuring transparency for investors and standards around the 'impact' that is being sold.

Several bodies are doing significant work to progress this agenda between industry and regulators – in particular the Government appointed 'Advisory Group on Creating a Culture of Social Impact Investment', chaired by Elizabeth Corley CBE. We strongly endorse the work of this group, and recommend the Government continue to support its recommendations and work.

# Step 3: Place purpose at the heart of public procurement

## In brief

Central and local government bodies hold enormous power to respond to pressing social challenges and budget constraints through their spending decisions. By embracing purpose-driven approaches to procurement, the government can maximise the long-term social, environmental and economic value created with every public pound.

Social value-based procurement and outcomes based commissioning, two key practices that underpin this approach, are currently used in a minority of contracts. We recommend that the Government (1) ensures significant weight is formally attached to social value in the evaluation of all bids; and (2) expands the use of Outcomes-Based Contracts (OBCs) in the provision of appropriate social services.

## Introduction

Following several years of budget cuts, UK Government authorities are no strangers to financial pressure and strained capacity. As societal challenges continue to mount, it is no longer sustainable to deliver public services at the level our communities expect and deserve by following traditional, process-oriented approaches to procurement, which often prioritise short-term savings over long-term solutions.

In response to this challenge, an exciting trend is taking hold: pioneering government authorities are improving lives and often saving money by using new tools and approaches to procurement. In short, they are focusing on purpose – defining holistically what societal and economic success looks like to their communities – and empowering suppliers to determine optimal solutions. This shift begins with a strategic realignment of priorities, and it results in concrete outcomes such as reduced re-offending rates, improved skills and shorter hospital

stays, which can in turn lead to improved lives and reduced government spending. Far from a ‘nice-to-have’ box-ticking exercise, effectively procuring for purpose redefines the role of public service providers, allowing them to truly understand and meet their communities’ needs.

This approach to procurement, and the many success stories resulting from it, calls for recognition, celebration and replication. Too many central and local government bodies are either unaware of the long term social, environmental and economic benefits of purpose driven procurement, or lack the tools and guidance required to do so effectively. Indeed, procuring for outcomes and societal value is not always easy, and misconceptions about its costs and legal limitations remain pervasive.

The case studies and associated best practices presented in this chapter seek to mitigate these barriers to the broader use of effective, purpose-driven procurement.

### Fast Facts

1. Just four years after the Social Value Act’s launch, nearly 80% of authorities consider it in spending decisions – but only 14% use it to its full effect<sup>38</sup>
2. There is a social value measurement portal and a comprehensive toolkit for authorities, including a National Measurement Framework for Social Value, available online at: <https://socialvalueportal.com/>
3. Greater Manchester has a social value e-learning kit to train procurement officers, and a toolkit to guide suppliers on bidding with social value
4. The Government has spent c. £15bn on outcomes-based contracts over five years<sup>39</sup>
5. Under UK law, it is unlawful to use price as a sole criterion for contract selection<sup>40</sup>

### Defining Social Value

Social value is subjective and place-based, but typically refers to the sustained social benefit that a good or service delivers. To learn more, see our short film at: <http://gsgii.com/nabs/uk/>

## Our vision for the future

We envisage a future in which central and local government bodies maximise the long-term social, environmental and economic value created with every public pound by linking all procurement decisions to their purpose. To drive this change, two practices underpinning this philosophy should be embraced; (1) procuring for social value; and (2) using OBCs to deliver social services in policy areas where improved outcomes and/or cost savings have been achieved by prior contracts. Rather than focusing on upfront price alone, both practices consider value as a holistic, long-term measure of societal outcomes achieved and overall costs incurred, incentivising suppliers to deliver innovative, effective and sustainable solutions.

## What does it mean to procure for social value?

Effective practitioners of social value procurement begin with a deep understanding of the challenges facing their communities. This leads to a clearly defined, broadly communicated strategy for tackling these challenges and thereby reducing the long-term costs they often present, through all spending decisions – whether for a waste management system or a childcare centre.

## Recycling ICT equipment, improving lives

Greater Manchester Combined Authority (GMCA) has introduced a policy wherein suppliers must include proposals to deliver social value with all tenders, and – to ensure a holistic, coordinated approach – this social value must be linked to GMCA's six strategic objectives, outlined to the right. Beyond this, it is up to the suppliers to come up with creative solutions.

So how might a supplier “promote citizen engagement” or “raise living standards” while (for example) disposing of ICT equipment? GMCA found the answer by working with a private company called Tier1: through the latter's partnership with a local prison, inmates were able to gain qualifications processing IT assets.

The contract provides added value relevant to several of the drivers in GMCA's Social Value strategy by helping ex-offenders gain employment after release, which reduces the need for public sector support; by potentially reducing re-offending rates (research shows that offending behaviour programmes can reduce reconviction rates by up to 14%); and by saving the UK economy significant revenue (a re-offending ex-prisoner is estimated to cost the criminal justice system £65,000 in addition to the costs of incarceration).

### GMCA's social value objectives

1. Promote employment and economic sustainability
2. Raise the living standards of local residents
3. Promote participation and citizen engagement
4. Build the capacity and sustainability of the voluntary and community sector
5. Promote equity and fairness
6. Promote environmental sustainability

## The social and economic costs of short-term thinking

Despite success stories like these, the realities of time constraints and budget pressures often lead authorities to focus on upfront cost-savings, awarding contracts to the supplier that can deliver a good service at the lowest price today. However, this short-term approach can result in much greater societal challenges and associated costs down the line, as one local authority discovered.

This (anonymous) authority had commissioned statutory school transport for children with Special Educational Needs (SEN) on the same basis for many years: the price for a pre-set route. Though the authority fulfilled its responsibility at very low upfront cost, it eventually suffered from a collapse in service quality, characterised by under-resourced transport, demotivated, undertrained staff and management with little incentive to care for the wellbeing of disabled children.

It realised that it needed to change how it thought about this service and took steps to redraw it entirely. Consultations with the children, parents and teachers revealed a clear need for a contractor with a mission and culture suited to working with vulnerable children. By emphasising quality in service specification, the authority ensured competing providers would be motivated to propose a service that truly met needs. And by involving the

school and parents in the tender award process, it maintained its focus on the service's ultimate purpose: to improve the children's wellbeing.

HCT Group won the contract. Its social mission motivates it to provide truly improved outcomes, while its partnership-working style has led to strong relationships with the authority, schools and parents. In short: by adopting a long-term understanding of value, the authority was able to identify a mission-aligned partner, and improve outcomes for its key community stakeholders.

## How do Outcomes-Based Contracts drive long term value?

Rather than following a traditional 'fee for service' model, OBCs operate on a 'payment by results' basis, so providers only get paid in full if they deliver specified social outcomes. By giving providers the flexibility and incentive to iterate constantly in pursuit of better performance, they aim to stimulate more effective solutions to complex issues, and ultimately identify and favor suppliers that can truly deliver results. Their focus on defined outcomes creates an environment in which all parties are aligned.

Over the past decade, successful interventions in the UK and abroad are pointing to the exciting potential of OBCs to tackle certain social challenges<sup>41</sup>, and are generating valuable learnings for procurement more broadly. These points are best understood through an example of an OBC in practice.

## Improving care for young people in Manchester and Birmingham through OBCs

The local authorities in Manchester and Birmingham were experiencing a similar challenge: a large number of young people with complex needs were living in residential care, which is very expensive (estimated at £150k p.a./child in Manchester) and often results in poor outcomes for the children concerned.

Each authority had identified the specific cohort it was trying to help and the outcomes it wished to achieve. However, with no effective service in place, they both launched OBCs to source effective solutions from a broad pool of potential suppliers. In Manchester, the contract was awarded to a charity called Action for Children, while in Birmingham, it was awarded to Core Assets, a private business.

Both suppliers were tasked with providing intensive, therapeutic fostering to enable these young people to move out of residential care units and into a family home. They set out to identify their own innovative approaches, tracking the stability of each placement and the outcomes of each young person to ensure robust data collection, an agile approach to change management, and optimal service delivery.

### Want to find out more?

<b>To evaluate your current social value approach, and for comprehensive, practical guidance...</b>	Download the Social Value Maturity Index for Public Sector Toolkit at <a href="https://socialvalueportal.com">socialvalueportal.com</a>
<b>For step-by-step strategic advice on procuring for social value...</b>	Read CLES'S, The Power of Procurement II: The policy and practice of Manchester City Council, February 2017
<b>To understand what UK law allows, encourages and requires in public procurement...</b>	Consult Bates Wells Braithwaite, HCT Group and E3M's, The Art Of The Possible In Public Procurement, September 2016
<b>To learn how to communicate with suppliers about your social value priorities...</b>	See Manchester City Council's Social Value Toolkit at <a href="https://manchester.gov.uk">Manchester.gov.uk</a>
<b>To understand how authorities are embracing Social Value...</b>	Read Social Enterprise UK's Procuring for Good, May 2016

### Learn more

<b>To learn how to procure with OBCs</b>	Government Outcomes Lab, How to Guide: Procurement. A technical guide to good procurement practice in outcome based commissioning, March 2017  Social Finance, A technical guide to designing outcome metrics, February 2015
<b>To learn more about when OBCs work best</b>	Bridges Fund Management, Better Outcomes, Better Value: The evolution of social impact bonds in the UK, March 2016
<b>For a global perspective</b>	Brookings Institute. The Potential and Limitations of Impact Bonds: Lessons from the first five years of experience worldwide, July 2015  For a full list of impact bonds globally, see Social Finance's online database at <a href="https://www.socialfinance.org.uk/database">www.socialfinance.org.uk/database</a>

The two authorities have already realised c.£2m in savings versus the cost of residential care, and these projects are forecast to generate a total of £20m cashable cost savings over the next five years.<sup>42</sup> But the real value created by this intervention will be realised over the course of the young people's lives, through their potential for improved educational, employment and health outcomes, and the associated savings delivered to government.

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## Key learnings for purpose-based procurement

The factors that led to these two programmes' success apply not only to OBCs, but to social value-oriented, purpose-based procurement more broadly. Because of their payment by results models, both programmes must be closely and continuously tracked for outcomes achieved and money saved (which together constitute value created). This approach relies upon a systematic embrace of accountability and transparency, helping suppliers understand whether their methods are working, and giving them the flexibility to adapt and optimise their approach along the way.

Most fundamentally, the success of these programmes depends on procurers and suppliers striking a balance between accountability and collaboration through contract design to achieve a shared purpose. These principles are central to OBCs – but their application is critical to the effectiveness of procurement more broadly.

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## Expanding the use of Outcomes-Based Contracts

Effective OBCs have so far been launched in policy areas including youth employment, children's services, homelessness and health and social care, and we would point to these areas in particular as potential focuses for their expanded use. For more case study examples of OBCs that have been launched in these areas to date, please consult Appendix E.

## The 7 Best Practices of Purpose-based Procurement

Drawing on the case studies outlined above as well as conversations with government authorities, suppliers, academic and legal experts, we have identified 7 best practices of purpose-based procurement. To learn more about how to apply these practices, please consult the sources mentioned in this report.

### 1 Link your procurement strategy to your community's social, environmental and economic priorities

- Change must start at the leadership level, but be developed from the ground up. Link your procurement strategy to your broader local priorities, which should be determined through open conversations with your community
- Ensure your policies and standing orders include relevant references to social value
- Consider developing a community social value charter<sup>43</sup> to ensure transparency and alignment
- Ensure all departments and suppliers are aware of these priorities through events, memos and other forms of outreach

### 2 Collaborate across departments to maximise social value creation

- Establish a board with representation across all departments, which meets regularly to design tenders that are aligned on social value and linked to community values
- Use these tenders as common templates in all procurement
- Train procurement officers by formulating a simple, cost effective e-learning module for local or regional use on procuring for social value
- Ensure social value is embedded into the planning process

### 3 Embed social value into every tender decision, aiming for a minimum weighting of 20%<sup>44</sup>

- Require potential suppliers to address how the delivery of the contract will contribute to the specific social value-related outcomes you are seeking to achieve
- When the suitable price for a good or service is known based on prior contracts, disclose your intended budget and specify that tenders will be evaluated based on social value and quality

### 4 Provide your suppliers with a clear social value reporting framework

- Provide a clear, simple way for suppliers to demonstrate their social value credentials while allowing them freedom to innovate and offer their own solutions<sup>45</sup>
- Communicate this methodology broadly to suppliers
- Build supplier capacity by meeting with them and communicating clearly your social value objectives

### 5 Set your suppliers up for success by treating them as partners and involving them pre-tender

- Undertake pre-market engagement through 'meet the buyer' events to help suppliers understand and contribute to the tender process
- Develop a consistent set of focused and standardised questions that allow suppliers to innovate and replicate as and when appropriate
- Provide targeted advice to suppliers by facilitating networks with other, existing suppliers and providing concrete examples of how they can include social value in their tenders

### 6 Keep the focus on social outcomes throughout the life of your contracts

- Include social value data collection in contract management activities: despite initial time investment, tracking relevant social value creation metrics will help you and your supplier understand which parts of the process are working and which need revision
- Engage in continuous dialogue with suppliers to track their progress, allow them to adapt process as needed, and strengthen the partnership

### 7 Measure and report progress against social value goals, at least annually

- Adopt a disciplined method of remaining accountable and transparent about your approach to social value: this might include reporting on impact and publishing contract weightings. Your community deserves to understand how its money is being spent.
- Report through your website progress on embedding social value by indicating targets set, steps taken and outcomes achieved



## Next steps toward placing purpose at the heart of public procurement:



### Recommendation 3.1:

**Central and local governments should embed social value (SV) in every tender decision, aiming for a minimum weighting of 20%. When the suitable price for a good or service is known based on prior contracts, central and local Government should disclose their intended budget and specify that tenders will be evaluated based on social value and quality**

This should be achieved through three channels:

- Department of Culture, Media & Sport (DCMS) should issue revised statutory guidance stating that SV must be accounted for versus “considered” (the current requirement under the Social Value Act)
- Treasury should announce its recognition of SV as critical to effective procurement
- The Crown Commercial Service (CCS) should include SV in all its procurement frameworks

To further support this change, the procurement and commissioning best practices outlined in this report should be championed, disseminated and utilised by all government bodies, including CCS and regional procurement bodies:

- Government should offer training and networking sessions for suppliers to help them better articulate their social value offering when bidding for public sector contracts
- Suppliers should proactively integrate social value into their good/service offerings, taking steps to understand the procurer’s social value priorities
- Local pioneers who already use these practices should be recognised and celebrated by central government



### Recommendation 3.2:

**Expand Outcomes-Based Contracts within the policy areas outlined by this report, which show early evidence of generating positive outcomes and government savings**

An enduring central government outcomes fund with the explicit mandate to maximise value for government over a prespecified investment time horizon should be established and housed within a central government department that focuses on value for government, such as CCS or the Treasury

To establish clear and transparent pricing of outcomes, which is vital to the development of a competitive, dynamic OBC market in the UK, Government should:

- Develop a robust, consistent understanding of the value of social outcomes to government by (1) appointing a specialist audit firm – reporting into the Treasury or National Audit Office (NAO) and working alongside relevant internal economics teams – to undertake rigorous independent audits of previous outcomes contracts and comparisons with existing public spending; and (2) updating the unit cost database
- With this value determined, embed guidance on OBC commissioning (how to launch them) and evaluation (how to measure their performance) into standard government procurement guidelines including in the Green Book and the Magenta Book



### Recommendation 3.3:

**Ensure that transparency and accountability underpin each of the above recommendations**

- All government authorities should report through their websites on how they evaluate contracts, including price, quality and SV weightings, and on SV achieved annually
- The Department for Communities and Local Government should amend the existing Transparency Code to include this requirement, and Cabinet Office must hold central government to the same standard
- The NAO should have a duty to audit Government for social value and regularly report to Parliament

# Step 4: Accelerate the rise of purposeful business

## In brief

The contract between business and society is changing. Customers, employees, investors, governments and pioneering business leaders are increasingly demanding that companies have a purpose that goes beyond short-term profit maximisation, and positively contribute to society through their core activities.

In response, businesses are finding ways to help address societal challenges whilst maintaining sustainable revenue models and, often, improving their commercial returns as a result. They are demonstrating the power of business to help develop and protect the societies in which they operate, and on whom their success ultimately depends. Together, they have articulated a message too clear and compelling to ignore any longer: all businesses, regardless of size, sector or legal structure, should embrace a societal purpose beyond profit.

**If business isn't sustainable then society is at risk. And if society isn't sustainable then business is at risk**

Mark Wilson, Group CEO, Aviva

## Introduction

**Society is redefining its expectation of business.** Nine out of ten millennials believe the success of a business should be measured by more than just financial performance<sup>46</sup> and, when evaluating investments, 93% of them consider social, political or environmental impact important.<sup>47</sup> One in five people planning to start a business is motivated by a social purpose or cause<sup>48</sup> and 40% of wealthy under-40s have made social investments.<sup>49</sup>

**These forces are reshaping business incentives, and business is responding.** In the UK and across the globe, new and existing businesses of all types – from multinational pharmaceutical companies to high-street bakeries – are responding to this shift by developing longer-term, more inclusive approaches to value creation. They are recognising that, ultimately, the sustainability of their business depends on the sustainability of the society in which they operate.

As a result, they are shifting their treatment of social impact from a secondary consideration to a core commercial pillar, building social issues into strategy either through what they do (their core business) and/or how they do it (their operations). The UK Government has also recognised the power of business to address societal challenges, supporting initiatives such as the Mission-Led Business Review, while the Embankment Project for Inclusive Capitalism has recently brought together a group of the world's leading asset owners and managers, representing more than US\$20trn of assets under management, to help Ernst & Young develop a framework to evaluate investments through a broader lens, including the purpose of their investments.

**It is time to make this the norm, not the exception.** We believe that all businesses, regardless of their size, sector or ownership structure, can embrace a societal purpose beyond profit, either through what they do or how they do it, and build societal issues into strategy in a way that reflects

## Defining Purposeful Business

Throughout this report, we define “purpose” as a business's intention to positively contribute to society or the environment through its operations, goods and/or services. This closely relates to the Social Impact Investment Taskforce's definition of a Profit-with-purpose business as one that one that seeks, commits to, creates and shows social impact.

By “business” we refer primarily to for-profit, private sector entities as opposed to social enterprises, cooperatives and community, voluntary and charity entities. We recognise the long history and important work of these latter organisations in tackling societal issues at scale, and believe they offer important learnings for how traditional businesses can embed purpose.



their actual business importance. In so doing, they can establish a more aligned relationship between business and society, where business plays a key role in developing and protecting society. Beyond an aspiration, this approach will increasingly become a competitive imperative as society comes to redefine purpose as a core component of a business's license to trade.

## The commercial case for incorporating a societal purpose

Crucially for this movement's scale and longevity, a track record is beginning to emerge showing that purposeful business can be consistent with sustainable revenue models and, often, robust financial returns. Numerous recent studies have pointed to the potential relationship between purposeful business and improved financial performance<sup>50</sup>, showing they are often better able to attract and retain talented employees and committed investors, differentiate themselves to customers, and solidify their long-term relevance in a changing society.

### How building a societal purpose into your strategy and operating model can create commercial value:

Commercial lever		How purpose can create value	Evidence / examples
1	<b>Appeal to a wider consumer base</b>	Societal value is increasingly part of the global consumer's purchasing criteria, suggesting that it strengthens brand perception and engagement with customers and consumers, and removes a potential purchase barrier	81% of global consumers are now expecting more from their expenditure than the functional acquisition of products and services. (The consumer study: From marketing to mattering, Accenture, 2016)
2	<b>Attract and retain better employees</b>	The best employees are increasingly motivated to work at companies with a clearly defined social purpose  It also increases engagement, productivity and retention of your existing staff	60 % of millennials want to join companies with a societal purpose (The Deloitte Millennial Survey, 2015)  Bain & Company estimate that, in financial services, for example, reducing churn rates by 5% can lead to a 25% increase in profits (Prescription for Cutting Costs: Bain & Company)
3	<b>Improve cost efficiency</b>	A sustainability lens can identify areas for cost reduction that standard cost processes miss. For instance, sustainable packaging can eliminate waste in other areas of your supply chain	Walmart saved an estimated \$230m in 2012 from increasing efficient waste management and recycling. (From the Shareholder to the Stakeholder, University of Oxford and Arabesque Partners, 2015)
4	<b>Attract investment at a lower cost of capital</b>	Sound ESG practices can reduce the risk of costly events such as the Deepwater Horizon oil spill, the Volkswagen emissions scandal, or banking infringements that have cost shareholders US\$150bn in fines since the financial crisis – a risk that is reflected in the cost of capital	90% of academic studies find that sound sustainability standards lower the cost of capital of companies. (From the Shareholder to the Stakeholder, University of Oxford and Arabesque Partners, 2015)
5	<b>Enhance innovation pipeline</b>	Product innovation can be expensive and risky, with many innovations unable to reach scale or cannibalising existing products. The most successful innovators are finding that new products connected to a societal purpose are the ones driving top-line growth	Unilever's 'Sustainable Living' brands accounted for half of the company's growth in 2014 and grew twice the rate of the rest of the business. (Unilever sees sustainability supporting growth; Unilever.co.uk)
6	<b>Increase share price performance</b>	Whether commercial value created from the above outweighs the cost of resources and management attention ultimately comes down to final measures of value creation – and the evidence shows that it does	80% of studies show that stock price performance of companies is positively influenced by good sustainability practices. (From the Shareholder to the Stakeholder, University of Oxford and Arabesque Partners, 2015)

### A Toolkit for Incorporating Purpose

Business in the Community's "The Purpose Toolkit" helps companies understand the commercial case for incorporating purpose, and how they can bring purpose to life: [https://www.bitc.org.uk/system/files/marketplace\\_toolkit.pdf](https://www.bitc.org.uk/system/files/marketplace_toolkit.pdf)

## Businesses with Purpose: in their words<sup>51</sup>

In addition to the mounting evidence outlined above, among the strongest and most compelling articulations of why – and how – to embed purpose comes directly from the company leaders who have experienced its effects:

Globechain's vision was to prove a business can be commercial with a conscience. We created a model that has quickly become profitable, while also having a substantial social impact by enabling members to think beyond fundraising, allowing data to be collected on societal impacts.

**May Al-Karooni, Founder and CEO of Globechain**

Tribe's B Corp business model, our investment philosophy, our vibe – they're all designed to show what is possible when you reimagine investment and wealth management as agents of positive and sustainable change... We seek out other businesses that reflect this philosophy and address these challenges through their core business.

**Amy Clarke, Co-Founder of Tribe Impact Capital**

Timpson is all about service. If the company is willing to support people who need a break – like ex-offenders seeking work – then all of our people understand that we are serious about the business of service. Which they do, and it's something they love about the company. It's good for society and it's good for business.

**James Timpson, CEO of Timpson**

When we were acquired by Hain Celestial, I was keen that our purpose – to help children forge a healthy relationship with food – would be retained. I was delighted when Hain agreed to certify Ella's Kitchen as a B Corporation. It is an un-gameable, long term commitment to that mission, and to creating value for all stakeholders in the business.

**Paul Lindley, Founder of Ella's Kitchen**

Good Energy was founded with a clear purpose – to help people in the UK be part of a solution to climate change. Our purpose informs the decisions and directions of the Company and is the link between our customers, shareholder and employees. This alignment creates value across all our stakeholders and we see this as the way forward for all businesses, and really differentiates us today.

**Juliet Davenport, CEO and Founder of Good Energy**

To sustain our success, it's vital we take a long-term view on everything from employment to environment, then embed progressive thinking across the business.

**Robert Noel, CEO of Landsec**

[Johnson & Johnson's] Social Impact through Procurement program is...an example of how seriously we take the duty and responsibility we have towards the communities in which we live and work. Working with social enterprises, delivering value to society, creating jobs... is simply the right thing to do.

**Vasco Grilo, Chief Procurement Officer, Janssen EMEA, Pharmaceutical companies of Johnson and Johnson**

We've set a bold strategic agenda anchored in our purpose of shaping a vibrant economy, grounded in the belief that great businesses work holistically to contribute to the system on which their sustainable growth depends. At times it has felt hard – and yet we remain confident that our strategy remains the right one to create value for our clients, our people and the communities we serve. As they say if it was easy it would have already been done.

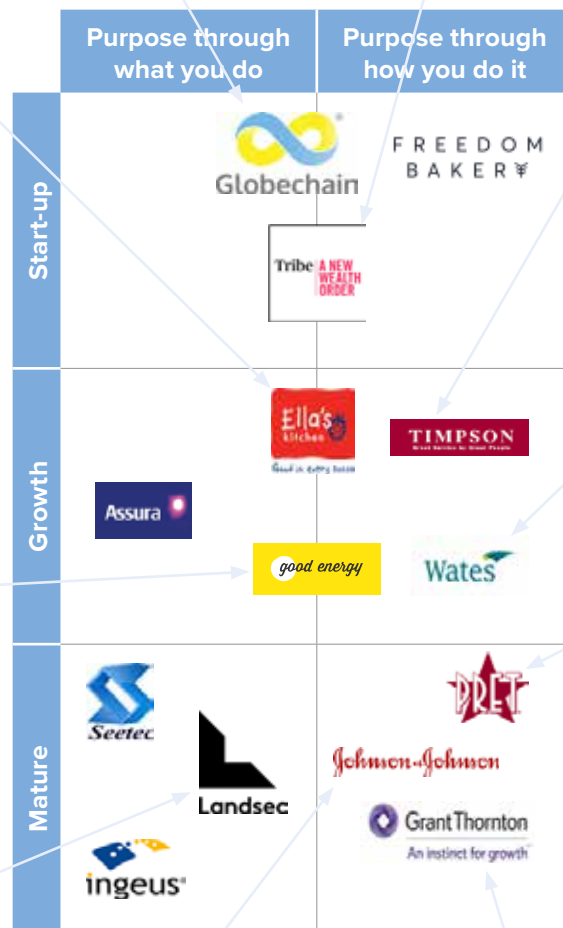
**Sacha Romanovitch, CEO of Grant Thornton UK LLP**

We are committed to leaving a positive long-term legacy in the communities in which we live and work. We are convinced that exploring this purpose will help us attract and retain talent, create long term value for our owners and align their interests with those of society more broadly.

**Jonny Wates, Director of Wates Group**

The ethos and buzz a customer feels walking in to any one of our shops rests on the belief of our managers and team members in what we are doing. Doing the right thing, whether in our food sourcing, our employment practices or our approach to waste, is at the heart of our connection with our people – which is ultimately what leads to our growth as a business.

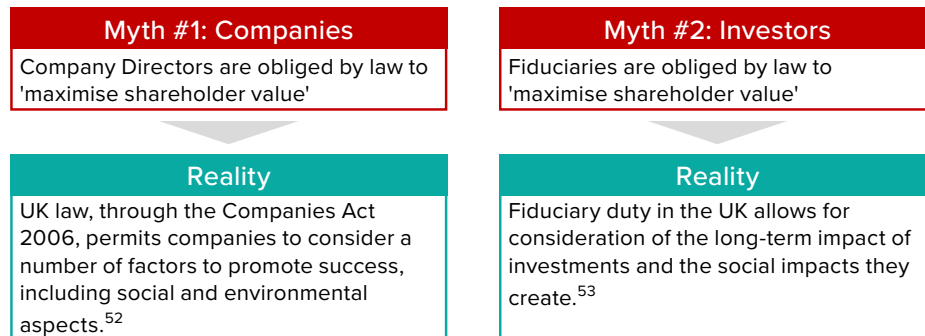
**Nick Candler, Director of Pret A Manger**





## Fiduciary duties to shareholders: facts and fiction

As these examples show, UK companies across a range of sectors, sizes and legal structures have found ways within the existing legal and regulatory framework to pursue purpose in addition to profit generation. Their experiences help to demonstrate that many hurdles perceived by business leaders are cultural rather than structural. In particular, they have helped to address two pervasive myths regarding fiduciary duties to shareholders:



These misperceptions represent significant barriers to change, and have become entrenched in our culture, theories and practices, resulting in lost opportunities for stronger partnerships between business and society. The network of institutions that frame our ideas of what businesses can and should offer society – business schools, law practices, accountancies and government bodies, to name just a few – have a role to play in clarifying the possibilities open to businesses, and actively encouraging them to embrace purpose. Together, these groups can help signpost and carve a smooth pathway for businesses to follow.

## A Pathway to Purpose: how all businesses can begin their journey

There are four steps that businesses of every size can take to start embedding purpose at the heart of their strategy, and many additional options to continue this journey, as outlined in the tables below. Initially, purpose may begin as self-designed and self-reported, through a company's website, for example. Gradually, companies may choose to link their purpose to the UN's Sustainable Development Goals (SDGs), or to join the UN Global Compact. And in time, they might opt to pursue third-party accreditations, follow independent reporting requirements, or alter their legal articles to better protect and communicate their purpose.

### Four steps every business can take to build purpose into strategy\*

<b>1</b>	<b>Define and express your social and/or environmental purpose</b>	<ul style="list-style-type: none"> <li>In your next strategy review, agree a clearly defined societal purpose, linked to your company's sources of value</li> <li>Involve broad group of stakeholders in this process, including customers, employees, investors and communities</li> </ul>
<b>2</b>	<b>Commit to a strategy of achieving this through what you do (your core business) and/or how you do it (operations)</b>	<ul style="list-style-type: none"> <li>Determine what success looks like in terms of managing and executing against your purpose</li> <li>Consider working with groups such as Future Fit to develop strategy/goals appropriate to business type and stage</li> <li>Align employee compensation, training, development and recruitment to company purpose</li> </ul>
<b>3</b>	<b>Measure your progress against achieving social or environmental goals that relate to your purpose</b>	<ul style="list-style-type: none"> <li>Develop KPIs relating to purpose, and set targets against goals</li> <li>Develop the IT tools and systems to assess and report on the impact of business units</li> </ul>
<b>4</b>	<b>Report progress through your website on an (at least) annual basis</b>	<ul style="list-style-type: none"> <li>Announce purpose and associated strategy on company website / other communications, and report progress against KPIs</li> </ul>

\* To learn more, please reference the "Key Takeaways" for Business leaders and entrepreneurs on page 51.

### Additional opportunities to protect & communicate purpose

<b>Apply for a credible, third party certification</b>	Meet the standards required by credible, third-party certifications to enhance commitment to purpose, and to help communicate commitment to stakeholders	<b>Examples:</b> B Corp, Future Fit, UN Global Compact and industry-specific certifications such as Soil Association, Fairtrade, Kimberley Process Certification Scheme (KPCS)
<b>Support the Inclusive Economy Partnership (IEP)</b>	Identify effective, practicable strategies to help address specific societal challenges prioritised by the UK Government through the IEP via your core business	<b>To learn more</b> about the Inclusive Economy Partnership and opportunities for involvement, please visit: <a href="https://www.gov.uk/government/news/business-and-civil-society-leaders-form-partnership-to-tackle-challenges-in-society">https://www.gov.uk/government/news/business-and-civil-society-leaders-form-partnership-to-tackle-challenges-in-society</a>
<b>Alter legal articles to reflect purpose</b>	Explore opportunities available in existing UK law to enhance your articles of association to better reflect your approach and commitment to purpose, and to lock in and ensure its resilience through growth phases and/or ownership changes	<b>To get started</b> , use the online model articles tool being developed by UnLtd and BWB: <a href="https://unltd.org.uk/missionledbusiness">https://unltd.org.uk/missionledbusiness</a>



## Next steps to accelerate the rise of purposeful business:



### Recommendation 4.1:

**All UK businesses should seize the opportunity to select, express and manage a purpose focused on positively contributing to society through their operations, goods and/or services.**

They should determine a form of commitment to realising this purpose by developing tangible goals, and a method of measuring and reporting progress against achieving these on an (at least) annual basis

- Companies might begin by announcing their purpose, along with tangible goals and a strategy towards their achievement, on their company website
- Industry bodies have an opportunity to contribute towards this movement by establishing purposeful company subgroups within their broader membership, to serve as knowledge-sharing hubs



### Recommendation 4.2:

**Create a friction-free pathway to purposeful business. The UK Government, in partnership with relevant regulatory bodies, should signpost and enhance the existing pathways that all companies can follow to incorporate purposeful and inclusive business practices.**

We outline three key levers:

- As a first step, building on existing work following the Mission-Led Business review, continue to state and reiterate the power that Company Directors and Fiduciaries already have under law to explicitly and intentionally pursue a social or environmental purpose. Encourage companies to use the online model articles tool (currently under development) to explore ways to embed purpose in existing legal forms
- As a second step, for clarity of messaging and to help businesses better signpost their commitment to stakeholders, create and promote a purposeful company legal form to provide an unambiguous identity for purposeful companies
- Building on the Social Value Act, establish purpose-based procurement requirements such that all companies from which Government buys goods and services must have a publicly-stated purpose aimed at positively contributing to society. In time, this could evolve to include requirements around purpose measurement and reporting



### Recommendation 4.3:

**Government should establish a Purposeful Business Taskforce. Composed of senior purposeful business leaders, the Taskforce would develop inclusive business best practices and recommend Government incentives for their greater adoption, including potential fiscal incentives.**

While recognising the need for more focused work to be carried out on this point, and importantly the need to first develop comparable ways for businesses to measure and report on their impact in a manner that is practicable for companies of all sizes and sectors, we suggest the following as starting points for further consideration:

- Direct incentives for businesses following certain inclusive practices (e.g. offering fixed versus zero-hour contracts), and/or generating positive impacts, and penalties for those generating negative impacts
- Reduced corporation tax rates for businesses with verifiable purposes and associated positive impacts, offset by higher rates for those generating negative impacts
- Restricting a portion of publicly-funded support for businesses (such as R&D tax credits, start-up loans, sectoral grants) to purposeful businesses

There is an opportunity to link such a taskforce to the Government's recently launched Inclusive Economy Partnership (IEP), which seeks to identify business solutions to specific societal challenges. The Purposeful Business Taskforce could play a critical role in bringing such solutions to scale, by helping Government appropriately incentivise more businesses to follow approaches and best practices identified through the IEP

## Step 5: Strengthen the UK's role in international development finance

### In brief

The UK has first-rate institutions working in international development, domestic impact investment and traditional finance, but they rarely talk. As a result, talent and capital remain on the side lines, at a time when there is an urgent need for greater deployment of capital to tackle development challenges globally. We need more of our UK actors to get involved, work together, and ultimately commit much more capital towards tackling these challenges and achieving the UN Sustainable Development Goals (SDGs). Through coordinated efforts, the UK has the potential to be a globally recognized 'hub' for international development finance, and a leader in helping to achieve the SDGs globally.

To support additional and more effective capital deployments for international development, we call on CDC to engage externally and lead other internationally active, UK-based investors, to visibly 'champion' investment in developing markets. We call on the international development community to embrace innovations from the impact investment sector such as the establishment of thematic multi-country impact funds, the creation of blended finance structures combining different types of investors in transactions of scale, the targeted use of Development Impact Bonds (DIBs) and expanding the application of impact management methodology.

We call on investors – from individuals to institutions – to use the SDG framework when evaluating and reporting on investments, and to increase the amount of capital deployed towards achieving international development results. Investors and other organisations currently involved in international development finance should lead the way in committing to transparency of their capital deployments and development results achieved, to help map where supply and demand of capital meet, and measure progress over time.

### Introduction

Over 700 million people are still living in extreme poverty around the world. Despite the great progress made in recent decades, a host of pressing social and environmental challenges still need to be addressed. The SDGs provide countries with an ambitious agenda and set of targets to address these global challenges.

The UK Government is firmly committed to delivering the SDGs both at home and around the world. It played a key role in negotiating the SDGs, and aims to be at the forefront of delivering them. In support of its commitment, the Government has one of the largest development aid budgets globally, with a commitment of 0.7% of GNI amounting to £12bn in 2016. Of this, most (81%) is provided through DFID to support NGOs and businesses across the poorest countries of Sub-Saharan Africa and South Asia.

However, there is growing recognition that with public capital alone, we will not be able to fully address the global development challenges. As such, there is a need for the relevant communities – from the City of London to NGOs and foundations – to stop working in silos and start coordinating efforts. Currently, capital deployments towards international development efforts are not reaching their full potential, and additional capital that could be deployed to address international development challenges remains on the side lines.

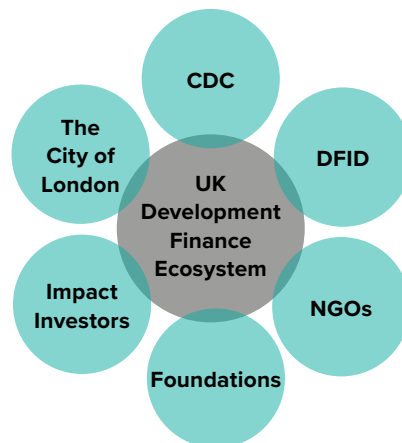
At the same time, there is an expanding universe of viable business models that are responding to development needs globally, and tackling issues extending from affordable health care in Sub-Saharan Africa to renewable energy delivery in South Asia. These business models range from very risky, innovative models that are in need of risk capital from self-identified 'impact investors' and foundations, to more mature business models that need larger-scale capital from institutional investors.

To respond to both the challenge and opportunity of the SDGs, it is necessary for more actors across the various communities to get involved and more closely work together, to build a bigger and more interactive community that will benefit from aligning experiences and resources, and will accelerate the pace at which capital is deployed for international development purposes.

## A vision for the future

Our vision is that the UK demonstrates the power of a fully engaged development finance ecosystem by accelerating capital deployed internationally to address the SDGs. By engaging its full ecosystem of actors, the UK will emerge as a globally recognised 'hub' for international development.

The UK ecosystem is comprised of a top Development Finance Institution, receptive Government, private sector companies, institutional investors, family offices, foundations, and NGOs, all supported by a tremendous network of development experts, investors, lawyers and advisors.



When fully tapped, this ecosystem can deploy more capital towards the SDGs and can help coordinate investment activity across different countries, investor types and developing countries. The results will generate significant positive development results while galvanizing others to step up and participate.

## International development investments in action

CDC, the UK's Development Finance Institution, is an institution established by the UK Government to encourage private sector investment in developing countries, and to create more direct and indirect jobs through its investments in these countries.<sup>54</sup> International development investment is not the domain of CDC alone. The growing universe of investments across the SDGs offers a diverse range of opportunities for investors of all types.

Within each of the SDGs, there is a role for investors with various types of capital and risk appetites to participate. Investment opportunities aligned with international development objectives are no longer limited to one category of investor. Increasingly, there are viable and attractive opportunities for diverse actors to invest alongside one another, either in tandem with a range of capital types (e.g. guarantees alongside equity investment or a tiered structure with different risk/return profiles), or in sequence to one another, as actors with a higher risk appetite can pave the way for others to participate once it is more mature.

Through the case studies that follow, we aim to highlight to investors that within one issue area there is a variety of opportunities aligned with different risk, return, liquidity and impact objectives. The case studies include 'pioneering,' earlier-stage investment opportunities with emerging track records at smaller investment size, as well as more 'mature,' larger investment opportunities with a more extensive track record that would be suitable for institutional investment.

Examples across several SDGs are detailed on the next page.

## SDG investments in action: attractive opportunities exist for all investor types and objectives

### 3 GOOD HEALTH AND WELL-BEING



#### Medical Credit Fund (MCF) – *Pioneering, indirect investment*

**Background:** Founded in 2009 by ParmAccess International, the Medical Credit Fund seeks to support healthcare SMEs in Africa by increasing their access to finance

**Investment case:** MCF addresses a lack of lending to healthcare SMEs by entering into risk-sharing arrangements with financial institutions to provide small local currency loans. MCF also supports the financial institutions and end borrowers with technical assistance

**Impact thesis:** To strengthen and upgrade private healthcare facilities in Africa, to better serve their rapidly growing number of beneficiaries

**Investor composition:** The latest investor round included CDC, IFC, OPIC, AFD, Calvert Foundation, and other private investors

### 4 QUALITY EDUCATION



#### UNICAF – *Institutional, direct investment*

**Background:** UNICAF is an online platform that partners with UK, US, European and African universities to offer online, quality higher education degrees to students in underserved markets in Africa and the rest of the world

**Investment case:** To invest in a highly scalable platform that could become a catalyst of and a major player in online education in emerging markets

**Impact thesis:** To ensure people in underserved markets have the opportunity to obtain the skills required to compete in the global marketplace

**Investor composition:** Partner universities and institutional funding bodies (CDC, University Ventures and Savannah Fund)

### 7 AFFORDABLE AND CLEAN ENERGY



#### GLOBELEG – *Institutional, direct investment*

**Background:** Founded in 2002, GLOBELEG is one of the largest independent power producers in Africa, with eight power plants currently in operation and several more in development

**Investment case:** To serve a rapidly growing demand for generation capacity across Africa, primarily through debt financing that is de-risked by extensive expertise of GLOBELEG in delivering energy projects around the world

**Impact thesis:** To bring more power projects into construction and add 5K MW of generating capacity over the next ten years in Africa, where only 32% of the population currently has access to electricity

**Investor composition:** CDC and Norfund took direct control of Globeleg in 2015, with 70% and 30% respectively

### 8 DECENT WORK AND ECONOMIC GROWTH



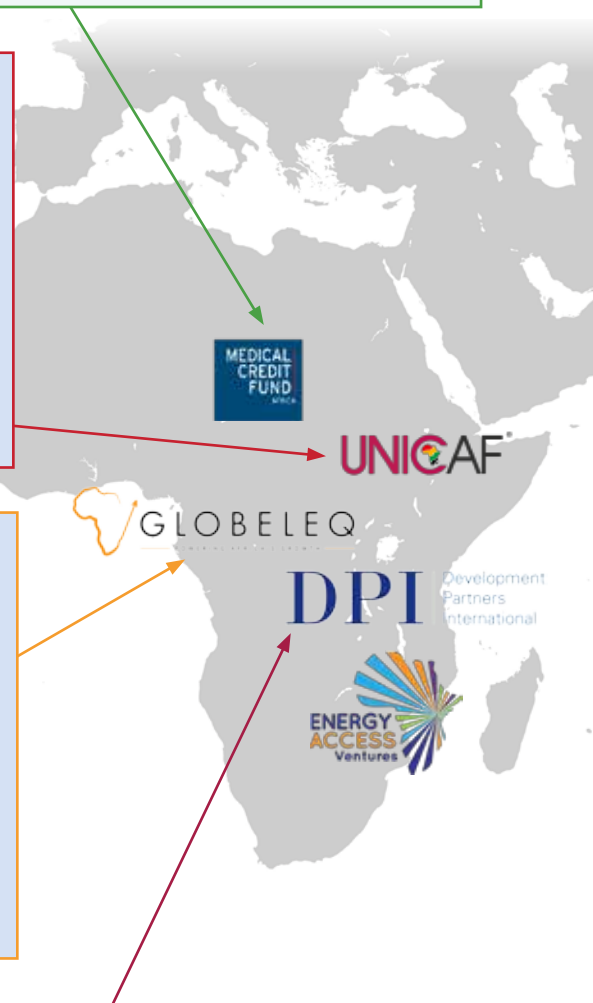
#### Development Partners International (DPI) – *Institutional, direct investment*

**Background:** Established in 2007, DPI is a PE fund manager currently investing across Africa, focused on companies benefitting from the fast-growing emerging African middle class

**Investment case:** DPI targets the opportunity for high return, low risk investments by investing in established, growing companies, which will benefit from the rising demand generated by Africa's growing middle class

**Impact thesis:** Investing in growing African companies accelerates the growth of the private sector in Africa, which in turn leads to job creation and sustainable economic development, helping to eradicate poverty

**Investor composition:** DPI manages over USD 1 billion of funds; large investors in their second fund include CDC and eight pension funds, incl. the Missouri State Employee's Retirement System





**Mature examples:** Larger sized investment opportunities with a more extensive track record

**Pioneering examples:** Smaller sized investment opportunities, typically with a more emerging track record

## 8 DECENT WORK AND ECONOMIC GROWTH



### Insitor Impact Fund – Pioneering, indirect investment

**Background:** Insitor finances companies that offer low-income families options for increased access to essential services, as well as companies whose business models increase the earning potential of vulnerable communities

**Investment case:** To invest growth equity in high quality start-ups and early-stage social businesses, supported by deep operational expertise and local market knowledge of Insitor.

**Impact thesis:** To serve the unmet needs of low-income communities. For instance, Insitor has invested in Edubridge, a vocational training company that seeks to bridge the skill gap between poor, semi-urban youth in India and the skill requirements of the companies

**Investor composition:** CDC committed in 2015 alongside two family offices

## 3 GOOD HEALTH AND WELL-BEING



### Narayana Health – Institutional, direct investment

**Background:** Narayana Health is one of India's leading providers of affordable healthcare. Founded by one of India's most renowned surgeons Dr. Devi Shetty, it now operates 31 multi-specialty hospitals across India

**Investment case:** To invest in a rapidly expanding hospital group that provides low-cost, high quality treatments through an innovative pricing structure

**Impact thesis:** To ensure high quality healthcare is within reach for the poorest people in India, whilst also providing training to thousands of new doctors and nurses each year

**Investor composition:** CDC is the cornerstone investor, with a direct equity investment of USD 48 million in 2014

## 4 QUALITY EDUCATION



### Educate Girls Development Impact Bond – Pioneering, direct investment

**Background:** Educate Girls is one of the world's first 'DIBs', a pioneering model in which capital is paid upfront by an investor, and repayment by an outcome commissioner (typically philanthropic donors or corporations) is 100% based on results achieved

**Investment case:** Investors are paid returns up to 15%, dependent on the success rate of the initiative, as measured by children's scores in standardised numeracy and literacy tests at target schools

**Impact thesis:** To increase enrolment and improve education for 18,000 children (half of them girls) in 166 schools in Rajasthan, India

**Investor composition:** UBS Optimus Foundation was the primary investor, and Children's Investment Fund Foundation the outcome payer

## 7 AFFORDABLE AND CLEAN ENERGY



### Energy Access Ventures (EAV) – Pioneering, indirect investment

**Background:** Launched in 2015, EAV is a fund that aims to increase access to electricity by investing in SMEs active in electricity generation and distribution, and electricity related services, in Sub-Saharan Africa

**Investment case:** To invest in off-grid rural electrification, in particular in solar home systems, micro-grid infrastructure and other small-scale renewable energy and hybrid technologies, a growing sector in Sub-Saharan Africa

**Impact thesis:** To provide access to electricity to at least one million people living on low-incomes in Sub-Saharan Africa

**Investor composition:** Investors included Schneider Electric, CDC, EIB, Proparco, AfD, and OFID

## Next steps towards strengthening the UK's role in international development finance

For the UK to strengthen its role as one of the global leaders in helping to achieve the SDGs in developing and emerging markets, we make three recommendations.



### Recommendation 5.1:

**CDC should engage externally and lead other recognised UK-based international development investor(s) to visibly 'champion' investment in developing markets.**

This would have the aim of fostering stronger coordination, connection and alignment in the efforts of various communities of interest, spanning NGOs, foundations, domestic and international (impact) investors and the City of London. As a leading champion, CDC should act as a pathfinder for investing into the developing world, encouraging others by demonstrating that such investment can be successful and using its experience and expertise to be a catalyst to support existing small and large players in development, recognising that a multitude of approaches is necessary. Beyond its investment leadership, CDC should choose one or two priority areas of market building (e.g. blended finance, aggregating and analysing data, technical assistance), aiming to galvanise more actors, learnings and investment capital – at an accelerated pace – towards international development efforts.



### Recommendation 5.2:

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

The SDGs resonate with a broad group of actors, which can help draw in more players. At the same time, it is important that the SDGs are used in the way they were intended – a roadmap for change in the way we do business and deploy capital – rather than continuing with 'business as usual' with an SDG marketing spin.

Asset owners currently not deploying capital towards international development challenges should engage with their asset managers to discuss not just traditional risk and return considerations, but also international development considerations, and push their managers to present concrete investment opportunities. While there are an increasing number of impact investors who are using an impact/ development lens, we need many more of them to allocate capital accordingly, as well as foundations' endowments and institutional investors – who have been slow to disburse capital for international development investment opportunities to date – to dedicate more significant capital towards achieving SDG results.

Asset managers should pro-actively consider the SDGs by analysing investment opportunities using the SDGs as an additional lens, and develop products that respond to new opportunities that drive measurable international development results.

DFID should continue to support and strengthen new product development, with impact front and centre, for international development goals. This includes utilising outcomes-based contracting (known as pay-for-success in some countries), such as social impact bonds (SIBs)/ development impact bonds (DIBs), holding companies with liquidity mechanisms, and initiatives that will stimulate secondary market activity for impact investors.

Advisory and professional services firms should support actors by providing transaction services (e.g. fund design, capital raising, investment strategy, legal advice) to a broader range of investors and actors that are pursuing international development objectives.

**Recommendation 5.3:**

**Investors and other organisations currently involved in international development finance should lead the way in committing to transparency of their capital deployments and development results achieved.**

Currently, there is a significant information gap, both within the UK and internationally, that is contributing to inefficiencies in the functioning of international development finance. This information gap also limits our ability to measure progress made in terms of the number of actors and capital deployed in international development over time.

In order to accelerate and validate capital deployments for international development, we need clarity of action and honesty of pursuit. As a leading 'champion', CDC should demonstrate transparency in action; other public and private investors should join. Market analytic and professional service providers should support this commitment to transparency to help provide the necessary analysis for investors to make (additional) international development investments.

As a community of actors, this commitment to transparency will chip away at some of the barriers to investing internationally.

# Key takeaways

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This report has covered a lot of ground, with messages for a range of different audiences. In this section, we summarise the main messages and recommendations for the following key audiences, and lay out some practical steps for how you can get started:

## Businesses



Corporate leaders and managers, entrepreneurs, and advisors

Page 51

## Financial institutions



Pension funds, insurance companies, foundations, banks, and other institutional asset managers and asset owners

Page 53

## Government policy-makers



Policy-makers in central and local Government, and a range of departments such as DCMS, BEIS, DWP, DCLG, the CCS as well as regulatory bodies such as TPR and the FCA

Page 56



## Business leaders & entrepreneurs

Takeaways for entrepreneurs, corporate leaders and managers, and advisory institutions

The relationship between business and society is changing. Customers, employees and investors are increasingly demanding that companies do more to positively contribute to society and the environment. Through their spending and employment decisions, they are showing their preference for businesses that have adopted a societal purpose beyond short-term profit maximisation.

This shift in expectations and behaviour represents an enormous opportunity for businesses. As companies of all sectors and sizes have begun to reorient their business models towards meeting this new set of demands, they are finding that doing good can be good business: purposeful companies are often better able to attract and retain talented employees and committed investors, to differentiate themselves to customers, to attract investment at a lower cost of capital and, in many cases, to increase their share price performance. And, by incorporating purpose as a fundamental element of their strategy – either through what they do (their core business) and/or how they do it (their operations) – they are beginning to truly move the dial in helping tackle societal challenges.

Beyond a question of public image, this approach will increasingly become a competitive imperative as society comes to redefine purpose as a core component of a business's license to trade.

### Recommendation:

**4.1: All UK businesses should seize the opportunity to select, express and manage a social and / or environmental purpose, and measure and report progress**

To make the most of this opportunity, they should determine a form of commitment to realising this purpose by developing tangible goals, and a method of measuring and reporting progress against achieving these on an (at least) annual basis.

For more information on the context and rationale see the chapter 'Step 5: accelerate the rise of purposeful business'

### In practice: Steps businesses can take to define a social purpose and embed it

- 1** **Build the business case for incorporating greater purpose, and understand how it could affect each of the drivers of value for your company**
  - Consider how could it drive engagement with your employees (especially your best talent)
  - Consider what impact could it have on your brand perception, awareness, and engagement with consumers
  - Understand how your competition are benefiting from building a societal purpose into both what they do and how they do it (e.g., leading consumer products companies such as Unilever, Mars, Danone, etc.)
- 2** **Define a social purpose, declare it, and build it into your strategy**
  - In your next strategy review cycle, aim to agree a clearly defined societal purpose, linked to your sources of value and building on the above foundation
  - Consult your broadest group of stakeholders in this process, including customers, employees, investors, and the community.
  - Consider working with groups such as Future Fit to develop a strategy and goals appropriate to your business type and stage
  - Announce your purpose and associated strategy on your company website / other communications

## 3

**Embed your purpose into your operating model (structure, accountabilities, governance, reporting). Example best practices might include:**

**Measurement, reporting and targets**

- Develop KPIs relating to your purpose, and set targets against ambitious but achievable goals
- Report progress against achieving these on an (at least) annual basis

**Accountabilities and governance**

- Assign designated sponsors within senior management for social and environmental issues, as well as 'champions' within business and functional units – with accountabilities for purpose-related KPIs connected to bonus incentives
- Review the KPIs related to your purpose in senior management meetings
- Establish a 'sponsorship spine' through the organisation, ensuring management through to the front line are empowered to take suitable actions towards realising your purpose

**Culture and training**

- Foster a cultural awareness of impact related issues related to your purpose, including creating a shared understanding of its value to the organisation
- Build a review of your purpose and an impact lens into standardised training for all employees
- Align your talent management and recruitment: e.g., highlight your company's values to existing and prospective recruits

**Legal articles and / or certifications**

- Apply for a credible, third party certification appropriate to your business and take steps to meet its standards in order to discipline your approach and commitment to purpose, and to help communicate this commitment to internal/external stakeholders
- Utilise the online model articles tool currently under development by BWB and UnLtd to understand whether your legal articles reflect your business priorities and purpose. Consider amending as appropriate (for more information, please visit: <https://unltd.org.uk/missionledbusiness>)

**Capabilities**

- Develop the IT tools and systems needed to assess and report on the impact of business units, from ecological footprint through to positive impact on stakeholders



## Financial institutions

Takeaways for pension funds, insurance companies, foundations, banks, and other institutional asset managers and owners

The investment landscape is shifting. Asset owners from high net worth individuals through to everyday savers are increasingly concerned about the impact their investments have on the world in which they live, and these concerns are beginning to be reflected across the investment chain. This comes at a time when the imperative to move towards a more inclusive and sustainable system of economic growth is greater than ever, and financial institutions have a critical role to play.

In addition, achieving sustainable, long-term outperformance in a world awash with capital is more challenging than ever. Investors can no longer afford to ignore the growing body of evidence that impact is a positive driver of long-term returns; they should be incorporating it into their standard risk / return calculations, using a range of strategies from responsible investing (which seeks only to avoid harm) through to impact investing.

The largest institutional investors around the world are beginning to commit substantial capital and resources into sustainable and impact investing strategies.

### Recommendations

#### 1.1, 5.2: Institutional investors should increase investment into opportunities that are helping to achieve a positive impact.

Following the example of the consortium of 18 Dutch financial institutions, UK institutional investors should commit to investing in line with the SDGs in the UK, capitalising on opportunities to increase risk adjusted returns while also helping address key social and environmental challenges, at home and abroad.

**5.3: Investors and other organisations currently involved in international development finance should lead the way in committing to transparency of their capital deployments and development results achieved**, in order to accelerate and validate capital deployments for international development

### Find out more

**Step 1:** Adopt a more inclusive and sustainable domestic investment agenda

**Step 3:** Strengthen the UK's role in international development Finance

**Step 5:** Strengthen the UK's role in international development Finance

This report has outlined a range of ways financial institutions can begin to incorporate impact into their decisions, and the reasons for doing so. Below we highlight some practical steps for you to take before committing capital (which require varying degrees of commitment).

In practice: Steps all institutional investors can take		Resource commitment
1	<b>Look at what your competitors are already doing:</b> Understand what your leading competitors are already doing to incorporate impact, the rationale and what it is allowing them to achieve	Low
2	<b>Understand your impact:</b> Seek to understand the impact of your investments, and create demand for robust impact reporting through the investment chain	Medium
3	<b>Understand client motivations:</b> Look to understand your clients / customers preferences regarding the impact of their investments, through surveys or interviews	Medium
4	<b>Commit capital:</b> to investment strategies that are aligned with the sustainable development goals through responsible, sustainable, or impact investments, at home and abroad	High

Examples of what alignment to the SDGs means in practice will vary from institution to institution, based on the business model and positioning within the investment value chain. However, the core message remains the same – “do well by doing good”.

In practice: Additional example opportunities for specific types of organisations	
Foundations	<ul style="list-style-type: none"> <li>Align your whole balance sheet to your mission, screening out investments that work against it, as well as committing to impact investing (following the lead of the Ford Foundation and others)</li> <li>Provide junior capital into blended finance structures, as a highly-leveraged way to create impact around your mission and crowd in substantial additional private investment</li> </ul>
Insurance companies	<ul style="list-style-type: none"> <li>Offer members the option to invest a portion of their premiums into societal challenges (e.g., QBE’s ‘Premiums4Good’ offer in Australia)</li> </ul>
Fund providers	<ul style="list-style-type: none"> <li>Create positively screened ESG product offerings aligned to the Sustainable Development Goals (SDGs), both for active and passive funds</li> <li>Go further and create impact funds</li> </ul>
DC pension funds	<ul style="list-style-type: none"> <li>Respond to demand from members to invest in line with their values with “pensions with purpose” products, that include an allocation to impact investments (such as the French 90/10 model)</li> </ul>
PE / VC funds	<ul style="list-style-type: none"> <li>Incorporate an impact lens when assessing investment risks</li> <li>Identify new investment opportunities underpinned by macro trends aligned to the SDGs, such as the transition to a decarbonised or circular economy</li> </ul>
Banks	<ul style="list-style-type: none"> <li>Develop a differential lending proposition for profit with purpose businesses, incorporating their lower default risk into loan pricing</li> <li>Develop impact investment platforms and products for retail and wealth management clients</li> <li>Minimise lending to organisations that cause significant harm to society</li> </ul>

### Suggested further reading

The Impact Management Project brought together over 700 practitioners from across geographies and disciplines – including investors, academics, and front-line organisations – to agree on some shared fundamentals as to what we mean by ‘impact’.

Together with UBS, they have also developed model investment portfolios to illustrate how to build portfolios that match intentions and constraints with financial and impact goals.

See [www.impactmanagementproject.com](http://www.impactmanagementproject.com)

**IMPACT  
MANAGEMENT  
PROJECT**

**Case Study**

## Barclays launches Multi-Impact Growth Fund



We are increasingly seeing wealth managers respond to client interest in impact investments. For example, in early 2016, Barclays committed to enable clients, both individuals and organisations, to invest intentionally to protect and grow their assets, and to make a positive contribution to the world.

Through in-depth behavioural finance research, Barclays had recognised growing, latent demand for impact investing. This led them to not only establish an Impact Investing business to meet this demand, but also to integrate impact into how the firm invests and supports clients more broadly.

Barclays has made significant investment in the firm's capabilities to support this, developing:

- A structured process to support client decision-making with regards to impact
- An online learning platform to educate advisers to support clients
- Ongoing research to better understand investor motivations and preferences
- Impact-specific due diligence, to augment traditional investment assessments

With the launch of the Barclays Multi-Impact Growth Fund, as well as a range of other investment options, Barclays is building a holistic proposition for clients – one that starts with understanding their needs, and then delivering products & portfolios to meet them.

Read more about Barclays Shared Growth Ambition and Impact Investing at [home.barclays.com](https://home.barclays.com).





## Government policy-makers

Takeaways for policy makers in central and local government, and a range of departments such as DCMS, BEIS, DWP, DCLG, the CCS as well as regulatory bodies such as TPR and the FCA

The Government should be congratulated for successfully building the infrastructure to support long-term growth in the social investment sector in the UK. The establishment of Big Society Capital has been game-changing in catalysing this market, along with other key reforms such as the Social Investment Tax relief. We strongly endorse commitments made to the British public to create an ‘economy that works for everyone’.

However, delivering on this and addressing other major social challenges at home remains an imperative that should not be completely overshadowed by the inevitable demands of the Brexit negotiations, and the Government has a crucial role to play in unlocking the full potential of the broader impact economy.

We summarise below the policy agenda proposed in this report, that is aligned to the government’s objectives, largely does not require new legislation, and would build on existing cross-party support for impact investing. We therefore believe it is feasible and timely in the current political environment.

For more detail on each of these, see the relevant chapter of this report, or reach out to the working group members who have developed them (see Appendix B).

	Area	Recommendation	Who
1	<b>Support an inclusive and sustainable UK investment agenda</b> (Pages 22 – 26)	<b>1.2: Government should establish an Inclusive Economy Catalyst Fund of at least £2bn</b> (including a significant portion of junior investment capital), to jump-start investment into communities that have seen decades without real income growth. This would leverage in significant private investment, that could help reach the tens of billions of investment that will be required over 5-10 years to meaningfully effect growth and opportunity across the country.  As a first step, £200m should be allocated for pilot programs in specific communities, so that what works can be scaled nationally.	<b>Central Govt., BEIS, DCLG, DCMS</b>
		<b>1.3: Support the UK’s global leadership in impact investing through the industrial strategy</b> , recognising it as an important tool to help drive inclusive, place-based growth, and helping the UK become a hub for talent, capital flows, and innovation	<b>Central Govt., BEIS</b>
2	<b>Empower savers to invest in line with their values</b> (Pages 27 – 31)	<b>2.1: Create an actively supportive regulatory environment for ‘Pensions with Purpose’ products</b> , making it clear that in acting fairly and for the benefit of pension savers, providers, trustees and IGCs (Independent Governance Committees) are fully empowered to take account of social and environmental considerations, and of the views of savers themselves. Furthermore, pension regulations should require trustees and IGCs to take all reasonable steps to ascertain the views of savers in relation to investment matters, including their impact preferences.	<b>DWP, TPR, FCA</b>
		<b>2.2: Promote the expansion of the broader retail market for impact investments in other areas beyond DC pensions</b> , such as impact ISAs and bank accounts, while protecting the integrity of the market through standards in accreditation. In particular, the Government should continue the work of the Advisory Group on Creating a Culture of Social Impact Investment appointed by DCMS after its conclusion.	<b>Central Govt., DWP, TPR, FCA</b>

3	<b>Place purpose at the heart of public procurement</b> (Pages 32 – 37)	<p><b>3.1: Embed social value (SV) into every tender decision</b> across central and local Government, reinforcing the Social Value Act by setting a minimum SV target weighting of 20%; in cases where suitable price is known based on prior contracts, specify that tenders will be evaluated on social value and quality.</p> <p><b>3.2: Expand outcomes-based programmes</b> that show early evidence of improved outcomes and government savings (see appendix for specific examples), by establishing a central Government outcomes fund, and by appointing a specialist audit firm to establish the value of these social outcomes to Government.</p> <p><b>3.3: Ensure that transparency and accountability underpin each of the above recommendations</b>, by mandating that all government authorities report through their websites on how they evaluate contracts, including price, quality and SV weightings, and on SV achieved annually. In addition, the NAO should have a duty to audit Government for social value and regularly report to Parliament.</p>	<b>Central and Local Govt., DCMS, CCS, Treasury</b> <b>Central and Local Govt., CCS, Treasury, local commissioning entities</b> <b>Central and Local Govt., NAO, LGA, DCLG, Treasury</b>
4	<b>Accelerate the rise of purposeful business</b> (Pages 38 – 43)	<p><b>4.2: Create a friction free pathway to purposeful business.</b></p> <p>In partnership with relevant regulatory bodies, signpost and enhance the existing pathways that all companies can follow to incorporate inclusive business practices through three steps:</p> <ul style="list-style-type: none"> <li><b>I)</b> State and reiterate the power that Company Directors and Fiduciaries already have under law to explicitly and intentionally pursue a social or environmental purpose.</li> <li><b>II)</b> As a second step, for clarity of messaging and to help businesses better signpost their commitment to stakeholders, create and promote an inclusive company legal form to provide an unambiguous identity for purposeful companies</li> <li><b>III)</b> Building on the Social Value Act, establish purpose-based procurement requirements such that all companies through which government procures must have a publicly stated purpose aimed at positively contributing to society.</li> </ul> <p><b>4.3: Establish an Inclusive Business Taskforce</b>, to develop appropriate government incentives for business to pursue societal purpose across a range of sectors and company sizes (including exploring possible fiscal incentives)</p>	<b>Treasury, BEIS, DCMS</b>  <b>Treasury, BEIS, DCMS, No.10</b>
5	<b>Strengthen the UK's role in international development finance</b> (Pages 44 – 49)	<p><b>5.1: CDC should play a 'champion' role for investment in developing markets</b>, using its expertise to facilitate stronger coordination, connection, and alignment between communities of interest. It should also choose one or two areas of focus for market building (e.g. co-ordinating blended finance arrangements, aggregating and analysing data, providing technical assistance), with the aim of accelerating international development outcomes.</p>	<b>CDC</b>

# Appendices

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- Who we are
- Working group members
- Additional acknowledgements
- List of acronyms
- Additional case studies of Outcomes-Based Contracts
- Additional information on profiled Purposeful Businesses
- Endnotes

## Appendix A: Who we are

### The Global Impact Investing Steering Group

The GSG is an independent global steering group working to catalyse impact investment and entrepreneurship, in order to benefit people and the planet. It was established in August 2015 as the successor to the Social Impact Investment Taskforce, established under the UK's presidency of the G8. The GSG currently has 15 member countries plus the EU, as well as active observers from leading network organisations. Chaired by Sir Ronald Cohen, the GSG brings together leaders from the worlds of finance, business and philanthropy.



### The UK National Advisory Board and UK Practitioners Council

The UK NAB is the UK's voice in the GSG – a group of leaders from impact investing, as well as other areas of finance, business, and civil society.

Appointed by the GSG, its mission is to help support the growth of impact investing in the UK as it moves from the margins to the mainstream, as well as to explore broader opportunities to chart a course towards a more inclusive and sustainable economy by ensuring that measurable impact is regularly embraced as a deliberate driver in investment and business decisions.

The work of The NAB is grounded in nearly two decades of experience and expertise developed by the UK impact investment sector. It follows in the footsteps of two Social Investment Taskforces: the first UK Task Force launched in 2000 by Gordon Brown, and the second more international Task Force launched by David Cameron under his presidency of the G8. Recommendations from earlier taskforces have resulted in a range of policy initiatives, including the establishment of Big Society Capital, a game-changing wholesale model in stimulating social investment that is now being replicated around the world.

The NAB is an enduring body with rotating membership. We thank our current members for lending their expertise and support through this process.

#### Members of the UK National Advisory Board:

- Michele Giddens (Chair of the UK NAB, Partner & Co-Founder of Bridges Fund Management)
- David Blood (Co-Founder of Generation Investment Management)
- Dawn Austwick (CEO, Big Lottery Fund; former CEO, Esmée Fairbairn)
- Sir Harvey McGrath (Chair of Big Society Capital & Heart of the City)
- Hazel Blears (Chair, Social Investment Business, former Secretary of State, MP of Salford)
- Helia Ebrahimi (Business Correspondent for Channel 4 News)
- Keith Smithson (Managing Director in Treasury at Barclays)
- Laurie Spengler (President and CEO of Enclude)
- Nick O'Donohoe (CEO of CDC, Chair of Dormant Assets Commission, Chair of Former UK NAB)
- Sacha Romanovitch (CEO of Grant Thornton)
- Saker Nusseibeh (CEO of Hermes Investment Management)
- Tim Farazmand (Chair, Palatine Impact Fund, Former Chair of BVCA)
- Sir Tony Hawkhead (CEO of Action for Children)

#### Active observers:

- Andrew Croft (CEO of CAN)
- Geoff Burnand (Director at UKSIF and CEO of Investing for Good)
- Jennifer Tankard (CEO of Responsible Finance)
- Sundip Jadeja (Manager, Policy and Governance at BVCA)
- Tim Kiddell (Prime Minister's speech writer)
- Vanessa Morphet (Head of Investment Initiatives at the Government Inclusive Economy Unit)
- Shevaun Haviland (Business Partnerships at Cabinet Office)

#### Members of the UK Practitioners' Council:

- Alastair Davis (CEO of Social Investment Scotland)
- Catherine Howarth (CEO of ShareAction)
- Cliff Prior, CBE (CEO of Big Society Capital, former CEO of UnLtd)
- David Hutchison, OBE (CEO of Social Finance)
- Edward Siegel (MD of Big Issue Invest)
- James Perry (Entrepreneur and Co-Founder of UK B Lab)
- Kieron Boyle (CEO of Guy's and St Thomas' Charity)
- Matt Robinson (Chief of Staff at CDC)
- Rod Schwartz (CEO and Founder of ClearlySo)
- Shamez Alibhai (Partner & Portfolio Manager at Cheyne Capital)
- Whitney Thomas (Senior Investor Relations Manager at Triodos)

#### Secretariat:

- Jared Lee (Consultant to the Bridges Impact Foundation)
- Laura Noorani (Associate at Bridges Fund Management)
- Alexandra Koriijn (Associate at Enclude)

## Appendix B: Working group members

	Recommendation	Working group members (chairs in red)
1	<b>Adopt an inclusive and sustainable UK investment agenda</b>	<ul style="list-style-type: none"> <li>• <b>Cliff Prior, CBE (CEO of Big Society Capital, former CEO of UnLtd)</b></li> <li>• Geoff Burnand (Chief Executive of Investing for Good)</li> <li>• Sarah Forster (CEO of Good Economy)</li> <li>• Shevaun Haviland (Business Partnerships at Cabinet Office)</li> <li>• Mark Hepworth (Founding Director of Good Economy)</li> <li>• Vanessa Morphet (Head of Investment at Government Inclusive Economy Unit)</li> <li>• Jennifer Tankard (Chief Executive of Responsible Finance)</li> <li>• <i>Secretariat: Jared Lee (Consultant to the Bridges Impact Foundation)</i></li> </ul>
2	<b>Empower savers to invest in line with their values</b>	<ul style="list-style-type: none"> <li>• <b>Catherine Howarth (CEO of ShareAction)</b></li> <li>• <b>Saker Nusseibeh (CEO of Hermes Investment Management)</b></li> <li>• Camilla Parke (Strategy and Market Development Associate at Big Society Capital)</li> <li>• Simon Rowell (Senior Director of Strategy &amp; Market Development at BSC)</li> <li>• Paul Blyth (Managing Director of Snowball)</li> <li>• <i>Secretariat: Jared Lee (Consultant to the Bridges Impact Foundation)</i></li> </ul>
3	<b>Put value at the heart of public procurement</b>	<ul style="list-style-type: none"> <li>• <b>Hazel Blears (Chair Social Investment Business, Former MP of Salford)</b></li> <li>• David Hutchison OBE, CEO of Social Finance</li> <li>• Sir Tony Hawkhead, CEO of Action for Children</li> <li>• Matt Robinson (Chief of Staff at CDC)</li> <li>• Jonathan Lindley, Director, Mutuals Programme at DCMS</li> <li>• Peter Schofield, AGMA Procurement Hub Programme Manager</li> <li>• Dai Powell, CEO of HCT Group</li> <li>• Julian Blake, Co-head of Social Enterprise and Charity at Bates Wells Braithwaite</li> <li>• Jo Blundell, Deputy Director of the Government Outcomes Lab</li> <li>• Andrew Levitt, Partner of Bridges Ventures' Social Impact Bond Fund</li> <li>• Guy Battle, CEO of The Social Value Portal</li> <li>• Nick Temple, Deputy Chief Executive of Social Enterprise UK</li> <li>• <i>Secretariat: Laura Noorani (Associate at Bridges Fund Management Ltd)</i></li> </ul>
4	<b>Accelerate the rise of purposeful business</b>	<ul style="list-style-type: none"> <li>• <b>James Perry (Co-Founder of B-Lab)</b></li> <li>• Nicholas Cheffings (Global Chair of Hogan Lovells)</li> <li>• Sacha Romanovitch, CEO of Grant Thornton</li> <li>• Cliff Prior, CBE (CEO of Big Society Capital, former CEO of UnLtd)</li> <li>• Rod Schwartz, CEO and Founder of ClearlySo</li> <li>• Stephen Greene (CEO of Rockcorps)</li> <li>• Shevaun Haviland (Business Partnerships at Cabinet Office)</li> <li>• Adam Jackson (Head of Public Affairs and Policy at Grant Thornton)</li> <li>• Aine Kelly (Former Head of Financial Sector and Investor Engagement at BSC)</li> <li>• Alexandra Meagher (Senior Policy Advisor at Gov't Inclusive Economy Unit)</li> <li>• <i>Secretariat: Laura Noorani (Associate at Bridges Fund Management Ltd)</i></li> </ul>
5	<b>Strengthen the UK's role in international development finance</b>	<ul style="list-style-type: none"> <li>• <b>Laurie Spengler (President and CEO of Enclude)</b></li> <li>• Toby Eccles OBE (Founder of Social Finance)</li> <li>• Sarah Forster (CEO of Good Economy)</li> <li>• Mairi Mackay (Global Head, Social Enterprise, Educ'n &amp; Society at British Council)</li> <li>• Nick O'Donohoe (CEO of CDC, Chair of Dormant Assets Commission)</li> <li>• Matt Robinson (Chief of Staff at CDC)</li> <li>• Paul Simister (Private Sector Development Adviser at DFID)</li> <li>• <i>Secretariat: Alexandra Korijn (Associate at Enclude)</i></li> <li>• <i>Secretariat: Jared Lee (Consultant to the Bridges Impact Foundation)</i></li> </ul>

## Appendix C: Acknowledgements

Beyond those on the National Advisory Board, Practitioners Council, and associated Working Groups, there are a wide range of supporters and collaborators without whom this work would not have been possible.

We particularly thank our main sponsors and supporters:



We thank the BVCA and Bridges Impact Foundation for supporting the cost of the secretariat, and providing contacts and guidance through the process. We thank the City of London for hosting our launch event, at the Guildhall. We thank DFID for sponsoring a convening series to advance the international development finance agenda. And finally, we thank Sir Ronald Cohen for his continued leadership of the GSG and for being an unequalled driving force in the development of impact investing around the world.

Particular thanks go to Jared Lee and Laura Noorani, who have worked tirelessly and with enormous commitment and intelligence to synthesise and develop the thinking of the UK NAB into this report.

We thank Zoe Burgess (Associate, Bridges Fund Management) for her tireless work to help establish the UK NAB, bring on board the members, and establish the five working group areas. James Taylor (Head of Communications at Bridges Funds Management) played a key editorial role in strengthening the flow and clarity of messages, and Marina Aung (Marketing Manager at Bridges Funds Management) managed the design editorial.

The Advisory Group on Creating a Culture of Social Impact Investment, commissioned by Government and Chaired by Elizabeth Corley, has been an invaluable collaborator in this work.

We also acknowledge the following for their contributions and support in developing the content of this report, or collaborating on helping action the recommendations:

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- Paul Lindley (Founder of Ella's Kitchen)
- Robert Noel (CEO of Land Securities Group)
- James Timpson (Chief Executive of Timpson)
- Olivia Dickson (Non-executive Director, Virgin Money)
- Stephen Muers (Head of Strategy and Market Development at Big Society Capital)
- Leon Kamhi (Head of Responsibility at Hermes Investment Management)
- Thomas Reader (Manager, Product Strategy & Development at Hermes Investment Management)
- Jonny Wates (Director at Wates Group)
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- Heider Ridha (Principle at Bain & Co.)
- Ciyi Lim (Manager at Bain & Co.)
- Jack Struthers (Associate Consultant at Bain & Co.)
- Phoebe Harrop (Senior Associate at Bain & Co.)
- Andrea Arroyo (Associate Consultant at Bain & Co.)
- Oisín McNeela (CTL at Bain & Co.)
- Chii Fen Hiu (Associate Consultant at Bain & Co.)
- Marisa Rama (Associate Consultant at Bain & Co.)
- Jasper Koid (Associate Consultant at Bain & Co.)
- Lysette Stephens (Investor Relations Assistant at Bridges Funds management)

## Appendix D: Acronyms

<b>BEIS</b>	Department for Business, Energy and Industrial Strategy
<b>BSC</b>	Big Society Capital – an independent social investment bank established by the Government
<b>BVCA</b>	British Private Equity & Venture Capital Association
<b>CCS</b>	Crown Commercial Service
<b>DC pensions</b>	Defined Contribution pensions
<b>DCLG</b>	Department for Communities and Local Government
<b>DCMS</b>	Department for Culture, Media and Sport
<b>DFI</b>	Development Finance Institution
<b>DFID</b>	Department for International Development
<b>DIBs</b>	Development Impact bonds
<b>DWP</b>	Department for Work and Pensions
<b>ESG</b>	Environmental, Social and Governance
<b>FCA</b>	Financial Conduct Authority
<b>GMCA</b>	Greater Manchester Combined Authority
<b>GSG</b>	Global Impact Investment Steering Group
<b>ICT</b>	Information and Communication Technology
<b>IGCs</b>	Independent Governance Committees
<b>NAO</b>	National Audit Office
<b>OBCs</b>	Outcomes-Based Contracts
<b>PwP</b>	Pensions with Purpose
<b>SDGs</b>	United Nations Sustainable Development Goals
<b>SDGI</b>	SDG Investing, or investing in line with the UK Sustainable Development Goals
<b>SEN</b>	Special education needs
<b>SIBs</b>	Social impact bonds
<b>SITR</b>	Social investment tax relief
<b>SME</b>	Small and medium sized enterprises
<b>SRI</b>	Socially responsible investing
<b>SVA</b>	Public Services (Social Value) Act 2012
<b>TPR</b>	The Pensions Regulator – UK regulator of work-based pension schemes
<b>UK NAB</b>	UK National Advisory Board on Impact investing and Practitioners Council
<b>UN PRI</b>	United Nations Principles for Responsible Investment

## Appendix E: Driving value through Outcomes-Based Contracts

### Case Study 1: Helping young people in care find stable foster homes in Birmingham

#### The Challenge

Birmingham City Council was facing a complex and costly challenge: a high proportion of young people with complex needs were growing up in residential care.

The social outcomes for these children are in many cases much worse than for children brought up in a foster family<sup>i</sup> – they often experience poorer educational attainment, higher contact with police and lower job prospects and life chances upon leaving care. It is also a much more expensive solution for the state (estimated at £305k<sup>ii</sup> p.a./child, in addition to the longer-term costs created by the young people's life outcomes outlined above).

While many local authorities recognise this issue, it has proven difficult to address in practice; partly because of the difficulties of finding suitable foster carers, and partly because of the difficulties of engaging consistently and successfully with social work teams to make longer-term placement plans. Social workers' budget structures often make it hard for them to unlock heavier up-front investment, even if it will generate long-term savings, while the often time sensitive nature of their roles frequently necessitates short-term decision making.

#### The Solution

In 2014, Birmingham City Council launched an outcomes based contract to source an effective solution from a broad pool of potential suppliers, and awarded the contract to a group of three providers: Foster Care Associates, Fostering People and Active Care Solutions. These organisations provide programmes that invest additional resources in moving challenged adolescents into stable, therapeutic foster placements. This improves their life outcomes and, in so doing, saves the local authority substantial sums over time.

Given the flexibility in service design and longer-term remit afforded to the suppliers by the outcomes based incentive scheme, they have been able to target carers with suitable skills (e.g. teachers, mental health workers and youth workers) and pay them above usual rates to reflect the challenging nature of the placements, as well as specialised therapists and mentors to support the carer and child across the placement.

Crucially, the programmes also dedicate resource to working in partnership with social work teams to proactively assist them in targeting suitable children who could benefit from this kind of long-term planned transition into permanent placements, and in completing appropriate care planning, assessments and data collection.

Key Facts	
<b>Social issue</b>	Young people with complex needs living in residential care
<b>Programme</b>	Supporting therapeutic placement of 10-16 year olds into foster families and providing mental health worker support
<b>Programme commissioner(s)</b>	<ul style="list-style-type: none"> <li>• Big Lottery Fund</li> <li>• Birmingham City Council</li> <li>• Cabinet Office</li> </ul>
<b>Programme provider(s)</b>	<ul style="list-style-type: none"> <li>• Foster Care Associates</li> <li>• Fostering People</li> <li>• ACS</li> </ul>
<b>Cost to government prior to programme</b>	c.£305k p.a. to place a child in residential care.
<b>Savings to government due to programme delivery</b>	<p>£1.7m in immediate, up front net savings, as of April 2017</p> <p>Forecasted to generate c.£17m in gross cashable cost savings over the next 6.5 years</p>
<b>Independent evaluation</b>	"Evaluation of Birmingham City Council's Step Down Programme", REES Centre, University of Oxford, January 2017

## The Results

22 placements were made up to the end of March 2017 and, on average, a 70% stability rate has been achieved, representing an increase from participants' prior trajectory<sup>iii</sup>. The project has so far generated net savings of £1.7m, and is forecast to generate a total of c.£17m in gross cashable cost savings over the next 6.5 years<sup>iv</sup>. The real value created by this intervention, however, will be realised over the course of the young people's lives, through their potential for improved educational, employment and healthcare outcomes, and the savings these improvements generate for government.

The way the Social Impact Bond model is set up and operates in Birmingham, and the way the social investment can be used, has allowed us to redress ... system challenges. It has created the environment for us to work more closely with the local authority... to jointly problem solve, identify and transition young people to foster care sooner, and provide the right support...

**Core Assets co-founder Jan Rees, OBE**

Source & short film: [www.bigsocietycapital.com/latest/type/blog/challenging-system-%E2%80%93-changing-children-and-young-people%E2%80%99s-lives](http://www.bigsocietycapital.com/latest/type/blog/challenging-system-%E2%80%93-changing-children-and-young-people%E2%80%99s-lives)

## Case Study 2: Engaging disadvantaged young people with education and employment

### The Challenge

At the end of 2016, there were over 800,000 young people (aged 16-24) in the UK who were NEET (not in education, employment or training)<sup>iv</sup>. This poses a huge current and future cost to government – a widely quoted York University study estimated that the lifetime cost to Government of an individual being NEET for a significant period after leaving school is £56,300 per person – and results in poor life outcomes for the young people.

### The Solution

In 2011, the Department for Work & Pensions (DWP) sought to improve outcomes for young people who were NEET through an outcomes based contract. Providers would be paid according to their success in achieving three outcomes: re-engaging participants with school; helping them achieve qualifications; and supporting them into sustained employment.

In 2012, charity Career Connect (CC) was selected to deliver a “New Horizons” programme that would be assessed against the three outcomes outlined above. CC identified three groups of young people in Merseyside whose outcomes were diverging most sharply from their peers, and for whom the average NEET rate was higher than the national average (21% vs.16%).

It targeted 4,270 positive outcomes against a ‘rate card’ (the Government’s own assessment of what each of these outcomes was worth in financial terms) across c.3,900 local young people.

At the end of the first year, detailed management information showed that some aspects of the programme were extremely effective, and others less so. Given the financial imperative created by the contract’s structure, CC was encouraged and enabled

Key Facts	
<b>Social issue</b>	Employment and education of disadvantaged young people who are NEET or at risk of becoming so
<b>Programme</b>	Career-focused support to disadvantaged 14-19 year olds in Merseyside, part of DWP’s Youth Unemployment Innovation Fund
<b>Programme commissioner(s)</b>	Department for Work and Pensions
<b>Programme provider(s)</b>	Career Connect
<b>Savings to government due to programme delivery</b>	<ul style="list-style-type: none"> <li>£10.5m total value delivered through delivery of &gt;6k education/employment outcomes, at a cost of £4.5m to DWP</li> <li>As Career Connect was encouraged to consistently monitor, evaluate and refine its services, it was able to offer DWP a c.60% discount to its second round rate card when it was recommissioned<sup>3</sup></li> <li>For every £1 Government spent, it achieved £2.34 of outcomes<sup>vi</sup></li> </ul>
<b>Independent evaluation</b>	“Qualitative evaluation of the DWP Innovation Fund: Final report”, Insie Research and Consulting on behalf of DWP, July 2016
<b>Independent evaluation</b>	“Evaluation of Birmingham City Council’s Step Down Programme”, REES Centre, University of Oxford, January 2017

to alter aspects of the programme in response to these mixed results. For example, it improved its forecasting/data analysis; re-oriented the programme towards more effective early interventions, and created new 'Personal effectiveness' and 'employability' courses. These changes resulted in significant performance improvements over time. Conversion rates across all key measures (including behaviour and attendance) more than doubled between the programme's first and third period cohorts, while employment conversion rates rose from about 1/3 to almost 3/4<sup>v</sup>.

### The Results

The programme ran from April 2012-2015 (results tracked to September 2015), and worked with 4,222 young people to deliver 6,625 positive outcomes (55% more than forecast). It delivered a total value of £10.5m to government during the full outcomes tracking period, and that's excluding the numerous qualifications and employment outcomes the beneficiaries achieved after the period. Tracking since the programme end indicates that, of those programme beneficiaries who are at least 2 years past School Leaving Age, c.80% remain in some form of Education, Employment or Training.

Following its success, Career Connect was recommissioned to provide a second programme in 2015: based on learnings and increased efficiencies achieved in the first round, it was able to offer a c.60% total discount to the adjusted rate card (representing a lower cost per outcome) – and also to provide evidence to persuade all five local councils in the Liverpool City Region to provide local contributions towards outcomes payments.

Investors have encouraged – and at times required us – to provide data at an almost granular level. There has been a real process of learning in that; we've been able to capture exactly what's working, where it's working, and why.

**David Howard, Operations Director, Career Connect**

Source: Better Outcomes, Better Value; The evolution of social impact bonds in the UK; Bridges Fund Management, March 2016

Short film: <https://www.youtube.com/watch?v=o8Xj7ywP8Ec>

## Case Study 3: Helping young people on the edge of care to help them stay safely at home with their families

### The Challenge

Outcomes for children in care are poor; 50% of looked after children achieve fewer than five GCSEs, and over 25% of the prison population have been in the care system as a child.

In England, there are more than 72,000 children in the care system. Adolescents – young people aged 10-17 – represent more than 60% of looked after children nationally and place huge pressure on Children Services. They typically have complex needs and are often in the care system under voluntary agreements where their parents simply cannot cope anymore with their challenging behaviour.

The cost is high, with more than £2.5bn spent each year on foster care and residential placements for children in care.

Local Authorities face ever increasing demand for care placements and corresponding pressure on statutory budgets, which leaves little room for investment in early intervention to prevent escalation where families are at risk of breaking down.

### The Solution

Intensive family therapy, if offered at the right time, can help parents to better understand what lies behind

Key Facts	
<b>Social issue</b>	To provide therapeutic support and improve outcomes for adolescents at risk of going into care
<b>Programme</b>	Multi-systemic Therapy (MST) – a 5 month evidence-based intensive family therapy, backed by multiple international research trials.
<b>Programme commissioner(s)</b>	Essex County Council
<b>Programme provider(s)</b>	Action for Children – national charity
<b>Cost to government prior to programme</b>	Up to £305k p.a. per child, depending on the type of care placement
<b>Savings to government due to programme delivery</b>	Estimated to generate gross c.£17m in care placement costs avoided
<b>Independent evaluation</b>	OPM Independent Evaluation of the Essex Multi-Systemic Therapy Social Impact Bond; 2017

their children's challenging behaviour and how they can adapt their own behaviour to stop the negative spiral. These approaches can transform parenting and see positive effects on the behaviour of young people, thereby preventing care entry.

In 2013, Essex Council launched the Essex Edge of Care Social Impact Bond (SIB). This is an outcomes contract designed to provide therapeutic support and improve outcomes for adolescents at risk of going into care, while delivering savings to the Local Authority.

The national children's charity Action for Children was selected to deliver the funded intervention, Multi-Systemic Therapy (MST) to help 380 adolescents at risk of care entry, to reduce anti-social behaviour, improve family functioning and prevent out-of-home placement, care or custody. Multi-Systemic Therapy (MST) is an intensive evidence-based therapeutic treatment which works in the home with parents and young person. It equips parents to encourage positive social behaviours in adolescents who demonstrate significant behavioural issues and are at risk of out-of-home placement.

This intensive therapeutic approach is often out of reach of Local Authorities due to its cost and rigorous requirements. The outcomes contract in Essex has recognised the cost-benefit and enabled innovation to maximise both the number of families offered the service and the positive impact on their lives, with the local authority paying for successful outcomes.

### The Results

The programme has been running since April 2013 across the county of Essex. To date, more than 310 families have benefitted from the MST service with positive outcomes running substantially ahead of expectations – the proportion of time spent in care by young people is almost three times lower than expected.

MST has changed things a lot and has really helped us. I know how to act now and I know if I don't do that there will be consequences.

#### Young person's feedback

It felt like someone was there to give me the confidence to do what I knew I should be doing

#### Carer feedback

## Case Study 4: Targeting long-term health conditions through social prescribing

### The Challenge

In the UK, people with long-term health conditions (LTCs) such as diabetes, heart disease and asthma account for c.70% of total health and care spend. Supporting patients to better manage/mitigate their conditions can reduce the burden on the NHS and may also help beneficiaries back into the workforce.

But the NHS cannot easily fund this kind of community-based social care, which comes under the remit of local authorities; while local authorities have little incentive to invest in preventative health services when the financial benefits accrue elsewhere.

### The Solution

In recognition of the broad social benefits that social prescribing can accrue across the entire public sector, the NHS, the National Lottery and the UK Cabinet Office co-commissioned Ways to Wellness, a seven-year scheme based in Newcastle West.

It brings together 18 local GP practices who refer relevant patients, and several local voluntary sector providers, who deliver services that help with getting active, following complex drug regimens, developing

Key Facts	
<b>Social issue</b>	Health and well-being
<b>Programme</b>	"Social prescribing" – non-medical care programs targeting LTCs in Newcastle
<b>Programme commissioner(s)</b>	<ul style="list-style-type: none"> <li>Newcastle Gateshead Clinical Commissioning Group</li> <li>Cabinet Office</li> <li>Big Lottery Fund</li> </ul>
<b>Programme provider(s)</b>	<ul style="list-style-type: none"> <li>Ways to Wellness</li> <li>Changing Lives</li> <li>First Contact Clinical</li> <li>Mental Health Concern</li> </ul>
<b>Savings to government due to programme delivery</b>	c. £2.3m in forecast secondary cost savings (£11m in value for a cost of £8.7m) over 7 years, and the potential for a further £14m in other public service savings
<b>Independent evaluation</b>	"Link Worker social prescribing to improve health and wellbeing for people with long-term conditions: qualitative study of service user perceptions", BMJ Open, July 2017

positive relationships, etc. Despite the significant difficulties and risks faced by both traditional medical interventions and social prescribing programs in securing enough referrals, and ensuring their long-term engagement, the project expects to engage with 10,000+ patients over its life.

The payments by results structure of the program incentivises its strong, sustained focus on driving outcomes, and on providing a holistic service that is most likely to deliver positive change.

### The Results

So far, the program is performing ahead of target with 2,016 actively engaged patients (as of March 2017), has delivered 3x more wellbeing outcomes versus its target, and has generated c.£800,000 in value to government over its first two years.<sup>ix</sup>

In addition, an independent evaluation recently published by BMJ<sup>x</sup> points to the substantial improvement in participants' life quality, based upon qualitative and anecdotal evidence from direct participant interviews. In total, c.£11m in secondary care costs savings and £14m<sup>xi</sup> in other public services are forecast over the contract's 7-year life, and a total of 15% reduction in average spend on secondary care (when compared to a comparison cohort) targeted and projected by 2022<sup>xii</sup>.

Excellent service that has helped our patients in ways that other services have been unable to.

#### GP practice staff quote

I've broadened my horizons and I get out... I've got a lot more confidence... I'm going to things I would never ever have dreamt of doing.

#### Patient quote

Source: <http://waystowellness.org.uk/news/2017/03/ways-to-wellness-latest-news-march-2017/>

Short film: <https://www.bigsocietycapital.com/what-we-do/investor/case-studies/ways-wellness>

## Case Study 5: Helping people with severe mental health issues back into work

### The Challenge

Currently, only 37% of people with a mental health issue are in work, dropping to 7% for people with severe mental health issues. Existing programmes have struggled to deliver outcomes for this group. For example, only 3-12% of people on health and disability-related benefits have found work under Work Programme as compared with 25-31% for those on standard out of work benefits.

Getting a job improves individual health and wellbeing, and delivers savings to government. Work can be a major driver of well-being: returning to appropriate work improves mental health and provides a foundation of security for people. 70-90% of people with a mental health issue consistently say they want to work. For government, a person with a health condition moving into work can generate £5-10k in welfare savings or higher tax receipts.

### The Solution

There is a growing consensus around the key elements of a successful intervention for those with mental illness. Interventions achieve the strongest results when service user, health clinician, and employment specialist are all fully aligned around employment as a means to improve the user's wellbeing and speed their recovery from their mental health issue.

One approach that combines these elements in a systematic and effective way is Individual Placement and Support (IPS). IPS is a structured, principle-based supported employment intervention that embeds employment specialists within mental health teams. Service users are referred directly by their clinician, with eligibility restricted only by the user's desire to work, rather than their health condition.

Currently, IPS is available to a fraction of people who are in need of the service. The Mental Health and Employment Social Impact Bond (MHEP SIB) has been set up to expand access to IPS and provide support to

Mental Health illnesses can be a very catastrophic and life changing event for people.

Work is an important part of being of recovery – a sense of belonging and a sense of purpose.

**Rachel Perkins OBE, UK authority on Individual Placement Support and Co-chair of the UK Ministerial Working Group on Equalities in Mental Health**

individuals living with severe mental health illness over three years to help them achieve competitive, paid employment.

The MHEP SIB uses an outcomes based contract to co-commission evidence-based supported employment services with Clinical Commissioning Groups (CCGs) and Local Authorities in six areas reaching 3,000 people, with further expansion coming. The contract is geared to sustained job outcomes for service users.

The long-term goal is to deploy this model in many more areas to offer a proven model of employment support to people who are out of work with severe mental illness, enabling them to accelerate their recovery and lead more fulfilling lives.

### The Results

Over the 18 months of the contract to date, the MHEP SIB has engaged 700 service users and placed almost 190 into jobs, in the initial three areas of Staffordshire, Tower Hamlets and Haringey. The model is now expanding to three new areas.

Key Facts	
<b>Social issue</b>	To help people with severe mental health issues back into work
<b>Programme</b>	Individual Placement Support (IPS)
<b>Programme commissioner(s)</b>	<ul style="list-style-type: none"> <li>• Staffordshire Council</li> <li>• London Borough of Haringey</li> <li>• Tower Hamlets Clinical Commissioning Group</li> <li>• Camden Council</li> <li>• London Borough of Barnet</li> <li>• Enfield Council</li> <li>• Big Lottery Fund</li> </ul>
<b>Programme provider(s)</b>	<ul style="list-style-type: none"> <li>• Making Space</li> <li>• Twining Enterprise</li> <li>• Working Well Trust</li> <li>• Hillside Clubhouse</li> </ul>
<b>Independent evaluation</b>	<p>Commissioning Better Outcomes, Mental Health &amp; Employment Partnership – funded by the Big Lottery Fund</p> <p>Independent evaluation underway by Behavioural Insights Team</p>

## Notes

### Executive summary

<sup>1</sup> Includes ~£79bn in environmental investments (primarily renewable energy infrastructure), ~£60bn in social housing, £12bn of broader private social impact investing (such as loans or bonds issued by large charities), and £2bn of 'social investment' into mission-locked organisations. This should be seen as a minimum, based on what has been identified. See the accompanying 'Impact investing guidance note' for a detailed breakdown of these figures and issues around estimating the total size of impact investments

<sup>2</sup> In pursuit of impact: Mission-led businesses (Deloitte, November 2016)

<sup>3</sup> For example, an Arabesque Partners and Oxford University review of 190 different studies on the impact of sustainability on returns found that 88% demonstrated a positive impact of ESG integration on company cashflows, and 80% demonstrated a positive impact of ESG on investment performance

<sup>4</sup> As defined by the UK Inclusive Growth Commission

### The rise of impact

<sup>5</sup> A range of estimates have been made; in April 2017, Peter Thomson, President of the UN General Assembly estimated US\$6trn per year or US\$90trn over the 15 years to 2030. The World Economic Forum have estimated US\$3.9trn per year, or a shortfall of US\$2.5trn vs. current investment (July 2016)

<sup>6</sup> Estimated by the Resolution Foundation, using the ONS Annual Survey of Hours and Earnings

<sup>7</sup> Living Standards 2017: The past, present and possible future of UK incomes (Resolution Foundation, 2017)

<sup>8</sup> Estimated by the Global Footprint Network, based on a basket of six factors (cropland, grazing land, fishing grounds, built-up land, forest area, and carbon demand on land) that account for the demands on natural resources, vs. that biocapacity of the environment to absorb those demands

<sup>9</sup> Milton Friedman famously said that the "business of business is business" – implying that the sole purpose of business was to generate a financial return for its owners, within the parameters allowed by the law

<sup>10</sup> See [www.impactmanagementproject.com](http://www.impactmanagementproject.com) for more details

### Impact investing – the facts

<sup>11</sup> Per endnote 1

<sup>12</sup> Big Society Capital (2017): The size and composition of the UK social investment market – 2016 update.

<sup>13</sup> See the inset box on page 36 for how we define 'purposeful business'

<sup>14</sup> Spotlight paper: How mainstream enterprise support organisations are support social entrepreneurs (UnLtd, 2015)

<sup>15</sup> See Step 2 (page 27) for the range of statistics referred to

<sup>16</sup> Annual Impact Investor Survey 2017 (The GIIN, May 2017)

<sup>17</sup> For example, a GIIN / Cambridge Associates Index of PE/VC impact investing funds targeting market rate returns returned a net IRR of 9.5% to investors, outperforming similar-sized funds in the comparative universe (4.5%)

### The value of the impact economy

<sup>18</sup> Unilever press release 2017: <https://www.unilever.com/news/press-releases/2017/report-shows-a-third-of-consumers-prefer-sustainable-brands.html>

<sup>19</sup> Pensions with purpose (Big Society Capital, 2017)

<sup>20</sup> See Step 2 (page 27) for the range of statistics referred to

<sup>21</sup> The Deloitte Millennial Survey (Deloitte, 2015)

<sup>22</sup> See page 39 for more on this

<sup>23</sup> The Lesson Behind Fortune's 'Change the World' List, August 2016; [http://fortune.com/2016/08/18/change-the-world-essay/?iid=recirc\\_ctwlanding-zone2](http://fortune.com/2016/08/18/change-the-world-essay/?iid=recirc_ctwlanding-zone2)

<sup>24</sup> From the Stockholder to the Stakeholder; How sustainability can drive financial outperformance (March 2015)

<sup>25</sup> This is explored further in Step 1 – Adopt an Inclusive and Sustainable UK investment agenda

## What we can achieve

<sup>26</sup> Data sources: The Investment Association, EUROSIF, Big Society Capital, PWC, Bloomberg New Energy Finance, UK NAB analysis. 2026 scenario assumptions: total UK AUM growth continues at historic real rates of ~5% p.a.; Investors continue to sign up to UN Principles for Responsible Investment at the historic rate through to 2026; 50% of passive index funds incorporate responsible screens; 50% of Pension funds & insurance companies commit an additional 15% of their assets to high-return sustainable investment strategies, aligned to the SDGs, and a further 0.5% pts p.a. to impact investments; Foundations follow lead of the Ford foundation and commit 10% of total assets to impact investments; 50% of DC pension funds incorporate a 10% impact allocation.

<sup>27</sup> Data sources: The Investment Association, EUROSIF, Big Society Capital, PWC, Bloomberg New Energy Finance, UK NAB analysis

<sup>28</sup> See more at <https://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/Developing-a-global-financial-centre-for-social-investment.aspx>

<sup>29</sup> Alina Homecare, a homecare provider for the elderly and disabled currently owned by impact investor Bridges Fund Management, reported 30% better retention of carers versus the sector average in March 2017

## Step 1 – Adopt an inclusive and sustainable UK investment agenda

<sup>30</sup> ESG: Environmental, Social, and Governance

<sup>31</sup> ESG risk in default funds: analysis of the UK's DC pension market; Doug Morrow February 2017

<sup>32</sup> For example, an Arabesque Partners and Oxford University review of 190 different studies on the impact of sustainability on returns found that 88% demonstrated a positive impact of ESG integration on company cashflows, and 80% demonstrated a positive impact of ESG on investment performance

<sup>33</sup> Millennials – the global guardians of capital; UBS (June 2017)

<sup>34</sup> Source: EIB, EaSI, EIF, BCG analysis. This comprises ~£4.7bn from the EIB for large loans, £1.6bn from ESIF (combines ERDF, ESF, EAFRD, & EMFF), ~£800m from EIF, and a further ~£3.4bn in leveraged funds

<sup>35</sup> Growth is measured by private sector job growth, GVA growth, SME dynamism and working age population growth. Inclusion is measured by earnings quality, job security and young people's labour market prospects.

## Step 2 – Empower savers to invest in line with their values

<sup>36</sup> Pensions with purpose (Big Society Capital, 2017)

<sup>37</sup> For more information, contact [paul.blyth@projectsnowball.uk](mailto:paul.blyth@projectsnowball.uk)

## Step 3 – Place value at the heart of public procurement

<sup>38</sup> Social Enterprise UK, Procuring for Good, May 2016 – <http://www.socialenterprise.org.uk/uploads/files/2016/05/procuringforgood1.pdf>

<sup>39</sup> Figure invested by UK government from 2010-2015. Bridges Fund Management, Better Outcomes, Better Value: The evolution of social impact bonds in the UK, March 2016, – [http://www.bridgesfundmanagement.com/wp-content/uploads/2017/02/SIBs\\_Better-Outcomes-Better-Value-screen-view.pdf](http://www.bridgesfundmanagement.com/wp-content/uploads/2017/02/SIBs_Better-Outcomes-Better-Value-screen-view.pdf)

<sup>40</sup> Under the 2015 Public Contracts Regulations the only criterion by which a contract can be accepted is “Most Economically Advantageous Tender”, meaning that focusing on price as sole criterion is not lawful.

<sup>41</sup> Bridges Fund Management's report, Better Outcomes, Better Value: The evolution of social impact bonds in the UK, outlines key policy areas for outcomes contracts including in youth employment, children's services, homelessness and health & social care

<sup>42</sup> All figures provided by Bridges Fund Management

<sup>43</sup> Please visit The Social Value Portal at [www.socialvalueportal.com](http://www.socialvalueportal.com) for more information

<sup>44</sup> This level has been identified based on conversations with procurement experts as a critical level at which Social Value is strongly considered by suppliers in their tender submissions.

<sup>45</sup> Please see the Manchester City Council SV Toolkit 2017 for one example of how this may be achieved.

## Step 4 – Accelerate the rise of purposeful business

<sup>46</sup> Deloitte Millennial Survey 2016

<sup>47</sup> Cited in Bank of America Merrill Lynch, “Impact Investing: The Performance Realities”, November 2016

<sup>48</sup> UnLtd Spotlight Paper: <https://unltd.org.uk/wp-content/uploads/2015/09/Spotlight-Paper.pdf>

<sup>49</sup> Cited in The Mission Led Business Review, “On a Mission in the UK Economy”, May 2016

<sup>50</sup> For a detailed list, please see Figure 2.1 of “The Purposeful Company Interim Report”, May 2016

<sup>51</sup> This selection of case examples is intended to be purely illustrative and not exhaustive. Companies were selected with the support of this chapter’s Working Group partners.

<sup>52</sup> Please see Section 172 of the Companies Act. s172(1) provides directors with the ability to have regard to the impact of its business on the community and environment. S.172(2) goes further and provides companies with the ability to adopt alternative definitions of success that do not give primacy to the shareholders.

<sup>53</sup> Please see recently issued guidance from the Local Government Pension Scheme, “LGPS Guidance on Preparing and Maintaining an Investment Strategy” and Generation Management’s “Fiduciary Duty in the 21st Century, UK roadmap.”

## Step 5 – Strengthen the UKs role in international development finance

<sup>54</sup> Agenda 2030. The UK Government’s approach to delivering the Global Goals for Sustainable Development – at home and around the world. DFID. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/603500/Agenda-2030-Report4.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/603500/Agenda-2030-Report4.pdf)

## Appendix D

### Case Study 1

<sup>i</sup> Referenced in “Evaluation of Birmingham City Council’s Step Down Programme”, REES Centre, University of Oxford, January 2017

<sup>ii</sup> “Harnessing Social Investment; Step Down Fostering SIB”, Birmingham City Council, June 2017

<sup>iii,iv</sup> Figures as of April 2017 provided by Bridges Fund Management; please see REES Centre study referenced in footnote 1 for underlying data to December 2016

### Case Study 2

<sup>v</sup> Source: <http://researchbriefings.files.parliament.uk/documents/SN06705/SN06705.pdf>

<sup>vi</sup> Source: Bridges Fund Management

<sup>vii, viii</sup> Ibid: figures based on the most recent rate card valuations

### Case Study 3

All referenced figures provided by Social Finance

### Case Study 4

<sup>ix</sup> Figures provided by Bridges Fund Management

<sup>x</sup> Moffatt S, Steer M, Lawson S, et al. Link Worker social prescribing to improve health and well-being for people with long-term conditions: qualitative study of service user perceptions. *BMJ Open* 2017;7:e015203. doi: 10.1136/bmjopen-2016-015203

<sup>xi</sup> Cost data sourced from North East Quality Observatory System, 2013

<sup>xii</sup> Projections provided by Bridges Fund Management; cost data sourced from NHS North of England Commissioning Support Information Services Gateshead CCG Newcastle

### Case Study 5

All referenced figures provided by Social Finance

Thank you to Big Society Capital for providing some of this report’s cover-photos. Bottom-left photo: Freedom Bakery, a social enterprise that trains prisoners and provides learning on-the-job within an artisan bakery.

# Report of the UK National Advisory Board on Impact Investing

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