Social investment is not impact investment, let's finally be clear on what we mean

James Perry *www.bcorporation.uk*

James Perry

To understand what social investment is, it's important to go back to its start. In the beginning there was Ronnie (Sir Ronald Cohen), who having masterminded the 2008 Dormant Bank and Building Society Accounts Act, then founded social finance from which social investment was born. Ronnie then made friends with Nick O'Donohoe from JP Morgan, a prince of impact investing. Nick had orchestrated JP Morgan's seminal impact investment report. The two then worked with Nick Hurd, Minister for Civil Society, to create Big Society Capital with the result that social investment took off in the UK. Or is it impact investment?

This question reveals that at the heart of that history is a linguistic fudge that sits atop a conceptual fudge. And if we don't unpick it now, it will fudge up our future. To see ahead, we must (to paraphrase Sir Winston Churchill) first look back.

To understand what social investment is, it's important to go back to its start.

Ronnie set out with the Commission for Unclaimed Assets to understand how repayable capital could be deployed to help to scale social sector organisations (social enterprises and charities). From the outset, the assurance that an intervention was 'social' came from the presence of an asset lock, which was a barrier to distributions. The compelling potential of Ronnie's vision was that charities and social enterprises – should they demonstrate their value – might persuade someone (mostly government) to pay for it. This might enable them to access an almost limitless supply of capital. It explains the associated obsession with social impact bonds, which arises from their promise as an instrument that might become the venture capital industry for social transformation – the vehicle through which much of this capital might pass. By deploying vast sums into actually solving social problems, society is strengthened and the need for government intervention is radically reduced. A virtuous cycle is created that redefines the social contract, with civil society organisations at its heart. This is the powerful idea at the heart of social investment.

Meanwhile, others were making the point that all capital deployments in society have a social impact. Not just the *10%* of the economy that is deployed in the social sector, but also the 90% deployed in the mainstream economy. Understanding and seeking a net positive social and environmental impact from the 90% is at least as important as social investment. But this is a different point, although it is allied and associated. This is impact investment.

Separating social investment from impact investment

So, we have social investment, which aims to enable social sector organisations to access capital. And we have impact investment, which is a movement to reform capitalism by including social impact as a third investment dimension in mainstream capital markets, alongside the classic binary of risk and return.

By deploying vast sums into actually solving social problems, society is strengthened and the need for government intervention is radically reduced. A virtuous cycle is created that redefines the social contract, with civil society organisations at its heart. This is the powerful idea at the heart of social investment.

These two ideas are distinct. Social investment is an asset class – it is, after all, investment capital deployed into a distinct class of assets, be they real assets, private equity, fixed income and so on. The distinguishing feature of these assets is that they have a primary social motivation and they are asset locked structures. The Big Society Capital Governance Agreement formalises this idea and is, in the UK, where the rubber hits the road. Generally, these assets are where positive social impact is most concentrated.

By contrast, impact investment is not an asset class and it is wrong to think of it as such. All investments have an impact. Impact investment strategies can (and should) be deployed in mainstream capital markets in every asset class, whether fixed income, private equity, cash, real assets, social investments and even public equity.

The point is that these two ideas have been allowed to become conflated. The G8 taskforce evolved into the 'Global Social Impact Investment Steering Group' (GSG). Without clearly defining each term, this is risky because these two allied but distinct ideas have different needs. It risks creating confusion, that might set people, who are fundamentally aligned, at odds with one another.

Impact investors and social investors have much in common. They seek the same outcome – a society left fairer, more inclusive, more resilient and more prosperous as a result of investment activities.
This matters, because the quantum of investment

capital deployed for profit by the private sector and foundations dwarfs the quantum of capital deployed by governments and foundations for social outcomes.

But social investments are a brand spanking new, wholly distinct kind of asset. These assets offer the awesome promise of directly solving social problems. The market in them needs a substantial investment in research and development (i.e. subsidy). It also needs a strategic reboot of the government's approach to commissioning – something that sadly seems light years away.

By contrast, whilst impact investment does need policy support, it should not need subsidy. Impact investment is a different vision for capitalism. It is a superior way for the global economy to operate than by pretending that private sector capital deployments have neutral social impact, as it currently does. It offers the promise of a sustainable social contract where business no longer routinely strips value from individuals, families, communities and the environment because 'externalities are nothing to do with me, I'm just doing my fiduciary duty'.

The conflation of social investment and impact investment must stop because it risks creating a mutually assured destruction. There is a fundamental mismatch of expectation – in the risk/return offer of social investments on the one hand, and the risk/return requirements of impact investors on the other. This mismatch results in a logjam, where deals can't be done. Time is wasted and intermediaries – who rely on transactions – go bust.

Social investments as a set of assets (an asset class) within an impact investment portfolio makes much more sense, because those impact investment fund managers can (must) then accept the characteristics that the social investment market can offer.

Conclusion

Both of the allied but distinct industries of social and impact investment have each come an astonishingly long way over the last few years. Bravo to all concerned. Certain tensions should be expected in both fields – growing pains are a necessary part of growing up.

But some tensions are self-inflicted and result from a cross-purpose conversation that's been allowed to go on too long. Impact investment is not an asset class. Social investments are. The time has come for all participants, in both industries, to be clear about what they are doing, and about what they are not doing.

James Perry *is Co-founder and Co-Chairman of COOK* (www.cookfood.net)*, a certified B Corporation. He is a founding partner of Snowball LLP, a multi-asset impact investment manager. He is Co-founder of B Lab UK and a member of B Lab's Global Governance Council. He is married to Jennifer and they have three children.*

Defining impact should not be an 'issue'

Bonny Landers *www.bridgesfundmanagement.com*

Bonny Landers

Potential impact investors are being inundated with articles telling them how to define impact in their investment portfolios and philanthropic programmes. This is confusing at best and off-putting at worst. Many potential impact investors are reluctant to consider ways to increase the positive impact of their investment and philanthropic programmes because they don't think they 'fit' these definitions – and some advisers are agreeing with them to avoid getting 'too personal' with their clients or to avoid changing the way they have 'always done things'. For example, they may say that financial returns are all that matter or that measuring impact is too difficult.

Standardisation in the industry may indeed be needed but, until we have that, the lack of one agreed definition of 'impact' should not be used as an excuse for not exploring the many ways to seek more positive impact in our investments and our philanthropic programmes.

In fact, we are finding that investors can and should define 'impact' for themselves – just as philanthropists and donors have done for decades. It is a question of personal values and goals which lead them to their causes and their theories of change. Once they are personally engaged with the goals, they become more connected to their investments and philanthropic efforts.

...we are finding that investors can and should define 'impact' for themselves – just as philanthropists and donors have done for decades. It is a question of personal values and goals which lead them to their causes and their theories of change.

Defining impact in a personal way means that everyone, from ultra high net worth individuals (UHNW) to pension plan contributors and smaller donors, is more aware of the positive and negative impacts their money is having on society. This can reduce the negative impacts and increase the positive ones across the entire spectrum, which can range from responsible/ethical, sustainable/environment, social and governance (ESG) through to impact driven and philanthropy, to target intentional social and environmental impact.[1]

Why is this relevant?

The increasing interest in impact is now well-documented. Last year, Morgan Stanley surveyed 118 institutional investors (including philanthropic foundations) and concluded that 70% of investors have already implemented ESG strategies and that 84% of asset owners are either 'pursuing or actively considering ESG integration' in their investment decision-making processes.[2] Cambridge Associates reported that 'a recent survey of Cambridge's endowment & foundation clients shows that 61% of them plan to increase their impact-oriented allocation over the next five years.[3]