Impact investing in a Democracy:

A response to the Alliance Special Feature 'Markets for Good: Removing the Barriers'

Joe Ludlow *(Posted: 15 June 2014)*

When I first started out in social impact investing, it was hard to find anyone writing or talking about it (apart from my boss at Venturesome, John Kingston). But the tables have turned, and in the recent *Alliance* special feature, 'Markets for good: removing the barriers', we had not just one article but several from around the globe! It's a joy to think that the field is now at a point that such an esteemed and diverse group of contributors can come together and debate the issues raised by Monitor Inclusive Markets' report B*eyond the Pioneer: Getting inclusive industries to scale*. For me one big issue the report raises is the role of government vis-à-vis impact investing in addressing social problems.

Beyond the Pioneer is framed as an exploration of the barriers faced by social/impact enterprise ('social ventures' as we label them at Nesta) when attempting to scale up their operations. Many of the responses to the paper looked through the lens of social/impact investing and its role in overcoming those barriers.

In my opinion, the barriers to scale faced by social ventures as identified in the paper (at the level of the firm, value chain, public goods and government) are a helpful framework to consider what is needed to tackle any complex problem, ie it is a means of exploring a whole system of innovation around a need (as Vineet Rai points out in his contribution). It shouldn't surprise us that solving persistent social problems effectively, at meaningful scale and with longevity, requires interventions beyond the level of a single firm. I agreed with Guillaume Taylor that the lessons from Monitor Inclusive Markets' developing world experience have plenty of resonance with our experience making impact investments within the UK's developed economy and government structures.

So I want to respond to the special feature on five particular points that speak to my experience investing in UK social ventures operating at the boundaries of private, social and public sectors in education, social care and local communities.

Start with the impact

The first is a simple one that arises throughout the special feature: the absolute importance of being impact focused and developing strategy from that starting point. We mustn't assume that starting or growing a venture is the best route to impact (as Uli Grabenwarter and Fabio Segura point out in different ways). Yet this point got lost where the debate looked at 'the sector' versus 'the mainstream'. Our pragmatic approach at Nesta is to not worry too much about sector, legal status, intention to make profit or not, but to focus on how can you have the best effect on the problem for the greatest number of people.

Balancing the push and pull

The second point that resonated is the interplay between demand and supply of product/service, or as some described it 'push and pull' (again, I liked Guillaume Taylor's observations about developed markets on this point). That ventures will find it easiest to scale when there is a balance between the two is obvious. For example, our portfolio company FutureGov has been developing digital tools to improve social services for over five years and pushing to get them adopted, but a change in its market (government funding cuts and a digital first policy) have brought demand closer to balance with its supply. But I think we must be careful here about using the cold language of 'push' or 'creating demand' when what we are describing could easily be seen as at best paternalism ('we know what is good for you') or at worst self-interest (payment protection insurance, for example). Democratic representation through government (or other means) has an important role in overseeing and representing people in this push-pull tension.

Do impact investors make good industry facilitators?

My third point is about the role identified as 'industry facilitators'. This is a highly sensitive area, and I'm not comfortable with the suggestion of the *Beyond the Pioneer authors* and guest editors Audrey Selian and Ken Hynes that investors are well placed to do this job. In the markets where I invest – education, healthcare and financial services for example – specialist organizations are needed for the distinct market facilitation roles that are so necessary. For example:

- The Education Endowment Foundation is a commissioner of evaluation and a repository of information about what interventions work in education (the UK government set this up, and is funding a series of 'What Works Centres' in different areas of social need).
- We have two investments focused on reducing the social isolation of older people, but the Campaign to End Loneliness is much better placed to campaign for wider recognition of the issue and better funding of support services than we are.

The role of social ventures

My fourth point is about the role of the social venture in pursuing an impact objective. We must remember that growing a venture is only one means (among many) of addressing difficult social problems. As the Monitor Inclusive Markets framework illustrates, a lone venture is unlikely to succeed if other means are not being deployed at the same time. In my portfolio, Ffrees seeks to address financial exclusion among low-income families in the UK by offering an alternative to a high street bank current account, but it relies on many other system factors from regulation to the mass availability of the internet to achieve its goals. Social ventures are built primarily around product or service innovations, and they optimize their solutions to current and near-term market conditions rather than directly seeking to shape the wider environment for the long term. I found the Ignia model helpful here in illustrating the need for a venture to position itself where there is a tolerable balance between product innovation and sector/market readiness.

The role of investors and funders

I deliberately put the role of investors and funders as my last point. As an impact investor, I spend my time working my way through the previous four points: what is the impact objective? What are the dynamics of the marketplace and who is facilitating it? Is scaling a social venture a useful and viable impact strategy, and therefore what can I invest in? Impact investing is a tool that can help (but not do everything) to grow social ventures, as the *Beyond the Pioneer* authors point out, but it's still early days. So I felt uncomfortable at places in the special feature where contributors seemed to have a bigger vision of impact investing and what it can do.

I also have some ethical concerns (albeit different ones to those highlighted by Martin Brookes). I don't think investors should seek to be a substitute for democratic government in facilitating markets for the delivery of social outcomes, assuming we know what is good for people.

Social innovation historically took place in the social or charitable sector and sought adoption by government as its route to scale – either directly as public service or indirectly through regulation to steer the private market. The depth and complexity of many social problems demands a high scale and quality of innovation. The social venture and impact investing movement is, for me, aiming to deliver impact through a blend of the benefits of social impact focused innovation with the scale and speed of growth of the private sector with the democratic accountability and universality of the state. The *Alliance* special feature explored the opportunities and challenges of this approach comprehensively even if I didn't agree with all the assumptions contributors made.

This article was written by Alliance and kindly supplied to Philanthropy Impact to include in this magazine. Philanthropy Impact does not take any responsibility for the content of the article