Social investment for social change:
putting your wallet where your heart is

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New instruments are emerging that show an indication of a re-shaped capitalism, one in which economic activity is looked at with a new eye for common good and solidarity in an atomised world. Social investment has arisen amongst some of the stark inadequacies of contemporary capitalism (inequality, climate change, financial instability) with the potential for enabling transformation in areas that neither traditional investment nor charity are currently reaching. Such investment can encourage a more cohesive and holistic set of societal relationships, allowing us to lift others as we climb whilst constructing proactive and disciplined solutions to many of the problems we see in the world today.

Put simply, social investment places the importance of achieving positive social impact over and above monetary returns – allowing initiatives that have been denied funding streams a way to thrive in an encouraging environment. Whilst traditional investments might see consistent annual returns of 2 – 5% (adjusted for inflation)[1], the social investment of three major lenders has recently been shown to have negative financial returns of -9.2% over a 12-year period[2].

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However, the benefit of being able to recycle such positive impact funds through a number of different initiatives (retaining 90% of the capital in the process) can clearly be a productive and ongoing way to facilitate outward-looking social change. The technique provides a discipline in terms of measured outcomes that can be more effective than charitable giving, as well as acting as a multiplier to the extent that invested principle can be used several times over. This enables a kind of parallel evolution of charitable models, with its own pros and cons, whilst still continuing to highlight the fact that *'few solutions that meet the fundamental needs of the poor will get you your money back'*[3].

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Social investment has emerged as a response to the failure of financial markets to support many important areas of non-monetary value creation. It asks us to consider how commitment to a higher good or social purpose might change the way in which we direct much of our economic activity and expectations. By pursuing such an approach, we are able to focus more on processes that facilitate a successful transition to more inclusive, collaborative and peaceful communities both locally and globally. This allows a much closer alignment of moral values with economic activity – two things which are often abstracted away from one another – and should be seen as a fruitful path towards true fulfilment and prosperity. Social investment is a tangible and viable means to facilitate positive social change, you just have to leave (some of) your profits at the door.

If positive change is the goal, what might successful and productive social investment look like and what criteria should we be encouraging in this new sector? Here are four areas to consider.

To begin with, the relationship between investor and investee must be seen as an ongoing commitment to achieving shared goals; conducted through a balanced and mutually beneficial arrangement. This implies a degree of involvement in helping overcome challenges where the investor might have appropriate expertise (should the investee so desire it). It also extends to the terms of the investment. Understanding that *'unscheduled interest free periods, repayment holidays or restructuring of the deal'*[4] could be a component, amongst other concessions, is important in developing such activities in a manner which places social impact over and above the importance of financial return.

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Secondly, the onus of responsibility applies both ways, which means that measuring impact is another important aspect of successful engagement. A duty on organisations to prove their social impact in a consistent way works to the benefit of all parties involved and, most importantly, for those who are actually in need and for whom the work is conducted. This links closely with the need for objectives to be *'supported by a high-level theory of change to identify overarching goals and steps to achieving them using the financial tools at the fund's disposal'*[5]. Allowing such a measured theory of change to direct the terms of the financial relationship helps to overcome both issues of mission drift as well as the temptation to focus on more affluent communities (because they provided consistent revenue streams). The hard part is how to accurately measure impact in a way that isn't detrimental to the day-to-day operating of the organisations concerned. Small organisations often don't have the capacity for the kind of auditing required to report back on their work well, and there is always the possibility that the need to meet targets can have a detrimental impact on operational behaviours.

Thirdly, it's vital to consider on whose terms the investment takes place. There is an important opportunity through these instruments to help overcome deep-seated issues around the mutuality of contracts. Ensuring that all sides of a transaction feel like they have come out ahead (for their own different reasons) should be the basis of a high-functioning economic system. Underpinning effective social investment is also the recognition that one engages because of a concern for the real impact that capital provision can have on facilitating the alleviation of human suffering or social shortcomings. The boundaries should therefore be primarily framed by the extent to which support can be provided to the shared social goals of all parties involved, rather than just the financial concerns and timeframes of the investor. The ongoing formality of a financial relationship – when conducted on a truly level playing field – can be of great benefit when helping to develop accountability and measured impact. Also, the need for discipline can be applied to an endeavour. However, it should never veer into areas that might place unnecessary and restrictive strain or become a burden to the organisation being assisted.

Finally, positive impact investments should make up a significant part of your overall portfolio. These investments should be seen as a fundamental category not to be overlooked or de-emphasised merely because of single bottom-line returns, particularly because they can often develop intangible areas of stability and economic vitality in society. The sustainability of the system as a whole is just as important to a long-term outlook as returns on any single investment. Indeed, it is only within a sustainable system that the socioeconomic context for investments can exist at all. Resilient processes for positive change can be formulated through investment alliances that build discipline and efficacy into society-focused initiatives – focused on what it truly means to have a healthy, flourishing and prosperous society within which to operate.

A mechanism through which investors can see their positive values lived out in a wide variety of practical and tangible means is worth our enthusiasm and energy. It's not the whole picture, but when implemented properly social investment can provide avenues through which a concern for common good and diversity of wellbeing can be enacted. This helps – at a fundamental level – to right some of the imbalances and inequalities that we have seen develop under finance capitalism. It requires a shift in perspective away from returns on investment towards a collaborative vision supported by measured impact. Such an approach enables a much broader potential for aligning personal or corporate values with social purpose and can be tailored to different avenues of change according to the concerns of individual investors. Organisations such as Big Society Capital, New Philanthropy Capital, Investing for Good and the findings of the Social Impact Investment Taskforce can help give an overview of the sector. For those who want to use purchasing power, the Buy Social Directory can provide similar guidance.

For what still remains a fledgling area, we must wholeheartedly develop the potential of social investment. Experiments in these areas aren't always going to work out, and there are still difficulties with defining truly productive indicators and ensuring balanced relationships, but attempts to link the private sector with a keen sense of higher good and social purpose should be embraced. Social investment is an important step towards creating an economic system that is loyal to the public as a whole, one that overcomes the tendency to extract the results of our shared creative potential for the benefit of a very small minority. Recent history has shown, once again, that the destructive results of systemic failure are often left behind as a burden for those who profit the least. By moving a significant proportion of capital away from monetary returns, putting it to task as an engine of positive social returns instead, we could even view this emerging sector as a proactive form of restorative justice.

[1] *The Barclays Equity Gilt Study – June 2014*

[2] *The Social Investment Market Through a Data Lens, Social Investment Research Council – June 2015*

[3] *Kevin Starr, The Trouble with Impact Investing, Stanford Social Innovation Review – January 2012*

[4] *The Social Investment Market Through a Data Lens, Social Investment Research Council – June 2015, p6*

[5] *Smart Money: Understanding the Impact of Social Investment, New Philanthropy Capital – September 2014, p9*

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