The Future of Impact Investing in the Post-Brexit UK

Roundtable on the current state of, and future changes to, social impact investing in the post-Brexit referendum

Executive Summary

In a gathering of thought leaders, investors and professionals working in the impact investing sector, several key points emerge:

♦ Impact investment is not a separate entity from the investment sector. The role impact investing plays must become part of the embedded mindset of companies, allowing us to drop the word “impact” from impact investing.

♦ Impact investment beneficiaries should have ownership of the impact and as such should be in a position to assess the right “price” to be paid for it. Achieving this price will require a stricter framework of impact management.

♦ Growth of the sector will rely on mass participation and leveraging the socially-minded attitudes of the incoming generation of Millennial investors.

♦ Impact investing leadership is not centred on the UK. Europe must seek a way to maintain its momentum in the sector with the loss of the UK.

Report

On the 23rd of January, the Italian Embassy hosted an Impact Exchange on the current state and future challenges of social impact policy in the post-Brexit referendum UK. The event, funded under the EU project Distributed Global Financial Systems for Society (http://www.dolfinsproject.eu/), was co-organised by PlusValue and Finance Matters, and is part of a wider Impact Exchanges roundtable series organised by the Italian Embassy and PlusValue on the theme of social impact. The aim of these events is to keep pace with the current state of the art in the impact sector, to engage and enable an exchange of information on updated practices and policies between practitioners and stakeholders spanning the sector.

The event convened 50 professionals from across the impact and finance sectors to discuss the effect of Brexit on the impact investing agenda – an agenda championed by the UK since 2000 and spread worldwide through the EU, G8 and G20.

The panellists included Cliff Prior, CEO of Big Society Capital; Jason Eis, Executive Director of Vivid Economics; and Karl Richter, co-founder and Executive Director of EngagedX.

As part of the event, an experiment was run to understand from the participants what are the key “hot topics” of impact investing and how best to move forward, strengthening the sector. A selection of these results is shared in this report. To know more, please read Appendix I.

The discussion started with the opening remarks of H.E. Ambassador Terracciano, who underlined the important role played by social impact investing, as a self-standing activity, in filling the gap between

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1 See Annex 2, “List of Participants”. Moderator, Ambassador and panellist were not included in the list
the private and the public sector to implement social services. He also mentioned the leadership of the UK in the social impact industry in Europe, which has mainly been possible thanks to its easy access to funding and its liberal economy.

*Investments with a social impact are becoming increasingly important as a tighter state-welfare budget and more restricted public finances have created an opportunity for a creative new approach: integrating the public and private sectors and implementing systems of social services.*  
— H.E. Pasquale Terracciano, Ambassador of Italy in UK

The floor was then taken by moderator Filippo Addarii, CEO of PlusValue, who, after thanking all present, opened the debate by asking the panelists to define impact investing and its priorities for the future. Priority was placed by all panellists on emphasising that, ultimately, we should not view impact investment as an alternative, but as a component of the overall investment sector.

*All companies have an impact on society. The word “impact” before investment should be simply dropped. We must shift our mindset and understand that impact investing should become mainstream and each company should include a statement of their social purpose in their mission.*  
— Karl H Richter, Co-Founder & Executive Director, EngagedX

Furthermore, it was argued that more evidence is needed to argue for impact investing’s efficiency or additionality compared to mainstream investment.

*Where social impact investment supports the early stage development and growth of innovative models for delivering social good, it has clear value to add to the policy and market status quo. It is much less clear why social impact investment is a good vehicle for large scale financing of social good.*  
— Jason Eis, Executive Director, Vivid Economics

This argument was emphasised by the need for justification on impact investing’s ability to “do better”.

*Public spending administered through freely elected governments and funded through low cost sovereign debt is a model of financing social good that is quite efficient and ‘democratic’, so if social impact investment is seeking to displace this, it needs to more clearly justify how it will do better.*  
— Jason Eis, Executive Director, Vivid Economics

In order for impact investing to grow and become mainstream, both the panellists and the audience pointed towards an urgent need for a common framework to manage impact metrics that are fair for both beneficiaries and investors. The sector is swamped with metrics, but in dire need of rules for how these are to be applied. This common framework was the top response in an audience poll during the event [Fig. 1]. 2 other key priorities identified were: public engagement in impact investment (20%) and other (17%).
As part of this common framework, improvements on impact management were suggested as a key priority. Information is needed to tell the sector whether it is doing better, and in order to do so, principles must be developed. This is a question of who owns the impact, and who decides what the impact is? Usually the public believes the impact is owned by the government, although it was suggested it is the beneficiary who should really have ownership. In line with the evaluation of impact, the topic of impact risk was brought up – what is the right price for impact? This question draws upon an argument for the need for achieving the right balance for blended capital.

Public engagement was identified as a secondary priority, and the topic of mass participation and its effect on impact investing was elaborated upon. This reiterates the goals that were highlighted in the 2014 strategy report by Big Society Capital, with their aims for 2017 including having more retail investors involved in impact investment, as well as allowing more grassroots and community projects access to capital\(^2\). Notably, recent developments in

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\(^2\) *Our strategy for the next three years, Big Society Capital, May 2014*
impact investing are providing concrete means for the public to play a key role in the growth of the impact investment sector, either through mass participation as facilitated by crowdfunding, Social Impact Bonds, and increasing the offer of ethical products in defined contribution private pension schemes. The latter was chosen by most of the audience to be an opportune area for growth within the sector [Fig. 2], building on the demonstrated public interest in mass participation for social good.

Mass participation is something the UK is good at: 29% of adults in 2012-2013 said they volunteered at least once a month and successful crowdfunding such as Giving Tuesday are witnessed regularly. Why not apply it to impact investment? It can be done through crowdfunding, social impact bonds, or even by increasing the offer of ethical products in defined contribution private pension schemes

– Cliff Prior, CEO, Big Society Capital

Fig. 2: What are future plans to increase participation in impact investment?

- Supporting crowdfunding platforms
- Increasing the offer of ethical products in defined contribution private pension schemes
- Boosting peer lending
- Other

The discussion on engagement in the impact investment agenda naturally turned to the new generation of impact investors: the Millennials. As wealth is transferred from the baby boomer generation to the Millennials, it is essential to reimagine how the offer of impact investment can be delivered to this new audience. It will be the new
generation of investors whose mindset will guide the role of investing in prioritising the greater good. The good news: the Millennial generation seems eager to take the lead, with 93% believing social impact is key to their investing decisions³.

“The Millennials prioritise the greater good of their investments more than any generation before. They represent an opportunity that society can’t miss if it wants to allocate more capital for positive social change.”
– Karl H Richter, Co-Founder & Executive Director, EngagedX

As the debate turned toward the primary topic of the evening, opinions were refreshingly optimistic. With the upcoming political changes in the UK and abroad, the ability of impact investment and the social sector in general to leverage mass participation to meet social needs was highlighted as a key point. The primary concern as Brexit moves forward and becomes a political reality is its effect on the economy and the consequences that will have on the most disadvantaged groups of the population.

Brexit is unlikely to have a major impact on social investing in the UK, except for a small number of areas such as CDFI’s which may be more dependent on EU funds and guarantees. The big impact of Brexit is more likely to be changes in social needs, and we’ll start to see this soon as the currency change leads to rising prices which harshly affect people on low incomes.
– Cliff Prior, CEO, Big Society Capital

On the global stage, impact investing’s momentum is unlikely to be diminished by the UK’s changing role in Europe – the community is already global, and some of the newest and most significant developments are happening in the US, Japan, India and France. Regarding the effect of the UK’s departure on impact investment in the rest of the EU, while the oft-stated position that the UK has been a leader on impact investment globally was rejected by the panel, an area of concern that was highlighted was the policy leadership role the UK has played on the European stage with respect to social impact and impact investing. The UK has developed as a place of introspection and policy bandwidth – loss of the country means a potential loss of this bandwidth for the remaining states. On the other hand, the UK played a key role in placing impact investing on the G8 agenda, actively influencing the global narrative in a way that doesn’t necessarily rely on its position within Europe.

As the event came to its conclusion, the question remaining was: who will take up the torch to turn this optimistic vision into a reality?

³ Motivated by Impact, The Economist Intelligence Unit, 2016
For more information

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Annex 1: Photos
Annex 2: List of Participants

1. Daniela Barone-Soares
2. Roberta Benedetti Del Rio
3. Zoe Burgess
4. Mark Campanale
5. Lotte Campanale
6. Stefano Cappanari
7. Gianni Carbonaro
8. Matteo Cerri
9. Bonnie Chiu
10. Federico-Raoul Cucchi
11. Luisa De Amicis
12. Nicola Doria
13. David Floyd
14. Marco Foglizzo
15. Rugile Gird
16. Katie Hill
17. Catherine Hughes
18. David Hunter
19. Zahra Husain
20. Georg Indest
21. Sarah Laitung
22. Fiorenza Lipparini
23. Marco Longo
24. Vibeka Mair
25. Anna Marra
26. Pietro Matteucci
27. Francesca Medda
28. Alberto Mina
29. Darryl Mootoosamy
30. Raffaello Morales
31. Elma Morris
32. Gila Norich
33. Sophie Paquot
34. Simona Paravani
35. Joshua Phillips
36. Cristina Piai
37. David Pollock
38. Stephen Rockman
39. Mattia Romani
40. Emanuele Serafini
41. Luigi Sorvillo
42. Yasmine Svan
43. Simon Willis
44. Shao Zheng
45. Maayan Keren Zur
Annex 3: Additional Information

This experiment is part of PlusValue’s role in the European Commission Horizon 2020 Programme for the project Distributed Global Financial Systems for Society (http://www.dolfinsproject.eu/). The EU-funded research project addresses the global challenge of making the financial system better serve society, putting scientific evidence and citizens’ participation at the centre of the policy process concerning finance.

PlusValue is a new venture specialised in the research, design and testing of new financial and delivery models for common goods through the alignment of public and private interests. PV seeks to expand society’s definition of value through new cognitive models, institutions, and practices bringing together social, environmental and economic impact. Much of our work is with multinationals and large organisations (public and non-profit) which have the potential to transform the market.

Finance Matters is a social enterprise working to educate and channel the talent base employed in the financial services into sustainable finance, impact investing projects and firms. Finance Matters’ mission is based on the belief that, in a financial system that has neglected broader externalities, driven and talented individuals can be the source of positive systemic change.

Cliff Prior – Big Society Capital (CEO)
Cliff Prior CBE took up the leadership of Big Society Capital in March 2016. Prior to that he was CEO of UnLtd, the UK Foundation for Social Entrepreneurs, for the last nine years. UnLtd has supported 13,000 people to start new social ventures, with cash, coaching and connections, and backs people from start-up to investment readiness and major impact. He also chaired the mission alignment group for the G8 Social Impact Investment Taskforce, and has been an adviser to Government on health and medicines regulation, NHS modernisation, skills, and civil society.

Jason Eis – Vivid Economics (Executive Director)
Jason Eis served as Regional Director for the Global Green Growth Institute, where he oversaw programs in Latin America, Africa and India, supporting public policy and private sector investment decisions in the energy, transport, industrial, agricultural and forestry sectors.

Karl Richter – EngagedX (Co-Founder & Executive Director)
Karl is Co-Founder and Executive Director of EngagedX, which specialises in providing bespoke consultancy, thought leadership, advocacy and policy work. He works internationally across private, public and social sectors. Among other engagements, he has advised HM Treasury on EU social investment regulations; was invited to submit evidence regarding alternative finance to the UK’s Parliamentary Commission on Banking Standards; and has been asked by the UK Cabinet Office to represent the UK on social investment at EU level.