BANGLADESH – 1st Impact Investment Summit; 10 November 2016 in Dhaka

Thank you for inviting me to speak at the Summit. I am sorry that I cannot be with you in person as I would have much enjoyed hearing the other speakers and participating in the discussion.

On the day of the Summit I will be in New Zealand, talking at another event about social impact investing, another event bringing together people from the social enterprise, philanthropic and private sectors, from financial services and from government, to examine together how social impact investing can be further developed in their country.

The invitation to speak with you today, which I was so pleased to receive, came as a result of my taking part a year ago in the first Impact Investing Summit in Australia. This was another illustration of what to me is a very important feature of the present state of development of social impact investing: the willingness of pioneers in every country to learn from others' experience and to share what they themselves are learning as they develop their own work.

What is possible in different countries varies a lot, ofcourse, depending on the particular economic, social, political and cultural context, circumstances and opportunities – but I have always found that there is much to learn from those differences as well as much to celebrate in the different ways that social impact investing is developing across the world.

I remember vividly, for example, a report published in the UK some years ago that examined what the then embryonic social investment market in the UK could learn from the decades long experience of micro-finance services in Bangladesh – it was an important report that helped shape thinking in a very different part of the world.

Triodos Bank and Big Society Capital
In this session of your summit, I propose to share some lessons learnt from the work of two organisations in Europe that I am involved with as a non-executive Board member, Triodos Bank and Big Society Capital.

Triodos and Big Society Capital are very different organisations but both are endeavouring to support financially viable, sustainable and resilient enterprises that can deliver a blended return of demonstrable social and/or environmental impact together with a financial return appropriate to their ambition and circumstances.

1. **Triodos Bank** was set up in the Netherlands 35 years ago. It is now the largest 'social' bank in Europe – social in the sense that it only lends to and invests in enterprises that have social purpose, that add environmental or cultural value and contribute to longer term sustainability.
   The Bank now provides financial services in 5 European countries including the UK, as well as over a dozen investment funds which assist enterprises in many countries, including Bangladesh.
   Triodos has over Euro12B assets under management and one of the strongest capital bases of any European Bank. It's never made a loss, employs 1200 staff, has 700,000 customers and over 36,000 retail investors or depository receipt holders who have bought into the equity of the Bank.
   The Bank doubled in size in the 6 years after the global financial crisis and is on course to double again by the end of the decade.
   Triodos is also at the heart of the development of the Global Alliance for Banking on Values – the alliance brings together 36 Banks around the world, all values driven and determined to use finance to support enterprises that generate positive economic, social and environmental impact. BRAC is also a member of the Alliance.

The second company of which I am a non-executive Board member is:

2. **Big Society Capital**, set up just 5 years ago to help build the social investment market within the UK, partly as a market champion, an enabler, a researcher, an innovator, a convenor and an advocate; partly as a provider of funds to inject capital resources into social purpose organisations and enterprises.
   By the end of 2015, funds from BSC, channelled through a growing network of specialist social impact investment intermediaries, had reached 270 enterprises. BSC co-invests – £260M of its own money has been combined with over £325M from partner investors in signed deals – the partner investors include foundations, pension funds, government agencies and banks.
   BSC's market building role is, I believe, as essential as where and how it invests funds, and central to that role is being upfront about the challenges and the learning, not least the difficulties we have encountered in getting the supply of available funds connecting appropriately to the needs, scale and capacity of current demand.
   It is also proving to be very important, I believe, that we make full use of the accelerating quantity and quality of data about social finance to identify gaps or weaknesses in the ecosystem which we may be able to fill, directly with our own resources or indirectly through other existing organisations or the creation of new ones.
   We have helped, for example, to set up Access – the Foundation for Social Investment which, through a combination of soft, small and often unsecured loans as well as grants can help equip small and new social enterprises to get strong enough to be able to take on more financially demanding forms of social investment.

Triodos Bank and Big Society Capital may be very different, in structure, organisation, operations and history, but, as Social Impact Investors they share some characteristics and have learnt some lessons that I think are of wider relevance – some of which I will describe and which I hope will be relevant and useful to your discussions today.

My Mission
I should preface my comments by explaining that I am not a banker, my background is in the social enterprise and philanthropic sectors, not in financial services. I have worked for and been a Board member of a variety of organisations with public benefit and social purpose as their mission.

Central to all my work, over several decades, has been a determination to ensure that social purpose organisations have access to the right sort of money at the right time to enable them to deliver their mission to the highest possible standard.

My focus, therefore, has not only been on the availability of funding and the appropriateness of the amounts being provided, but also on the behaviour of the funders, the ways that funders work and manage their resources.

Philanthropic funds, for example, can be wonderfully relevant to the support of innovative and exciting social purpose activity, but the ways those funds are provided, the amounts, the terms, the restrictions, the compliance and reporting requirements can make the transactions very expensive, difficult to manage and sometimes, perversely, unhelpful to the realisation of those purposes.

The same can be true, I think, of some Social Impact Investors – their motives and intentions may be fantastic, but their behaviour towards potential or actual investee enterprises, the requirements they impose during due diligence or after investment or the assumptions they make about how the enterprise should be managed and the actions they take as a consequence, can weaken rather than strengthen the chances of the enterprise being successful and achieving the mutually desired purposes.

The right sorts of money provided at the right times and delivered in the most appropriate ways – that should, I believe, be the aspiration of every social investor. Precisely because the investee organisations are working to achieve blended value returns, neither just a financial nor just a social return, the investors have to engage differently with them from how they would if they were making an investment driven only by financial ambition or awarding a grant that is made only to help generate a philanthropic outcome.

That may sound obvious, but it's been a tough lesson for many social impact investors to learn – to avoid always behaving (and expecting investees to behave) as they would in the orthodox financial world in which they have acquired most of their previous experience. The prescriptions that may seem obvious to a financial market driven investor may be exactly wrong for implementation within a social purpose organisation – but some of the skills and knowledge learnt in the financial sector may, if applied sensitively and after a lot of listening, 'translating' and adapting, be very helpful to social entrepreneurs trying to build financial resilience while staying firmly committed to the values and aspirations that fire them up.

Here are some other lessons for the development of social impact investing by institutions that I think are demonstrated by the experience of both Triodos and BSC.

Talent
First I must highlight talent and skills – social impact investing has seen the emergence of some very talented pioneers over the last decade or so, in lots of countries. Some are individual social entrepreneurs or social investors – their example and achievements can be inspirational. As important, though, are the pioneers within institutions whose determined and sustained efforts as advocates, enthusiasts and leaders can generate real changes of attitudes and performance within mainstream organisations – opening the door to social finance opportunities and the conscious support of social purpose organisations.

Diversity
Second, it is vital to recognise that there is no single type of social impact investment, or investor or investee. A working social investment market needs different sorts of investors with different sorts of financial expectations, sometimes working together, perhaps in layered transactions, each taking on a different level of risk and return expectation; sometimes concentrating their focus on different types of demand, looking for investee organisations at different stages of maturity and financial resilience.

And the social impact investment market needs different sorts of products, too - ordinary or specially structured loans, bonds, guarantees, equity stakes or equity like investments; all are needed if the right sort of money is to be provided at the right time and delivered in the most appropriate way to an investee.

Philanthropic funders can also play a vital part in making that market or eco-system thrive. As within the private sector, some early stage support, some guarantees and underwriting, some targeted tax incentives, some support for capacity building and R&D, may require subsidy. Philanthropic funds can help with many of those – and they are essential as supporting those activities and meeting those needs can make it possible, subsequently, for more straightforward finance, such as bank loans, to be accessed.

Impact
My third observation is about measuring impact. Impact is in the DNA of Social Impact Investing – that 'mantra' is often heard but sometimes somewhat superficially observed. It can be difficult to go much beyond counting people in and counting them out and then to act as if that tells you all about impact. On its own, it cannot – output numbers are important, certainly, but the investees have to be able to examine with those who are going in and out how the process, the activity, has changed them or their families or communities, and how sustainable those changes or new opportunities are.

For the investor, too, it is vital to look beyond the transaction – easy to get hooked on the minutiae of the financial instrument, the due diligence, the terms and conditions. All are important and we can all learn from what has been tried out – but key to successful social impact investing is what happens after the decision to invest: the work done to achieve the outcomes and impact. Investors need to stay close to that learning (without interfering too much) and be prepared to adjust, to amend, to add – and not to get stuck in the mire of rigid compliance or of fixed returns.

We have to help investors identify and understand real outcomes and indicators; to ask investees useful and proportionate questions, to do so in a coherent and time saving ways (especially if several investors are involved side by side), and clearly to demonstrate that they, the investors, as well as the investee enterprises, take heed of the learning as it emerges.

Tell the Story

Fourth, tell stories and celebrate achievement – these can inspire others but they need to be accurate and not either over-hype the short-term potential or understate the scale of the challenges. The investee world, as much as the investor world, has to learn to operate in a different sort of financial environment and is not helped by pundits and advocates claiming (or promising) too much.

Too often, I have sat in conferences while representatives of often mega-big financial institutions claim , with the help of lots of graphs and tables, that the social impact investing world is soon to be a multi-billion industry, without having much – or any – real investment experience to justify the figures; or I have listened to equally eminent spokes-people claim the whole concept is a load of baloney and assert that financial and social returns are – and must be kept – completely separate and bifurcated.

Then along comes a small scale investor with some actual examples and experience – and pictures of real people! – and demonstrates that both the previous speakers are not properly connected or connecting with what is emerging in the real social investment market. It is not possible to ‘force a market’ into existence but you can do wonders to accelerate its growth if you use the practical achievements of investees to inspire and enthuse others to follow them and new investors to join in – and even governments to realise there maybe something of lasting value going on here.

Patience

Fifth, Be Patient – Social Impact Investing is often known as ‘Patient Capital’ and for good reason. The terms of an individual deal may involve both investor and investee being very patient – social investment transactions take time: work leading to a commitment may have taken many months of preparation and negotiation; many more months may pass before money actually flows; terms may require investors to wait longer than in other markets for financial returns to flow; and years will probably pass before the lasting impact of the deployment of that investment can be accurately assessed.

In the UK we have found that a lot of patience was also required in the building of the social finance market. For us, the present level of activity is often traced back to the work of the UK Social Investment Task Force in 2000. The Task Force was set up with Government encouragement and a cross sectoral membership; it reported 16 years ago in October 2000. The proposal for what became BSC was made 11 years ago; BSC was set up 5 years ago. A lot of sustained work over a long period.

And, even after all the work that has gone on in the UK, the Social Investment market is far from mature – most transactions other than bank loans are still the first of their specific kind; there is much to do to make the market work effectively, to bring down transaction costs, to understand better how different forms of finance can build on each other and work together, to enable social finance to become just ‘part of the wallpaper’ of financing impact and enterprise, open to retail investors, accessible to smaller organisations and no longer seen as a strange, rather rarified outlier.

It's obviously important not to miss opportunities – but also not to rush at things too fast or to be too disheartened if early work does not go as planned.

I would like to end by drawing your attention to a couple of issues that seem to me likely to be important in any country within which efforts are being made to nurture and build a social impact investing market.

Fiduciary Duty
The first is the way that Fiduciary Duty is understood and explained. This has been a core challenge to progress within the UK. The orthodox definition of fiduciary duty has been concerned solely with financial risk and return – with no recognition of the social or environmental impact, or 'returns,' that an investment may generate.

Many mainstream investment managers and others who have done very well out of this narrow focus tend to cling onto, perhaps even to hide behind, that definition. They choose to ignore or devalue, for example, the case for Pension Funds to adopt a long term and sustainable investment focus, aligned with the circumstances and needs of the society within which their beneficiaries will be living for many decades; in the orthodox investment community, such a focus tends to be kept subservient to the portfolio's short term financial performance.

Whether the invested funds of an endowed charity or foundation are being used inconsistently with its charitable purpose or long-term mission has also tended to be ignored or given little attention (or actively resisted by investor managers with an interest in the status quo). But, as the report 'Intentional Investing' asserts:

> "Charity trustees (in the UK at least) are obliged to use their resources in ways that best meet their charitable objectives; charity trustees are not obliged to pursue investment returns at the expense of their charitable mission, their organisation's reputation, or in ways that could alienate donors or beneficiaries."

Integrating mission and impact together with risk and return to generate blended value investing is, I would argue, legitimate (indeed necessary) fiduciary duty. The interpretation in different countries and jurisdictions may vary and some may appear more rigid or limited – but I would be surprised if greater flexibility is not possible once the logic of social impact investing is fully explored.

Government
In the UK and the rest of Europe, we have found that the role and potential of Government policies and actions towards social impact investing have been vital to its development – governments as drivers of new policy, as regulators, as the decision makers about tax.

Government can be both a help and a hindrance; indeed in the UK we have found they can be both at the same time – the actions of one part of government proving to be an unmovable obstacle to the plans of another. Government also finds it difficult to be patient. Government timetables tend to be short term. Government likes things to be tightly defined, to have firm boundaries. The social investment arena will always be a bit messy and untidy – littered with things that didn't work as planned, gaining much from luck and serendipity, resistant to following prescriptions – that's the nature of entrepreneurial energy and early exploration of new possibilities.

We have been lucky in the UK (so far) that successive governments have encouraged and enabled the emergence of SII, have put in or redirected some money (especially into helping to strengthen demand capacity and to promote the concept of social finance with potential investors), have introduced new tax reliefs, have changed the law to enable BSC to be established. There have been many positives but also some big negatives – for example in the persistence of procurement rules and systems which favour big and highly capitalised companies within the private sector over values or community driven smaller companies and especially social enterprises.

Finally…
So there are some of my thoughts for you on building a social impact investing market and some of the lessons I think we have learnt in Europe. Social Impact Investing is challenging to established thinking and institutions because of the dominance of silo attitudes and cultures: the tendency throughout the world for individuals and institutions and professions to work in silos.

Social impact investing is an absolute challenge to that – it depends on the world of investment and finance working in partnership and engaging mutually with the social enterprise and environmental sectors; to replace the binary and bifurcated 'Either/Or' with the 'Both/And' blended approach.

I suggest it's necessary to be careful to avoid hyperbole, careful to acknowledge that this is new territory and there is still a long way to go in exploring what is possible, what works in different circumstances and how best to integrate social and financial returns – but there are now some increasingly vivid and encouraging stories to tell and achievements to celebrate and to learn from and to apply elsewhere.

Good luck in your discussions – I hope the day is productive and enjoyable and that many new and useful links are made between you.

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