Developing a Global Financial Centre for Social Impact Investment

RESEARCH REPORT CITY OF LONDON CORPORATION

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Foreword

Social impact investment (SII) is a growing market across the world. Research by JP Morgan and the GIIN shows a total SII value of $10.6bn in 2014, predicted to grow by 16% in 2015. The inaugural G8 Social Impact Investment Taskforce's report in 2014 showcased the significant progress of its member countries – including the UK - in developing SII models and infrastructure. There is also evidence of a burgeoning market more widely, for example in South Asia, with India, Pakistan and Bangladesh playing an increasing role.

Whilst most of this growth to date is domestically-focussed, the SII market now appears to be reaching a level of maturity, with the potential to progress to a more global market. The City of London Corporation commissioned this research to take a forward-look and explore what measures leading financial centres in this field – such as London, New York and Luxembourg - might take to support and enable global SII market development.

This research finds that London is currently well-positioned as a strong national financial centre for SII, particularly in terms of its financial markets, regulatory, policy and legal environment and has potential in its knowledge and expertise base. However, to progress, the research identifies a number of areas that London needs to address in order to enhance its current position and work towards realising its potential status as a global financial centre for SII. These include aspects such as accreditation models, enabling greater retail investment, and technical assistance models.

The City of London Corporation has been actively engaged in helping UK SII market growth through:

- Initiating and managing our own £20m SII fund to encourage and stimulate the market, with some £7.4m committed to date;
- Working closely with partner organisations such as the Cabinet Office and Big Society Capital to set up the Social Investment Research Council, supporting evidence-based policy to help improve the regulatory and fiscal framework needed to underpin the marketplace, such as the Social Investment Tax Relief and adaptation of the 'Financial Promotion Regime';
- Promoting social enterprise procurement within City businesses, developing with partners the award-winning 'Buy Social' Directory, championing business volunteering within social enterprises to develop the capacity of social organisations to access investment and secure contracts; and
- Through the City Bridge Trust, developing, implementing and managing the £1m 'Stepping Stones' investment-readiness fund which helps social sector organisations take on SII finance.

It is very encouraging to see the SII market moving towards greater global growth by building on the strengths of domestic centres. We in London are well-positioned to support this growth, and build upon what has already been achieved at a domestic level with the strong support of the Government through the Cabinet Office and UKTI, and bodies such as Big Society Capital and the Big Lottery Fund, among others.

This report helps to identify ways in which London can continue to strengthen its position domestically and internationally. It also, though, has a wider purpose in developing a model and highlighting key considerations and features that are applicable to any financial centre looking to develop in this way. This report will therefore provide a valuable resource to other centres to support the development and growth of the SII market at a global level.

Mark Boleat

Chairman of Policy and Resources
City of London Corporation

June 2015

Executive summary

As the social impact investment (SII) market looks to develop and grow on a global scale, this research, commissioned by the City of London Corporation, explores what support financial centres might provide to enable this development. Specifically, the research explores the hypothesis that, as the SII market matures, leading financial centres – such as London, New York, and Luxembourg - have the opportunity to evolve into global financial centres for inward and outbound flows of international social impact investment. Consideration is then given to London's current position and practical recommendations are provided on how London might develop to be a global financial centre for social impact investment.

The G8 Social Impact Investment Taskforce defines social impact investment as: "those forms of investment financing that intentionally target specific social objectives along with financial returns and measure the achievement of both". The estimated size of the SII market globally in 2015 is in excess of $12bn with significant growth potential[1]. To date, social impact investment – with the exception of international development finance - is largely confined as a series of domestic markets across the world[2], with countries such as the UK, US, and Luxembourg taking the lead in developing the infrastructure to support national market growth. Within the UK, London forms a national or domestic financial centre for SII, with a large proportion of social impact investors and intermediaries based in the capital.

The concept of a global financial centre refers to a centre of finance, commerce and culture which, through high levels of expertise in a range of financial products and international business networks, enables the supply and demand of international capital flows. This report considers the concept of a global financial centre for social impact investment, and whether London is or could be well placed to take on this role. While consideration is given here to London, the concept of a global financial centre for SII developed in this report could apply to any financial centre. There is also no limit or constraint set on how many could exist simultaneously, nor is it essential for such a centre to be a national capital city.

This research considered a range of secondary sources supplemented by consultation with a sample of international social impact investors and select subject matter experts, to answer four research questions:

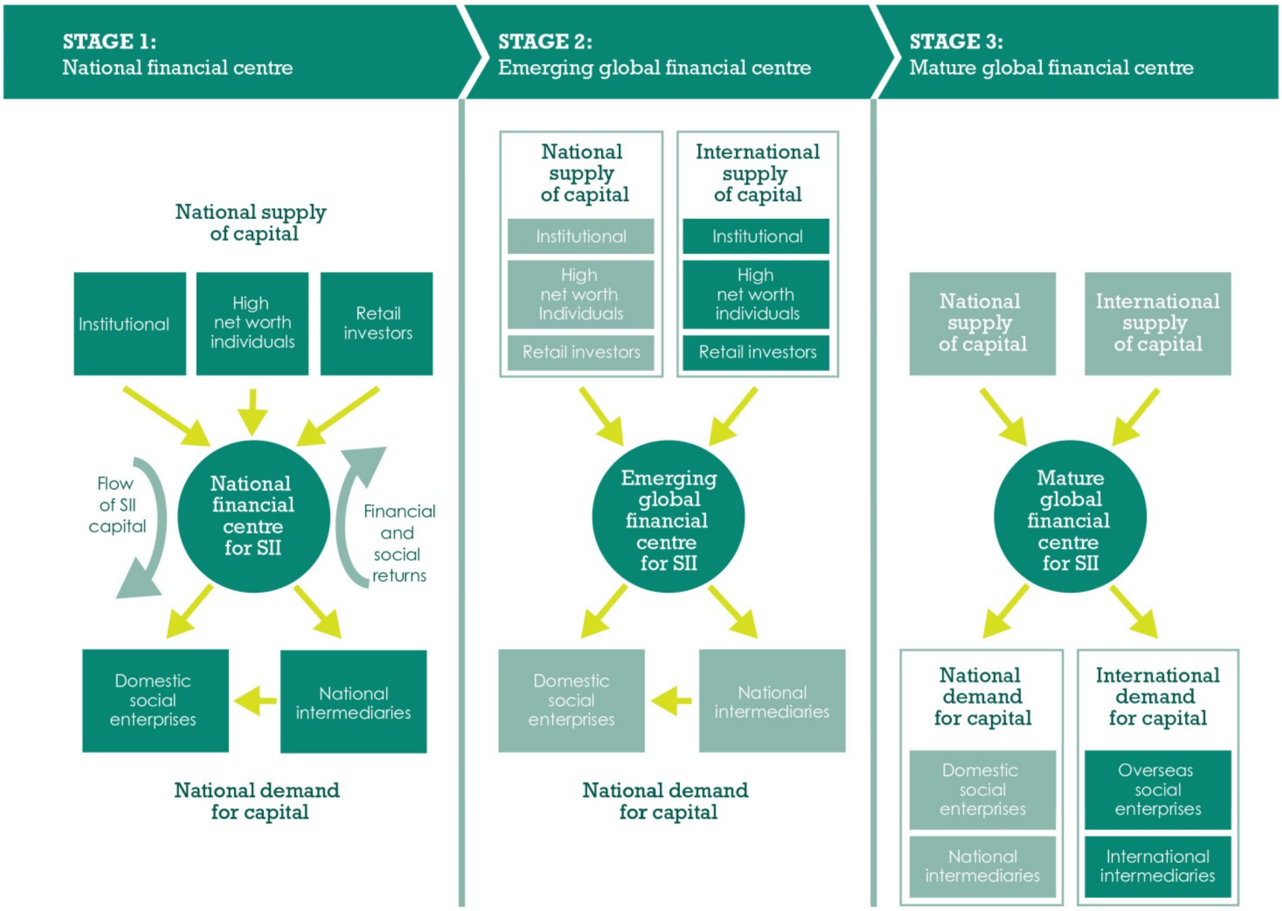
1. What might a global financial centre for SII look like? What are the stages of development for such a centre?
2. What are the essential 'features' of a global financial centre for SII that might enable it to transition to more developed stages?
3. Where does London currently stand in the context of these features and its progression towards being a global financial centre for SII – where is it doing well and where does it require further development or enhancement?
4. What can be recommended to inform such development and evolution for London to become a global financial centre for SII?

[1] 'Eyes on the horizon: the impact investor survey' (May 2015) JP Morgan and Global Impact Investing Network (GIIN).
[2] International development finance, for the purpose this research, is not considered the same as social impact investment – though there are elements of overlap and potential to combine the two.

Research question 1: What might a global financial centre for SII look like? What are the stages of development for such a centre?

This research identifies three progressive stages for the development of a global financial centre for social impact investment. This involves evolving from a mature national financial centre (stage 1), to an emerging global financial centre (stage 2), and finally to a mature global financial centre for SII (stage 3). These stages are presented in a model of development (Figure 1).

Figure 1: Model of development of a global financial centre for social impact investment



Source: PwC anaylsis

Stage 1 – The starting point is a mature national financial centre for social impact investment. This is primarily focused around domestic supply and demand of SII capital.

Stage 2 – For a national financial centre to progress and develop to stage 2, requires the ability to attract greater international supplies of capital – from investors such as government, charitable trusts and foundations, impact investing funds, mainstream financial investors and development finance institutions.

Stage 3 – This is the final stage and involves combining the international supply of capital, with attracting international demand for SII capital from the global community of social sector organisations (SSOs)[3] and others delivering these impacts. These activities are

[3] For the purposes of this report, the term 'social sector organisations' (SSOs) is used to encompass the full variety of voluntary, community and social enterprise organisations, including charities. This definition does not distinguish between the legal forms of VCSE organisations but considers their objectives and mission for positive social impact.

coordinated via social impact investment intermediaries. As a financial centre evolves and matures, new sources of supply and demand join from the international SII market, helped by activity geared towards stimulating supply and demand. Only when a financial centre acts as a central channel for domestic and international flows of SII capital supply and demand will it be a truly global financial centre for SII.

This research considers the stage at which London is at currently, and how far it is from becoming a stage 3 mature global financial centre for SII. It focuses primarily on what is needed for a financial centre to progress from stage 1 to stage 2, and therefore on the ability to attract greater international supply of capital to London. While this report examines in detail supply-side factors, it also identifies the need for stimulating demand and the role of other enabling factors to market development. Any truly global financial centre for SII will also act as a channel for mainstream investments which may also generate positive social impact even if not their primary intention.

Research question 2: What are the essential features of a global financial centre for SII that might enable it to transition to more developed stages?

Through a survey and follow up consultations, the research identifies six essential features of a global financial centre for social impact investment across the three stages of market development (illustrated in Figure 1).The features are outlined in Table 1 in order of relative importance and their relevance to each stage.

To a degree, some of the features presented in Table 1 have similarities with the features needed to be a mainstream global financial centre, identified by other research (see chapter 2 for further detail). We believe that London could build on its existing competencies and position as an identified mainstream global financial centre to fully develop the specialities needed for SII in these six features.

Table 1: The essential features of a global financial centre for social impact investment

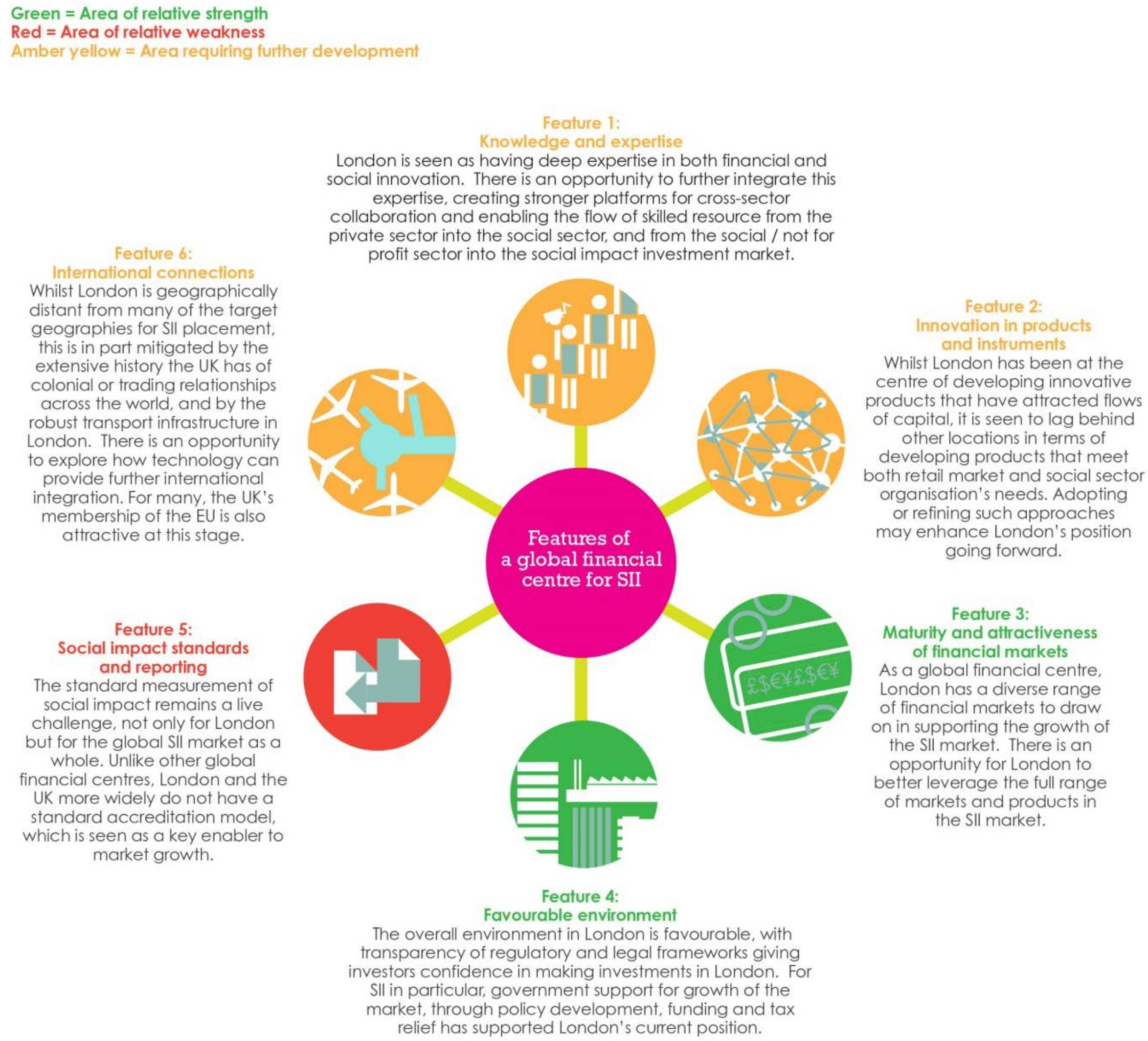
Essential feature			
1. **Knowledge and expertise** - the existing professional and institutional skills base and its ability to influence the development of social impact investment.	High	High	High
2. **Innovation in products and instruments** - the level and track record of innovation shown by markets in the development of social impact investment products and instruments.	Medium	High	High
3. **Maturity and attractiveness of financial markets** - the development of financial markets and their potential to support a strong social impact investment market.	Medium	High	High
4. **Favourable environment** - the extent to which the national and local government currently provide a supportive policy, regulatory and legal environment for social impact investment.	Medium	High	High
5. **Social impact standards and reporting** – the ability to support the development of consensus driven and market-led standards and reporting.	Low	Medium	High
6. **International connections** - the international connectedness of a financial centre, manifested in the geographical proximity to demand and supply in the social impact investment market.	Low	Low	Medium

Research question 3: What is London’s current position against these features?

This research finds that, at this point in time, London’s position is predominantly seen as a strong national financial centre for SII. London is therefore at stage 1of development in our model.

This is based on a two-part analysis. First, a RAG[4] analysis to determine London’s position assessed against the six essential features of a global financial centre for SII. This is presented in Figure 2. It highlights that London performs strongly in some features – such as the maturity and attractiveness of its financial markets and a favourable environment - and less so in others, particularly social impact standards and reporting, and suggests areas for further development. The features analysis suggests that London has a sound basis to progress and develop as a global financial centre for SII.

Figure 2: London’s current position against the six key features of a global financial centre for social impact investment

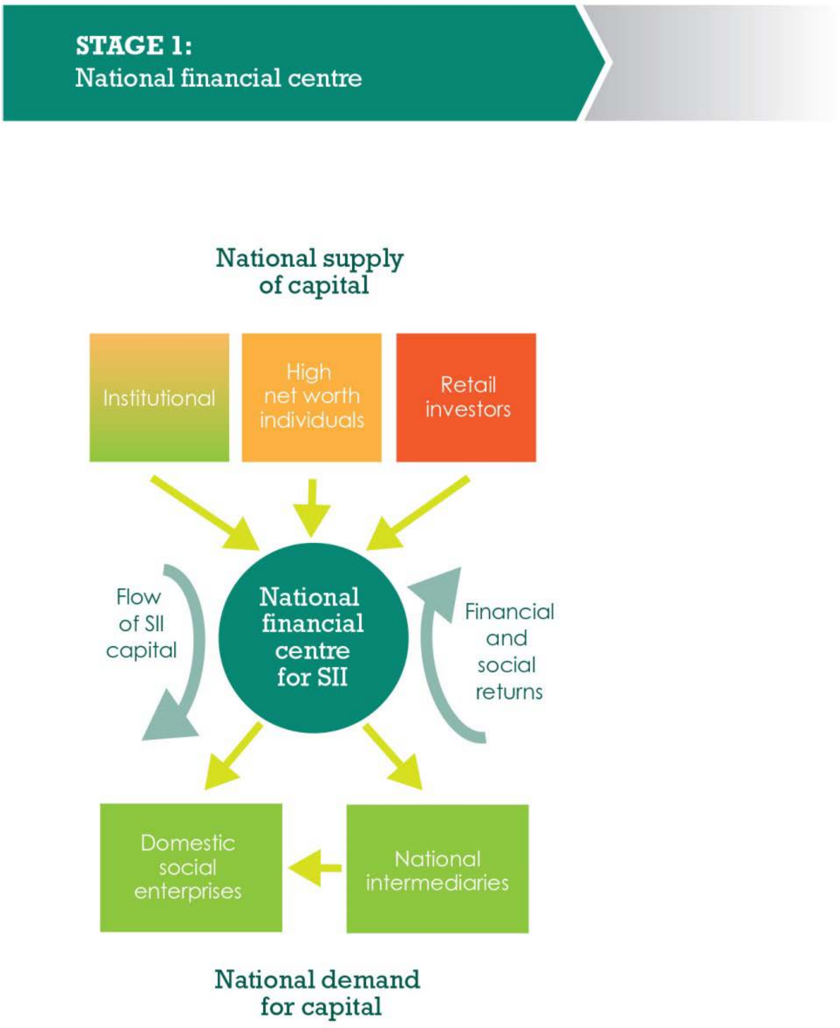


Source: PwC anaylsis

[4] Those areas flagged as green are where London is perceived to be most developed or attractive, whilst amber and red indicate areas for further development. It should be noted that whilst green indicates a positive or fairly strong position, it does not mean that no further support or development is required.

Building on the features RAG analysis, consideration is given to what stage of development London is at in terms of its potential to be a global financial centre for social impact investment. This is presented in Figure 3 and allows us to identify particular areas for further improvement, for London to progress to stage 2.

Figure 3: RAG analysis of London's current stage of development



Source: PwC anaylsis

Taken together, this analysis allowed us to develop an informed understanding of London's current position and performance against our features framework and development model. This highlights that:

- London is currently at stage 1 of development, predominantly seen as a strong national financial centre for SII.
- To fully achieve stage 1 and progress to stage 2 requires further improvements, across some features in particular. For example, thinking about an area that could be addressed within Feature two and Feature three, a greater supply of capital from retail investors is a key area for improvement on a national level. This would arise from the development and utilisation of a favourable environment alongside improved innovation in products that meet both retail investors' and SSO's needs.

- However there are also some aspects already in place that might attract international social impact investment and support London's progression to global status – such as London's knowledge and expertise base (Feature one).
- On reaching maturity for the different elements of a national financial centre for SII, London has the potential to progress to stage 2 of development. To do so it needs to address the issues for each of the six essential features of a global financial centre, presented in Figure 2, including in developing a pipeline of investable propositions to attract and allocate international capital.

While this research did not include a detailed comparative analysis between London and other financial centres, we might expect other leading financial centres to be similarly positioned i.e. as national financial centres for SII rather than emerging (stage 2) or mature (stage 3) global financial centres. The work of the G8 Social Impact Investment Taskforce[5] for example highlights how, whilst developments in the SII market are occurring across a number of leading financial centres, there is no clear global financial centre for SII. This research seeks to consider therefore the potential for London and other centres to take up this opportunity.

Research question 4: What can be recommended to inform such development and evolution for London to become a global financial centre for SII?

Based on the analysis and identified areas for strengthening and improvement, we suggest six practical recommendations to enable London to move closer towards becoming a global financial centre for SII. These are broken down to address each of the three stages of development, considering how London might progress from its current position at stage 1, on to stage 2 and then stage 3. As mentioned, we might expect other financial centres to have to similarly progress through the stages of development as London. It is also worth highlighting that the examples presented as part of our recommendations are not necessarily the 'answers' to London's progression to a global financial centre for SII. They are interesting developments and provide useful learning to consider, to support this progression.

Stage 1: Reach national maturity - building on the diverse supplies of SII capital from institutions, (Ultra) High Net Worth Investors ((U)HNWIs)and retail investors by:

1. Creating and fully utilising a supportive regulatory environment for SII. This could include new powers for trustees of foundations to make social impact investments and for pension fund trustees to consider the overall societal benefits of their investments, as within their fiduciary duties. In addition, the adoption of simpler, more coherent regulation and associated guidelines which recognise the objectives, size and scale of investments being raised by social sector organisations (SSOs), and enable compliance costs to be more aligned with the size of investments raised. A degree of 'flexibility' is required within the regulatory framework, to enable market growth and allow for changes to accommodate market development.

Feature(s) addressed: Feature three: Maturity and attractiveness of financial markets; Feature four: Favourable environment.

2. Encouraging retail investment (through a supportive regulatory environment). Through reform of the regulatory framework to increase the flexibility and autonomy of, for example, pension fund managers, allowing the opportunity for developing new social impact investment products, including for those making international investments. In addition, ensuring relevant regulation for retail investment into SIIs is proportional,

[5] For more information see: http://www.socialimpactinvestment.org/

balancing the need to consider consumer protection against the costs of promoting investment opportunities to retail customers, and ensuring joined up thinking across regulatory structures. Remedying current inconsistencies within the 'Financial Promotion Regime'[6] to recognise and promote social impact investment is one example of how implementing this recommendation could be targeted as a first step, at a domestic level, to enable access to SII for retail investors.

Feature(s) addressed: Feature two: Innovation in products and instruments; Feature three: Maturity and attractiveness of financial markets; Feature four: Favourable environment.

Stage 2: Emergence on the global stage – growing the existing pool of expertise in London and creating efficiency in comparing global SII investments by:

3. Growing and drawing on London's highly skilled workforce to attract more skilled professionals into the social sector. Through targeted education, training and greater cross-fertilisation of knowledge and expertise between the financial, corporate and social sectors, both in the UK and internationally. This could draw on cross-sector collaboration initiatives and market network platforms using digital technologies and includes training for social fund managers, wealth and financial advisors to determine the appropriateness and suitability of SII products for their international and domestic clients.

Feature(s) addressed: Feature one: Knowledge and expertise.

4. Stimulating supply and demand for SII opportunities for international capital in the future. Through a variety of approaches, including the development of products which are suited to new investors – such as foundations and trusts which now have a specific power to make SII investments, and for retail investors. An example of such a product might be 'solidarity' style funds. In addition, making greater use of mainstream funds and product design for SII use (as exemplified by the Threadneedle Social Bond Fund) is also an important aspect, as is carefully structuring guarantee facilities or first loss (especially popular in development finance) and ensuring that these new products meet the needs of SSOs in their simplicity, with time lags for outcomes to be measured. Products should also be designed with due recognition of mixed motives of social investors.

In addition to these direct product development considerations, wider activities and support might include encouraging fund managers to explore SII opportunities in markets globally; replicating and adapting tried and tested models; building on existing marketing of social business opportunities such as the work of UKTI; and improved matching of potential social impact opportunities with development finance.

Feature(s) addressed: Feature two: Innovation in products and instruments; Feature three: Maturity and attractiveness of financial markets.

5. Introducing international social impact measurement standards and accreditation models. Adoption of proven accreditation models and standards developed in other markets as an efficient means of enabling investors to identify options that have a social impact in a relatively transparent manner with low transaction costs. This would involve

[6] A 'financial promotion' is a communication which is an invitation to engage in investment activities. The 'Financial Promotion Regime' is the legislative and regulatory regime which the investee seeking to make the financial promotion is required to comply with in order to do so. For more information, see: 'Marketing social investments – an outline of the UK financial promotion regime' (June 2014) BWB for the Social Investment Research Council, available at: http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/marketing-social-investments-outline-of-the-FPO.aspx

encouraging investors and fund managers to adopt greater accountability for social impact measurement standards using existing accreditations such as LuxFLAG for labelling funds; B Corp Certification for identifying socially impactful corporations; and IRIS for positive impacts generated from emerging market development finance. In addition, it is important for investors to use existing platforms where possible to encourage collaboration to move towards globally recognised impact measurement principles and standards.

Feature(s) addressed: Feature five: Social impact standards and reporting.

Stage 3: Securing a mature global position – by attracting and supporting a robust pipeline of international investment opportunities through:

6. Provision of targeted technical assistance for SSOs for greater capacity building and at fund level for impact. Through the provision of greater and/or more consistent technical assistance for SSOs looking to raise social impact investment and providing ongoing business support to SSOs. As well as providing support and assistance to investees, a technical assistance vehicle for SII funds might add value by 'scouting' opportunities before money is invested, and monitoring fund performance. In addition, building a pipeline of scalable models by looking to other international precedents and understanding how proven, scalable models could be replicated on a national or international basis.

Feature(s) addressed: Feature one: Knowledge and expertise; Feature two: Innovation in products and instruments.

Conclusion

The SII market has undergone considerable evolution. It now appears to be reaching a level of maturity where there may well be potential to develop from a series of disparate, domestically-focussed markets for specialist investors, to a more global market. While there are currently no fully formed global financial centres for SII, there is a clear role for key financial centres to play in supporting this growth, to bring together supply and demand for social impact investment, with knowledge, expertise and appropriate regulatory environments and infrastructure.

A number of major financial centres, largely national capitals, have been at the forefront of driving change so far, with London pre-eminent among them. Our research suggests that London has certain features that it must address – not least in relation to ensuring a supportive regulatory environment, accreditation, enabling greater retail investment, developing its skills base and technical assistance models - if it is to be a global financial centre for social impact investment.

1. Introduction

1.1. Research brief

The City of London Corporation commissioned PricewaterhouseCoopers LLP ("PwC") and Katie Hill in an advisory capacity, to consider how the social impact investment (SII) market might develop from being largely domestically-focussed, to becoming a global market, and what support financial centres might provide to enable this development. In particular, this research explores the hypothesis that as the SII market matures and becomes more international, and ultimately global in nature, those financial centres – such as London, New York, and Luxembourg - that have played a lead role in driving innovation and domestic SII to date, have the potential to evolve into 'global financial centres' for inward and outbound flows of international social impact investment.

This research considers how such a market might be supported and enabled and what a financial centre would need to have in place to accommodate a global social impact investment market. In particular, the research considers what this means for London as an established national financial centre for SII, and whether it could be in a position to meet such requirements and develop into a global financial centre for SII.

The intended audience of this report therefore encompasses UK and international policymakers and regulators, social sector organisations (SSOs)[7], advisers, social finance providers, social investors, and other stakeholders engaged with the international social impact investment market. This research is also relevant to national financial centres seeking to develop their SII markets domestically and also at an international level.

This research was undertaken on the premise that:

- The social impact investment market is growing - domestically, within an increasing number of countries, and is also becoming increasingly internationalised and has potential to develop on a global scale with associated flows of capital across borders[8];
- There are certain 'features' which, to varying degrees, are essential to supporting and developing this global market growth;
- In this context, there are a number of cities that currently act as national financial centres for social impact investment, or indeed mainstream global financial centres, which are well positioned to support and develop the growth of a global SII market;
- London is such a financial centre and given the UK's commitment to and driving force within the growing social impact investment market, there is an opportunity for London to develop and position itself as a global financial centre for such capital flows;
- This potential needs to be fully understood and explored, considering in particular what features are and are not in place to help attract international investors to fund and operate through and in London; and,

[7] For the purposes of this report, the term 'social sector organisations' (SSOs) is used to encompass the full variety of voluntary, community and social enterprise organisations, including charities. This definition does not distinguish between the legal forms of VCSE organisations but considers their objectives and mission for positive social impact.

[8] For example, recent research by JP Morgan and the Global Impact Investing Network (GIIN) found that of the 146 impact investors surveyed, almost half (48%) of assets under management are in emerging markets, despite the majority of capital (90%) being managed by investors headquartered in developed markets. When asked where they plan to increase their investment allocations, the highest number of respondents said to Sub Saharan Africa (29 respondents), followed by East and South East Asia (28 respondents) and Latin America and Caribbean (27 respondents). Source: 'Eyes on the horizon' (May 2015) JP Morgan and GIIN.

- Engaging with a sample of such investors - to seek their views of future requirements and where the gaps currently lie - will provide insight as to both the relative attractiveness of London, and more importantly, what might need to be put in place to strengthen London's competitive position in social impact investment.

While this research considers London's potential to be a global financial centre for SII, the wider analysis – in terms of the features of a global financial centre for SII and how such a centre might develop – can be applied to any financial centre seeking to support the market's global growth potential.

1.2. Methodology and approach

1.2.1. Identifying key features

We undertook a literature review of over 60 secondary sources (see Appendix A) as per the research hypothesis outlined in section 1.1, to inform our understanding of what a global financial centre for social impact investment might look like and how it might develop. The sources were predominantly from Western Europe and Northern America and published in the last five years to ensure relevance.

Based on the literature review findings we compiled a shortlist of essential features of a global financial centre for SII, which we tested with a panel of five PwC subject matter experts in the UK and Japan, where PwC also has a dedicated international SII practice.

These experts were chosen for their background in the allied fields of international development, climate financing and venture capital, and brought an external, informed perspective to a) help clarify those features which had elements of commonality or divergence between the nascent SII market and more mature conventional or alternative finance markets and b) identify the essential features for either an established or new financial centre becoming a global financial centre for SII.

The consequent list of features was further refined through consultation with the City of London Corporation, resulting in a list of eight essential features of a global financial centre for SII (see chapter 3 for more information).

1.2.2. Testing these features

The list of features was further tested with a sample of international investors through a three-part online survey (see online appendices[9]) covering investors':

- Background and nature of involvement in the social impact investment market;
- Views on the opportunity for a global financial centre (to validate the initial premise) as well as the key features likely to be required of such a centre and views on how this might develop; and
- Assessment of the degree to which London currently does and does not meet such features.

Survey responses were received from 42 (out of a sample of 80) geographically dispersed investors across North and South America, Europe, Asia and Africa. Their responses were collated to rank essential features of a global financial centre for SII in order of importance.

[9] See the City of London Corporation research webpage, available at: http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/Developing-a-global-financial-centre-for-social-investment.aspx

To better understand the responses we conducted a series of one-hour qualitative face-to-face and telephone interviews with 15 survey respondents and nine additional social investors (see Appendix B for a list of survey respondents. The survey questionnaire is available in the online appendices[10]). Follow-up discussions were conducted with a number of interviewees to confirm perspectives and test our emerging findings, and consolidated findings were also tested against the secondary research review. Following this consultation, two of the identified features were removed as being general to financial markets and without specific relevance to social impact investment.

1.3. Structure of this report

Chapter 2 explores the two central concepts of 'social impact investment' and 'global financial centre', and presents a model of development of a mature global financial centre for social impact investment.

Chapter 3 builds on the analysis in chapter 2 and considers the six essential features of a global financial centre for social impact investment, ranked in order of importance, and assesses London's current position for each feature through a RAG gap analysis.

Chapter 4 considers London's capacity to seize the opportunities, as identified in chapter 3, for developing as a global financial centre for SII. It proposes recommendations to enhance London's position and potential if it is to become such a centre.

[10] Ibid.

2. Exploring key concepts

This chapter explores the two concepts central to our research, namely: 'social impact investment' (SII) and 'global financial centre'. Both are complex terms with a range of possible interpretations, which we seek to unpack and understand here.

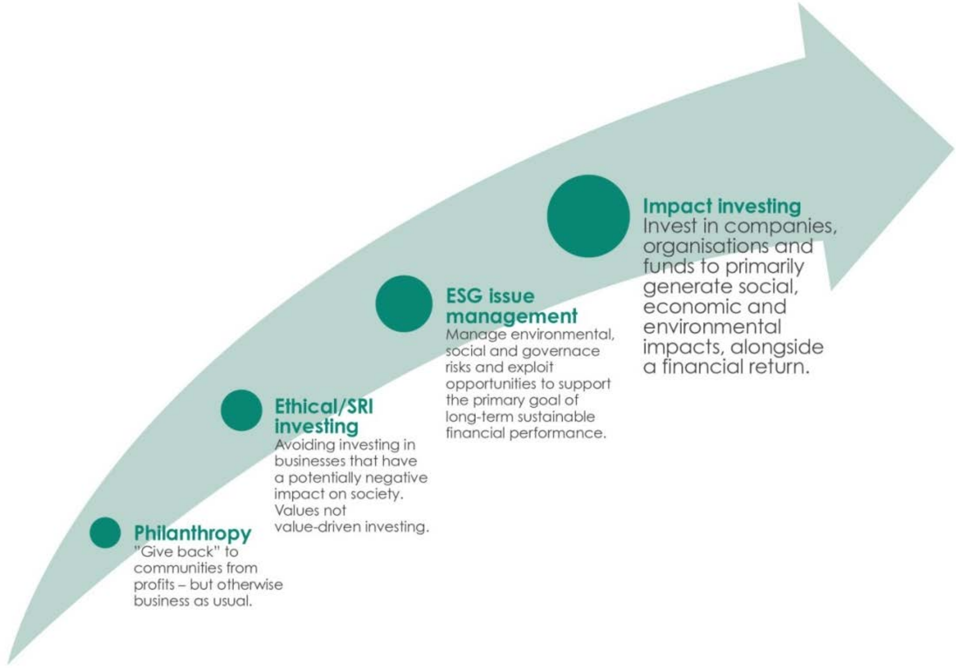
2.1. Understanding the social impact investment market

Our understanding of social impact investment is consistent with that of the Social Impact Investment Taskforce, established under the UK's presidency of the G8. The Taskforce defines SII as "those forms of investment financing that intentionally target specific social objectives along with financial returns and measure the achievement of both"[11]. We apply this definition in our research as it is not prescriptive about the precise balance or amount of social/environmental and financial returns and recognises that these vary widely across the spectrum of investment opportunities, thus providing a flexible definition for investments that have common intent or purpose.

Looking at how the SII market has developed historically - as illustrated in Figure 4 – it has arguably evolved from finance used for philanthropic purposes (particularly in the nineteenth and early twentieth centuries) to more targeted ethical investing and grant giving and broader social and ecological concerns around issues such as human rights in supply chains and climate change, to the emergence of impact investment. This evolution is based on a shift in thinking about how finance and investment can enable social as well as financial impacts to be achieved, and provides a 'spectrum' of investment styles that are now all actively utilised to achieve impacts. One has not replaced the other, but a wider spectrum of using finance for purpose has developed[12]. Research in 2015 by JP Morgan and the Global Impact Investing Network (GIIN) reports that 55% of the impact investors surveyed are seeking "competitive, market rate returns" alongside measurable social impacts[13].

[11] 'G8 Social Impact Investment forum outputs and agreed actions' (July 2013).
[12] It's also worth noting here earlier research by the Social Investment Research Council which found that social impact investment is not a natural 'stepping stone' from ethical or socially responsible investment. See: 'Specialist sources of capital for the social investment market' (April 2014) The Social Investment Consultancy with London Economics for the Social Investment Research Council.
[13] JP Morgan and GIIN (May 2015) – Op Cit.

Figure 4: The evolution of the concept of social impact investment



Source: PwC anaylsis

In June 2013 David Cameron, as Chair of the G8, launched an independent Social Impact Investment Taskforce to report on "catalysing a global market in impact investment" to improve society. It worked with hundreds of people around the world from the public, social and private sectors over 14 months, and collaborated with eight National Advisory Boards and four international expert Working Groups to produce a report focused on the main barriers to the globalisation of social impact investment. The G8 Taskforce report, 'Impact investment: the invisible heart of markets'[14] states:

> "The crash of 2008 highlighted the need for a renewed effort to ensure that finance helps build a healthy society rather than endanger it. This requires a paradigm shift in capital market thinking, from two-dimensions to three. By bringing a third dimension, impact, to the traditional capital market priorities of risk and return, impact investing has the potential to transform our ability to build a better society for all."

This highlights a shift in attitude on conventional or mainstream financial investments, focused primarily on financial gain, towards social impact investments which seek to have positive social or environmental impacts in addition to financial returns. In the wider context of the 2008/09 economic crisis, this shift is perhaps unsurprising, as rhetoric has moved on to think about how finance can more effectively and proactively be used 'for good', beyond philanthropy and grant giving (though both of these are valuable in their own right). This is also reflected in wider financial market developments, such as the growth of 'alternative finance' – including peer-to-peer lending and crowdfunding – which connects investors more directly with investees and, though different to social impact investment, often also have goals for positive social impact[15].

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[14] Available at: http://socialimpactinvestment.org/reports/Impact%20Investment%20Report%20FINAL[3].pdf
[15] For a detailed report on the UK alternative finance market, see: 'Understanding alternative finance: the UK alternative finance industry report' (November 2014), NESTA, Available at: http://www.nesta.org.uk/publications/understanding-alternative-finance-uk-alternative-finance-industry-report-2014

Within the context of increasing pressure on public service delivery in the UK and Europe, the growth of alternative finance mechanisms, and increasing attention towards using finance to 'do good', the social impact investment market appears to be growing across the world. At a domestic level this is already happening, with the development of Social Impact Bonds (SIBs) which are specifically designed to reform public service delivery and have been taken up across the UK, where the concept originated, and also internationally in Australia and the US, among other markets. However as these trends continue, there are also opportunities for social impact investment to develop on a more international level, across domestic borders; for example the potential for it to be utilised for international development, a topic explored by the International Development Working Group on the G8 Taskforce. The Working Group's report[16] highlights that there is an opportunity for SII to be used to address some of the social and economic challenges which international development finance has traditionally focused on, through close collaboration between the sources of public, private and philanthropic capital. The report states that social impact investment, if leveraged effectively and developed at scale, can be utilised as a type of investment strategy that more explicitly targets measurable social returns.

As illustrated in Table 2, the marketplace operates through those who require social impact investment, receiving this funding – all or in part - from the enabling activities of other regulatory or governmental bodies. In other words, it comprises of **'supply-side'** activities (relating to the provision of SII capital), **'demand-side'** opportunities (relating to the need for investment) and **'enabling'** factors (relating to the facilitation of an environment which supports social impact investment). The examples provided in Table 2 are intended to illustrate the broad organisation types, and are not prescriptive of legal form or definition.

Table 2: Segmentation of the social impact investment market[17]

	Market elements		
	Demand	**Intermediary**	**Supply**
Market sub-segments	Cooperatives*	Social banks	Individual investors
	Charities*	Fund managers	Institutional investors
	Social enterprises*	Community Development Finance Institutions (CDFIs)	Government investment
	Mainstream business	Infrastructure	Charitable foundations
	Government commissioning	Instruments	Philanthropists
		Development Finance Institutions [author's addition]	Corporates

* Social organisations.

Each of these three market elements plays a crucial role in the development and growth of the nascent social impact investment market, at a domestic and international level. In thinking about the market's development, this report examines supply-side actors – investors such as government, charitable trusts and foundations, impact investing funds, mainstream financial investors and development finance institutions - which deploy capital and resources to social sector organisations to meet their risk/return profiles. It also identifies the need for stimulating demand and the role of enabling factors as part of this development. Any truly global financial centre for SII will also act as a channel for mainstream investments

[16] Available at: http://www.socialimpactinvestment.org/reports/International%20Development%20WG%20paper%20FINAL.pdf

[17] Source: 'Building a social impact investment market: The UK experience', UK National Advisory Board to the G8 Social Impact Investment Taskforce, September 2014, Page 7.

which may also generate positive social impact even if not the primary intention. Consideration of demand-side market elements is also reflected in some of the recommendations for London presented in chapter 4 of this report.

2.2. The growth of individual domestic markets for social impact investment

Evidence suggests that the SII market is growing, domestically in national markets but also at a global market level. This provides opportunities for financial centres such as London – which already acts as a global financial centre for mainstream capital flows - to develop and support this growth.

At a domestic level, SSOs that receive and are supported by social impact investment provide the potential for more sustainable solutions for complex social problems that scarce governmental and philanthropic resources are unable to fully resolve. SSOs account for more than 5% of national GDP in Canada, the US, the UK and Germany[18]. The G8 Taskforce report showcases how the G8 member countries, the UK foremost among them, have made significant progress already in developing models and infrastructure, such as SIBs, with more than 30 developed to date in the UK alone[19]. Examples include the Golden Lane Housing Bond which was oversubscribed and raised £10m to provide housing for people with learning disabilities[20], and the first SIB - the Peterborough SIB - which sought to reduce re-offending by short-stay offenders in Peterborough prison. Most recently, the Government-backed £100m Access Foundation has been set up to provide early-stage support to SSOs – including charities - to receive and use SII[21].

Other examples where SII is growing at a domestic level include, among others:

- The US – the first American SIB was launched in New York City in 2012 to deliver rehabilitation services to 16 to18 year olds serving sentences in Rikers Island, the city's main jail. This was followed in 2013 by the New York State SIB, to combat recidivism by training and preparing 2,000 formerly incarcerated individuals for employment, which raised $13.5m. Other developments include the innovative B Corp Certification model, developed in the US; a for-profit business model which locks-in positive social and environmental objectives into an organisation's corporate governance framework.
- Australia has a growing domestic SII market, primarily focused around debt financing. The market is varied, with involvement from funds, initiatives offering SSOs early stage seed funding, micro- and crowdfunded investments, banks and private corporations, community finance institutions and government support – for example the launch of two 'social benefit bonds' in 2013, the AUS$7m Newpin Bond and the AUS$10m Benevolent Society Bond, both geared towards improving family relationships. There is also potential for this market to grow, with B Corp Australia launching in 2014 and Australia being in the top ten countries for absolute numbers of High Net Worth Individuals (HNWIs). Estimates suggest Australia's SII market could reach AUS$32bn in a decade[22].

[18] http://www.socialimpactinvestment.org/reports/Impact%20Investment%20Report%20FINAL[3].pdf
[19] See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/418433/Letter_to_Sir_Ronald_Cohen.pdf
[20] For more information see: http://www.glh.org.uk/investors-2/2013-social-investment-bond/
[21] For more information see: http://access-socialinvestment.org.uk/
[22] See: 'Delivering on impact: the Australian advisory board breakthrough strategy to catalyse impact investment' (September 2014). Available at: http://www.socialimpactinvestment.org/reports/Australian%20Report%20Final%20190814.pdf; and 'Impact – Australia: investment for social and economic benefit' (Marh 2013). Available at: https://docs.employment.gov.au/system/files/doc/other/impact-australia_nov_2013_2.pdf

- South Asia - recent research by the GIIN has also demonstrated domestic social impact investment activities across South Asia (covering India, Pakistan, Sri Lanka, Myanmar, Nepal and Bangladesh), for example with India deploying almost $440m in capital for social impact investments. This is in addition to development finance institution (DFI) capital deployment. Pakistan and Bangladesh are also fairly actively, deploying $162m and $121m respectively (again, this is non-DFI investment)[23].
- Malaysia's Prime Minister recently announced a three-year strategy to develop the country's social sector, by providing support directly to social entrepreneurs and by investing in social economy infrastructure.

2.3. Evidence of the increasing globalisation of social impact investment

This largely domestic social opportunity is coupled with an economic opportunity to play a pivotal role in the global market. Research by JP Morgan and GIIN for example shows a total SII value of $10.6bn in 2014 across 146 respondents, with intentions to invest 16% more – $12.2bn – in 2015[24]. In addition, survey respondents plan to increase their total number of deals in 2015 by 17%, with 6,332 planned compared to the 5,404 executed in 2014. Notably, whilst the significant majority (90%) of the funds surveyed are headquartered in the developed world, half of all capital is deployed in the developing world, indicating that the SII market is not solely growing on a nation by nation basis, but that international flows of capital are forming a substantial element of the market. The OECD highlights research which identifies that as of 2012 there were 350 impact investment funds in existence globally, with a total capital of $40bn. More than half of these funds had been created in the five years prior[25].

An example of this emerging international flow of capital in practice is the EU Social Entrepreneurship Funds Framework (EUSEF). The Framework provides a single, common regulatory process for EU-based SII funds, enabling them to be marketed in multiple EU countries without separately complying with national regulatory processes[26]. For instance, the French-based Phitrust Partenaires is now marketed in Belgium, Denmark, France, Luxembourg, Netherlands and the UK, and has made international investments including in the UK, France and Africa.

The trend towards international flows of social impact investment capital is also reinforced by emerging and increasing interest and involvement in SII from international institutions and corporations, for example the involvement of mainstream banks Goldman Sachs and Bank of America Merrill Lynch in US SIBs; and the creation of the 'Investing with Impact Platform' by Morgan Stanley. Corporate foundations are also increasingly getting involved at an international level[27], as are community foundations such as the Calvert Foundation. Through its Community Investment Note product, set up in 1995, more than 13,500 people have invested over $1bn towards community development and SSOs in America and globally[28].

The creation of the G8 Social Impact Investment Taskforce itself and its work are also indicative of an increasingly internationalised SII market.

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[23] 'The landscape for impact investing in South Asia: understanding the current status, trends, opportunities and challenges' (April 2015) GIIN. Available at: http://www.thegiin.org/binary-data/Full_GIIN_South_Asia_Report-1.pdf
[24] JP Morgan and GIIN (May 2015) – Op Cit.
[25] Wilson, K. E. (2014), 'New investment approaches for addressing social and economic challenges', OECD Science, Technology and Industry Policy Papers, No. 15, OECD Publishing. http://dx.doi.org/10.1787/5jz2bz8g00jj-en
[26] http://www.esma.europa.eu/page/Venture-Capital-and-Social-Entrepreneurship-Funds
[27] See; 'Corporate foundations: a global perspective' (March 2014) Corporate Citizenship. Available at: http://corporate-citizenship.com/our-insights/corporate-foundations-global-perspective/
[28] http://www.calvertfoundation.org/invest

Such trends suggest that the SII market is making steps and could expand from a relatively localised phenomenon to one that is truly international. While we recognise that it has a way to go before it can be considered a truly global market, this research takes a forward-looking approach, to consider what the market needs to continue on this trajectory of increasing internationalisation, and how financial centres might be able to support this development.

2.4. Barriers and challenges to market growth

While the market is growing, there are also areas of failure or weakness. The OECD[29] and separately, the Social Investment Research Council[30], among others, have both highlighted a number of areas of challenge, worth touching on here. These include:

- Lack of SII products and capital across the full risk/return spectrum;
- Shortage of intermediaries and a scarcity of high quality, large investment opportunities;
- High transaction costs due to fragmented supply and demand and the complexity of deal structuring;
- A lack of information and asymmetries between investors and investees;
- The need for greater clarity, definitions and use of terminology around SII and products;
- Perceptions of the market, linked to a lack of information and market track record; and
- Imperfect competition in the market due to high transaction costs as well as a lack of brokers, advisors, exchanges and other market mechanisms.

2.5. A global financial centre for social impact investment

2.5.1. What is a global financial centre?

There is a wide range of research, indices and benchmarks which define and explore global financial centres. While we cannot explore each of these in detail here, it is helpful to consider the key concepts and thinking around what a global financial centre is.

The Global Financial Centres Index (GFCI) has been produced annually by Z/Yen since 2007, and is now in its seventeenth series. The Index considers five broad areas of competitiveness that make up a global financial centre – business environment; financial sector development; infrastructure; human capital; and reputational and general factors. These broad areas are broken down further into specific factors; the most recent Index, published in March 2015, measured 105 factors in total and identified New York, London (one point behind New York), Hong Kong and Singapore as the top four global financial centres[31].

The PwC 'Cities of Opportunity' index looks at 30 cities that are capitals of finance, commerce and culture. Focusing on the economic indicators, the most recent index identified London as the best performer, followed by Beijing, New York, Paris and Shanghai. 'Economic clout' is measured by: the number of global fortune 500 companies headquartered in the centre; financial and business services employment; ability to attract

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[29] See: Wilson, K. E. (2014) – Op Cit.
[30] See: 'Specialist sources of capital for the social investment market' (April 2014) The Social Investment Consultancy with London Economics for the Social Investment Research Council. Available at: http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/New-specialist-sources-of-capital-for-the-social-investment-market.aspx
[31] 'The Global Financial Centres Index 17' (March 2015) Z/Yen. Available at: http://www.longfinance.net/images/GFCI17_23March2015.pdf

foreign direct investment; productivity and rate of real GDP growth. Other related indicators are the cost of doing business, and the ease of doing business in a financial centre[32].

Research by Bourse Consult for the City of London Corporation suggests that there are five key competitiveness and infrastructure factors, covering the business environment; financial market infrastructure; regulation; people; connectivity; and critical mass; all of which contribute to the development of a financial centre. However the relative importance of each factor differs depending on the stage of development a financial centre is at[33].

2.5.1.1 What is it that makes a financial centre truly global?

The Bourse Consult research suggests that this occurs when a regional financial centre becomes internationally or globally significant and becomes a hub for cross-border financial business around the world. The global reach of such centres stems from their "high levels of expertise in a range of financial products and services; from business networks which span the world; from collective liquidity which allows them to handle the largest transactions; and from their reputation for efficient markets and fair legal systems". A global financial centre therefore enables, with relative ease, the supply and demand of international capital flows in, out, and through the centre. London and New York have long been such global financial centres for trade and commerce[34].

2.5.2. Do we need a global financial centre for social impact investment?

Before we can address the core research question – what does a global financial centre for social impact investment look like - we also consider whether there is a need for such a centre.

As highlighted in section 2.2, there are trends of increasing internationalisation of the SII market. While this it has a way to go, these trends indicate the potential for social impact investment to establish itself at a global level. In light of these changes it could be said that establishing a global financial centre – to support and enable such market growth – is a positive development.

However, while the market is growing, there are also areas of failure or weakness (see section 2.4). There are a number of areas of challenge, from a lack of information and track record; tension between different definitions and use of terminology; to a lack of products and investment opportunities. There are also market competition challenges, due to high transaction costs and a lack of qualified key actors and market mechanisms.

While these challenges do not necessitate a global financial centre for SII, they suggest that the market could benefit from proactive support and having in place a centre with the mechanisms and structures to enable market growth. For example, the recent research by JP Morgan and the GIIN highlights that social impact investments made directly into companies represented a much larger proportion of assets under management of survey respondents (74%) than indirect investments through intermediaries (20%)[35]. This raises questions on the types of structures and investment platforms to have in place, and around

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[32] 'Cities of opportunity six' (2014) PwC. Available at: http://www.pwc.com/us/en/cities-of-opportunity/index.jhtml

[33] 'From local to global: building a modern financial centre' (November 2013) Bourse Consult for the City of London Corporation. Available at: http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/From-local-to-global-building-a-modern-financial-centre.aspx

[34] See also 'Hot spots 2025: benchmarking the future competitiveness of cities', (2013) The Economist Intelligence Unit. Available at: http://www.citigroup.com/citi/citiforcities/pdfs/hotspots2025.pdf and 'The financial development report' (2012) World Economic Forum, available at: http://www.weforum.org/reports/financial-development-report-2012.

[35] JP Morgan and GIIN (May 2015) – Op Cit.

the nature of support Social Investment Finance Intermediaries (SIFIs) require, in the context of an increasingly internationalised market. If a financial centre were to actively consider these issues and develop appropriate support mechanisms, this could help to facilitate greater and faster market growth, and to galvanise market actors.

An OECD report published earlier this year highlights in detail the different aspects of the SII market, including the range of supply-side and demand-side factors, and also the role of intermediaries and wider regulatory environment as being key for the market's development[36]. The report also draws comparisons between the development of the venture capital industry and SII market. Venture capital, which originated in the US, was aided by US government interventions including legislation to allow private investor organisations to provide early-stage capital for venture capital funds. The industry eventually put down roots in Europe. In 2013, global venture capital investment levels were at $48.5bn, including investment growth of 10% in Q4. The European market saw a 19% rise in the capital invested, and a 6% rise in the number of deals[37]. Arguably without such a strong and supportive role from government as the venture capital industry emerged, it would not have grown on the global stage to be what it is, at the speed at which it has, today.

The question of whether we need a global financial centre for SII is clearly complex. Arguably there is no right or wrong answer. For this research, we make the assumption that a financial centre that supports a truly global SII market, developed carefully and with consideration of what the market needs to grow to scale and continue to produce social impact, is a positive thing. While such a centre, we believe, cannot be contrived or forced, it is possible to put in place certain support and enabling structures to encourage its development and increase its chances of success. As the market continues to grow and develop on an international level, such considerations are important. To do this however, we first need to understand what a global financial centre for SII looks like.

2.5.3. A global financial centre for social impact investment – what it looks like and how it develops

We define a global financial centre for SII as a specialist geographical centre that:

1. Brings together supply and demand in the social impact investment market;
2. Draws together expertise – industry, educational and governmental – to support the development of the market;
3. Provides the specialist infrastructure to enable the placement of SIIs; and,
4. Promotes the channelling of funds into projects and other organisational activities that yield social and environmental, as well as financial returns.

This definition of a specialist global financial centre has been developed for the social impact investment market. However, there is some readacross and similarities with other alternative finance markets and the development of financial centres to support these markets. Two examples in particular that illustrate this well are the role London has played in both the global carbon markets and the market for Islamic finance. Most recently, London

[36] See: 'Social impact investment: building the evidence base' (2015) OECD. Available at: http://www.oecd.org/sti/ind/social-impact-investment.pdf

[37] See: 'Adapting and evolving: global venture capital insights and trends 2014' (2014) Ernst and Young. Available at: http://www.ey.com/Publication/vwLUAssets/Global_venture_capital_insights_and_trends_2014/$FILE/EY_Global_VC_insights_and_trends_report_2014.pdf

has also emerged as the European 'hub' for digital technology, with the highest volume of technology companies and start-ups over the past decade[38].

The global carbon market: By allowing companies to buy credits from emission-saving projects around the world, the European Union's Emissions Trading Scheme (EU ETS) formed a major driver of investment in clean technologies and low-carbon solutions, in both developed and developing countries, creating the basis of international flows of finance. London became a specialist centre for secondary markets trading emission allowances, in this example by forming a hub of intermediaries, brokers and exchanges where carbon credits could be bought or sold, leveraging its existing infrastructure[39].

Islamic finance: This has parallels with SII, as investments are made in line with the principles of Sharia, with restrictions on the organisations and products which can be invested in (i.e. not businesses with activities or products contrary to Islamic principles) and also with regard to levels of interest that can be earned. Like the carbon markets example, London has become a specialist centre for Islamic finance, in this case with additional activities such as formation of an expert advisory group from the industry, outreach into the professional education community, and engagement with local regulators on application of accounting standards[40]. London is the leading western centre for Islamic finance, with 22 banks supplying Islamic financial services, five of which are fully Sharia compliant. The UK ranks ninth globally as a national location managing Islamic finance assets, with a reported $19bn in assets[41].

It's noteworthy that inevitably the understanding of a global financial centre for SII presented here cannot and does not cover all potential aspects of what this centre could look like. Nor does it seek to answer all the potential questions around this topic, of which there are many – are there different types of global financial centre for SII, what do these look like and how do they differ? What about other financial markets that might influence and develop SII – private equity, venture capital? What of the role of the knowledge economy, and innovation centres? And so on. This research presents one potential view, based on our literature review findings, surveys and discussions with international impact investors and other key market stakeholders. The remaining questions – each important and which require attention – are therefore beyond the focus of this research.

2.5.4. A model of development of a global financial centre for SII

Our analysis suggests that for a global financial centre to develop, the starting point (stage 1) will be a national financial centre.

Our suggested three-stage model of development is illustrated in Figure 6. This model is intentionally general and not geared to a specific type of social impact investment. As such, the evolutionary path will vary in different contexts, for example with development finance having earlier interest in international investment opportunities. This also necessarily simplifies the evolutionary progression to a global financial centre for SII as a linear progression. In reality the establishment of such a centre is not clear cut or so linear, and there will be

[38] See for example: 'It's official: London's the capital of European tech' 15th June 2015 by Emma Haslett, City A.M.
[39] See: 'The EU Emissions trading system union registry: how it works, how Kyoto units are used for compliance within the EU ETS and how to participate in carbon allowance auctions' (22 January 2013) UK Department of Energy and Climate Change.
[40] 'Global alignment: bringing consistency to reporting of Islamic finance through IFRS' (November 2012).
[41] 'UK, the leading western centre for Islamic finance' (October 2013) UK Islamic Finance Secretariat. Available at: https://www.fstib.com/assets/Reports-/Islamic-finance-2013.pdf

different steps for development within each stage. While it is outside the scope of this report to unpack each stage in such detail, such complexities are acknowledged.

It is also worth highlighting that, while this research and the model of development focusses primarily on direct flows of SII capital, it also acknowledges other capital sources – such as mainstream investments with a positive social impact. These are also important and relevant for a global financial centre for SII to develop. Though of course, reaching stage 3 of the model requires a specific focus on growing the SII market. Finally, while this model of development is intended to provide a framework for thinking about how a global financial centre for SII might emerge, it is important to note that as the SII market grows and matures, the characteristics outlined in the model are likely to undergo some change.

Stage 1: A mature national financial centre for social impact investment

The literature we reviewed - either explicitly or implicitly – assumes that outside the United States, a national capital (as opposed to other cities, or regions) would play this role. Whilst the primary focus of this report is London's potential to be a global financial centre for SII we also considered comparable international examples, such as those presented in Table 3. These can be considered as acting national financial centres for SII. While this research does not include a detailed comparative analysis of financial centres, the G8 Taskforce[42] highlights how, whilst developments in the SII market are occurring across a number of leading financial centres, at present there is no clear global financial centre for SII.

Table 3: National financial centres for social impact investment

National financial centre for SII	Role to date
New York City	Often identified alongside London as a truly global financial centre, and increasingly providing support for and developing products for the SII market, as illustrated in section 2.2. New York City is also home to the Forum for Sustainable and Responsible Investment (USSIF).
Luxembourg	Has sought to position itself as a platform for responsible/sustainable and social impact investment and is the top ranked domicile for promoters of responsible investment funds -28% of all European RI vehicles (and 26% of RI assets) are managed out of Luxembourg[43]. There are a number of initiatives and programmes which aim to develop Luxembourg's social impact investment offer – such as European Impact Investing Luxembourg, and the Association of the Luxembourg Fund Industry. The 'flexibility' of the legal and regulatory environment in Luxembourg is particularly attractive to (U)HNWIs.
Zurich and Geneva (Switzerland)	While not necessarily a leader in SII, Switzerland has a developed knowledge and skills base required for an asset management and fund structure market framework in mainstream and alternative investments, which can be linked to product development and attracting investors. The Swiss approach also may be linked to its unique legal and regulatory position in terms of its access to the Single Market without being an EU/EEA member state[44].
Amsterdam (Netherlands)	Introduced the Green Funds Scheme in 1995, which provides a tax relief for individual investors investing in 'green' projects with environmental benefits. In return for the tax relief, banks charge green projects a lower interest rate. Also home to Triodos Bank, one of the world's leading social finance banks.

[42] For more information see: http://www.socialimpactinvestment.org/
[43] See: http://www.luxembourgforfinance.com/sites/luxembourgforfinance/files/lff_broch_rfp_web.pdf
[44] For example see:
http://www.pwc.ch/user_content/editor/files/publ_asset_mgmt/pwc_new_regulation_on_swiss_aifm_industry_e.pdf;
http://www.totalimpactadvisors.com/;
http://www.forumng.org/images/stories/Publikationen/fng_sustainable_investments_in_switzerland-2013.pdf.

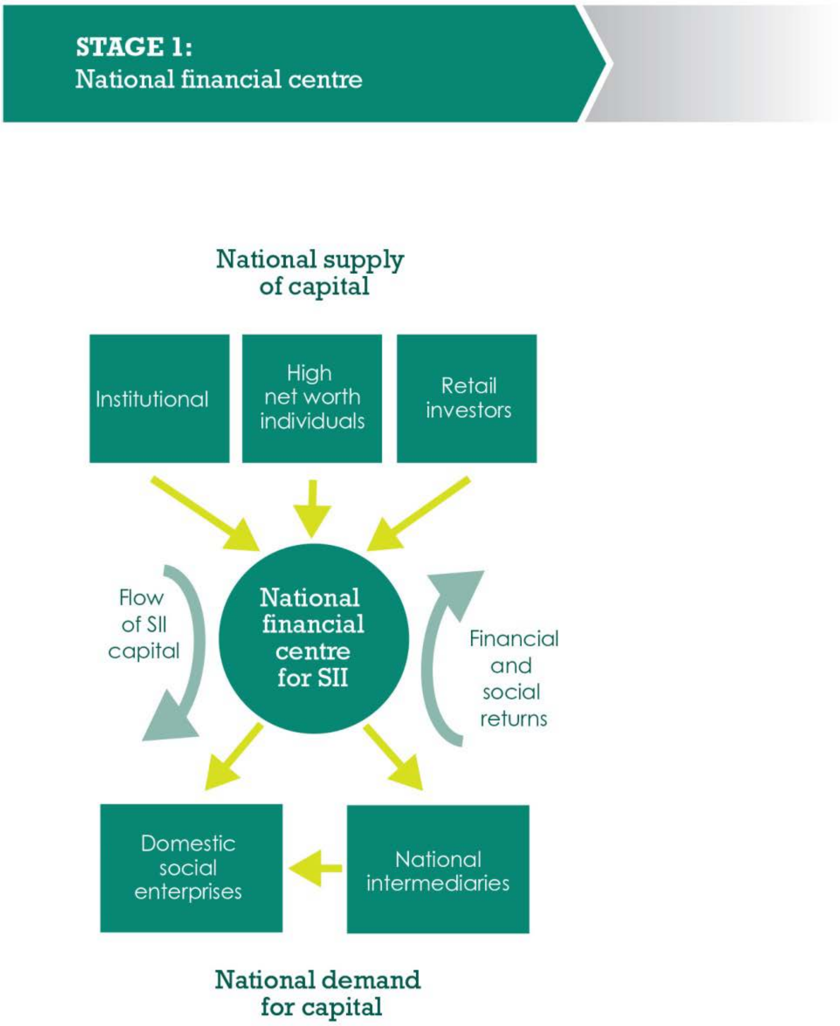
In addition, there are a series of emerging markets for SII, such as Mauritius, the Cayman Islands, Shanghai, Montreal, San Francisco and Paris, with examples being provided in chapter 3 from some of these locations to illustrate potential areas of future development for London. The JP Morgan and GIIN report also highlights nascent hubs in regions where impact investing can provide a promising response to current social and economic challenges, including Kenya, India and Brazil.

Our analysis suggests that national financial centres for SII tend to:

- Largely draw their capital from a select group of institutional and HNWIs[45];
- Be domestically-focussed in fund deployment with some inbound and outbound capital flows regionally, for example within Europe;
- Have some but relatively minor representation from retail investors (of all levels).

Figure 5 illustrates what a stage 1 national financial centre for SII looks like, particularly in terms of the different flows of capital and the sources of these.

Figure 5: The characteristics of a national financial centre for social impact investment

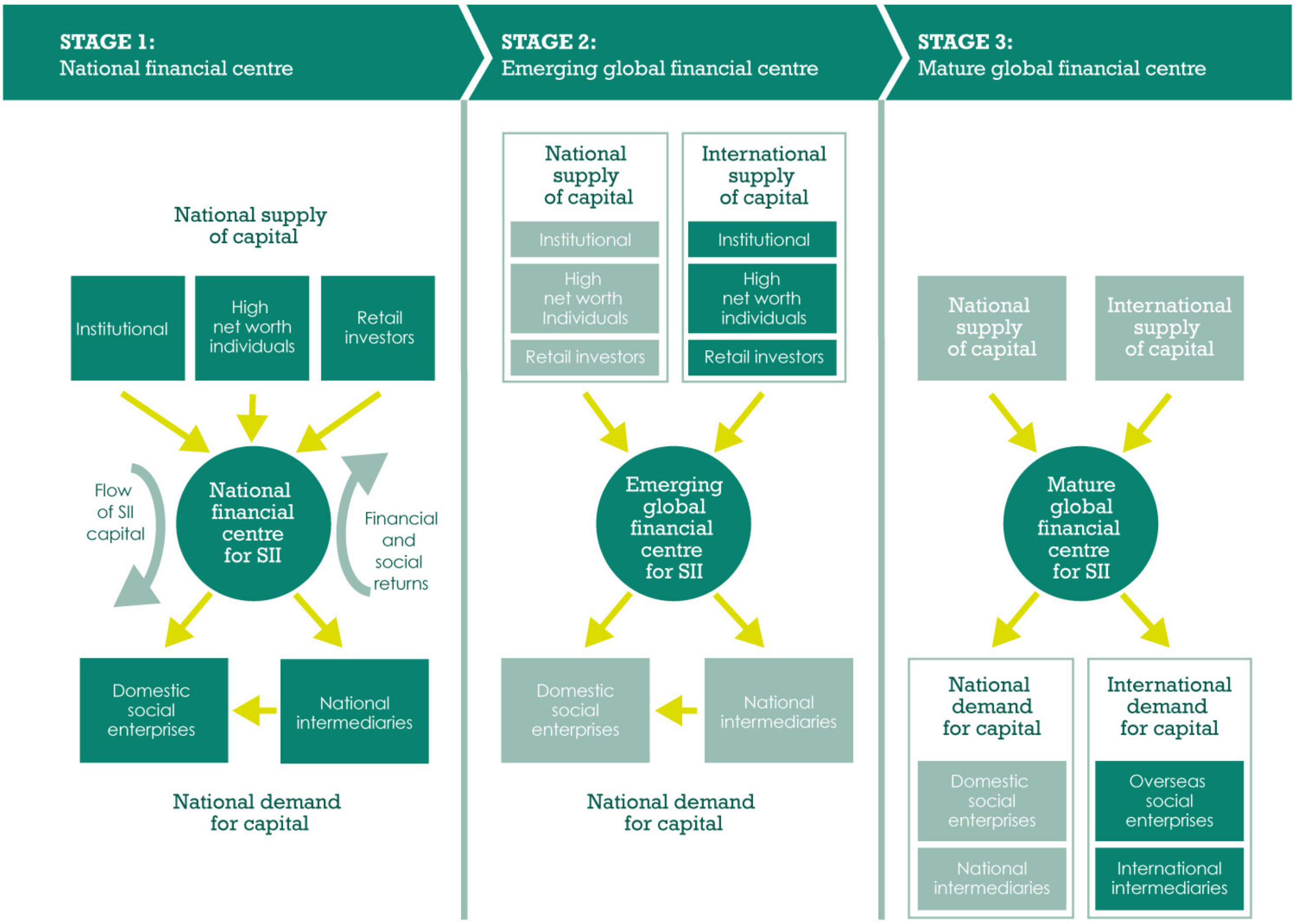


Source: PwC anaylsis

[45] For more detail on potential institutional sources of supply of SII capital, see ‘New specialist sources of capital for the social investment market’(April 2014) – Op Cit.

How then, does a global financial centre for SII develop? In our view, there are likely to be two further stages following on from the first stage of a national financial centre, as illustrated in Figure 6.

Figure 6: Model of development of a global financial centre for social impact investment



Source: PwC anaylsis

Stage 2: An emerging global financial centre for social impact investment ('emergence on the global stage')

For a national financial centre (stage 1) to progress and develop into an emerging global financial centre for SII (stage 2), there needs to be a key additional element in place – the supply of investment from international investment communities seeking social and other impacts.

Our literature review suggests that as the SII market is becoming more globalised, new types of investors, including retail investors, are showing interest in participating. The role of retail investors in driving forward investment is evident in the key role they have had in the development of alternative finance models such as crowdfunding and peer-to-peer lending. This interest has implications for how the market functions nationally, with the role of institutional investors in particular, potentially changing to encompass service retail interest, for instance in the way that Triodos Bank offers ethical personal banking services. For both institutional investors and intermediaries, a broader investor base for SII could bring with it more differentiated risk-reward requirements, potentially necessitating the use of a range of financial instruments – both complex, and simple.

Stage 3: A mature global financial centre for SII ('a secured global position')

Progression from stage 2 to a stage 3 mature global financial centre for SII requires, in addition to the supply of international investment, demand for capital from the international community of social sector organisations achieving such impacts.

These two components can be developed in parallel. However the relative maturity of the investment marketplace compared with the social sector, which is still experiencing barriers to reaching international scale, makes building international supply rather than stimulating demand, the more likely 'next step' for a strong national centre. Though as acknowledged earlier, the need for strong demand for international capital alongside supply is also central to the development of a true global financial centre for SII, as each supports the other.

2.6. How does the UK and London fit in with these developments?

As highlighted in section 2.5.1, London has long been recognised as a mature global financial centre for mainstream finance. There are 529 foreign companies listed in London, representing 20% of the global foreign equity listings, and 251 foreign banks in the capital[46]. The UK accounted for 41% of global foreign exchange trading in April 2013[47]. Looking at particular aspects of the financial services sector, the UK has the largest insurance industry in Europe and the third largest in the world, with $330bn of worldwide premium insurance income in the UK in 2013[48]. The UK also holds an 18% share of global hedge fund assets. Looking at London specifically, this remains by far the dominant centre in Europe, managing around 85% of European-based hedge fund assets[49]. Finally, the UK is the largest centre for cross-border banking with 17% of the outstanding value of international bank lending in September 2013. It is also the largest centre for cross-border borrowing (18%)[50].

The global investors interviewed for this research see the UK generally, and London more specifically, as a 'test bed' for new social impact investments and structures that others can often learn from and/or adapt, set against a backdrop of a large social sector – with SSOs generating combined annual revenues in excess of £60bn – and a public sector seeking to open the delivery of public services to the private and social sectors.

Valued at over £200m p.a. the UK SII market is driven by a small but growing group of SIFIs funded by a combination of government, foundations and commercial investors. Big Society Capital (BSC), a UK SII wholesale investor established by the Cabinet Office and launched as an independent organisation in April 2012, seeks to have a transformative impact on the UK SII market. BSC was initially financed with £400m of dormant bank assets and £200m invested by four large financial institutions, and since inception has committed with co-investors over £350m in investments to SIFIs to invest in SSOs[51], tripling its investment amount over the last year[52].

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[46] 'Key facts about the UK as an international financial centre' (June 2014) The City UK. Available at: http://www.thecityuk.com/research/our-work/reports-list/key-facts-about-the-uk-as-an-international-financial-centre/
[47] Ibid.
[48] 'UK insurance key facts 2014' (2014) The Association of British Insurers. Available at: https://www.abi.org.uk/Insurance-and-savings/Industry-data/Key-Facts-2014
[49] The City UK (June 2014)- Op Cit. See also: 'UK fund management 2014' (September 2014) The City UK. Available at: http://www.thecityuk.com/research/our-work/reports-list/uk-fund-management-2014/
[50] The City UK (June 2014) – Op Cit.
[51] 'Charting the course: how mainstream investors can design visionary and pragmatic impact investing strategies' (2014) World Economic Forum.
[52] 'Delivering impact, building evidence, sharing learning: annual review 2014' (2015) Big Society Capital. Available at: http://www.bigsocietycapital.com/sites/default/files/pdf/Big%20Society%20Capital%20Annual%20Report%202014

BSC was the world's first SII wholesale bank. The UK also lays claim to the first Social Impact Fund (Bridges Ventures, 2008), the first SIB (Peterborough, 2010) and the first charity bond (Scope Bond, 2012)[53], and has continued to build its domestic SII market through a combination of activities involving central government, intermediaries, foundations and other key stakeholders. The UK Advisory Board report to the G8 Working Group provides a full analysis of London's activities to date[54].

Evidently, the UK has a strong domestic SII market. While the importance of the national context and support for the market are recognised, our focus here is on a specialist geographic centre – London[55], given its position as a mainstream global financial centre, and its strengths as a centre for social impact investment. London already has the infrastructure, financial expertise, financial services mechanisms and structures, and a growing social sector in place.

Given these factors, what potential may London have as a global centre for social impact investment?

What about the UK regions?

If London were to develop as a global financial centre, this is distinct to the UK domestic market – and so at a national level we would expect the market to develop and grow as it has been. Our rationale also does not assume that London would be the only place in the UK with supply and demand of international flows of capital – other UK financial centres would, conceivably, be able to position themselves in this way. There is evidence that the economic growth and potential of London has positive impacts across the UK[56]. Similarly, if London were to develop as a global financial centre for SII, this may benefit financial centres across the UK and potentially strengthen their position. London could play a key role for example in channelling flows of capital to SIFIs located across the UK.

2.6.1. What are the key drivers for London becoming a global financial centre for SII?

In considering the potential for London to build on its current position and expand its role in the SII market, there are a number of key drivers and prospective benefits, considered briefly here.

First, building new specialisms is an important part of any existing global financial centre remaining a competitive centre for business and commerce. Investing in becoming an attractive centre for social impact investment has the potential to, in turn, lead to more businesses, more funds and more investors choosing to locate or do business in that area. This in turn creates the potential for positive economic impacts including job creation.

.pdf. See also 'Big Society Capital CEOI commits to greater transparency as investments triple' (May 2015) Ellie Ward, Pioneer's Post. Available at: http://www.pioneerspost.com/news-views/20150520/big-society-capital-ceo-commits-greater-transparency-investments-triple

[53] https://prezi.com/dug92qepox9l/social-investment/

[54] http://www.socialimpactinvestment.org/reports/UK%20Advisory%20Board%20to%20the%20Social%20Investment%20Taskforce%20Report%20September%202014.pdf

[55] Research into the UK SII market has found that a large proportion of the 29 SIFIs actively investing in 2011/12, were based in London (28%). The areas with the second largest proportion were the South East excluding London and the West Midlands (both 17% respectively). Source: 'Growing the social investment market: the landscape and economic impact' (July 2013) ICF GHK with BMG Research for Big Lottery Fund, BSC, HMG and the City of London Corporation. Available at: http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/Growing-the-social-investment-market.aspx

[56] See for example: 'London's finances and revenues' (November 2014) CEBR; 'The total tax contribution of UK financial services seventh edition' (December 2014) PwC; 'London's competitive place in the UK and global economies' (January 2011) Oxford Economics.

Secondly, as well as channelling finance to international SSOs, increasing the flow of international social impact investment to London may increase the supply of capital available for SSOs throughout the UK. This would provide the opportunity to scale domestic social sector activity further with associated positive social impacts.

For those strong national centres already actively developing a domestic SII market, such as London, there is an opportunity to leverage existing innovation and products and market those to a wider global group of investors, again growing the impact of existing products and providing the opportunity for greater scale and efficiency.

Lastly, as supporters of the global SII market, and members of the G8 Social Impact Investment Taskforce, growth in London provides a platform for embedding the national recommendations generated by the Taskforce, many of which address critical barriers in the growth of the national and global SII markets, and make an ongoing tangible commitment and contribution to the growth of the global market.

2.7. Summary

The SII market is experiencing growth and development at a domestic level, in financial centres across the world. Adopting a forward-looking approach, there are also signs that this market has the potential to develop on a more global level, and initial indications that this is beginning to happen.

As explored in the following chapter, London is currently positioned as a stage 1 national financial centre, reflecting the potential for greater future participation by HNWIs and retail investors as well as more globally focused products and services, to move to a stage 2 emerging global financial centre. We might expect other leading financial centres such as New York to be similarly positioned at stage 1, though a detailed comparative analysis is outside the scope of this research.

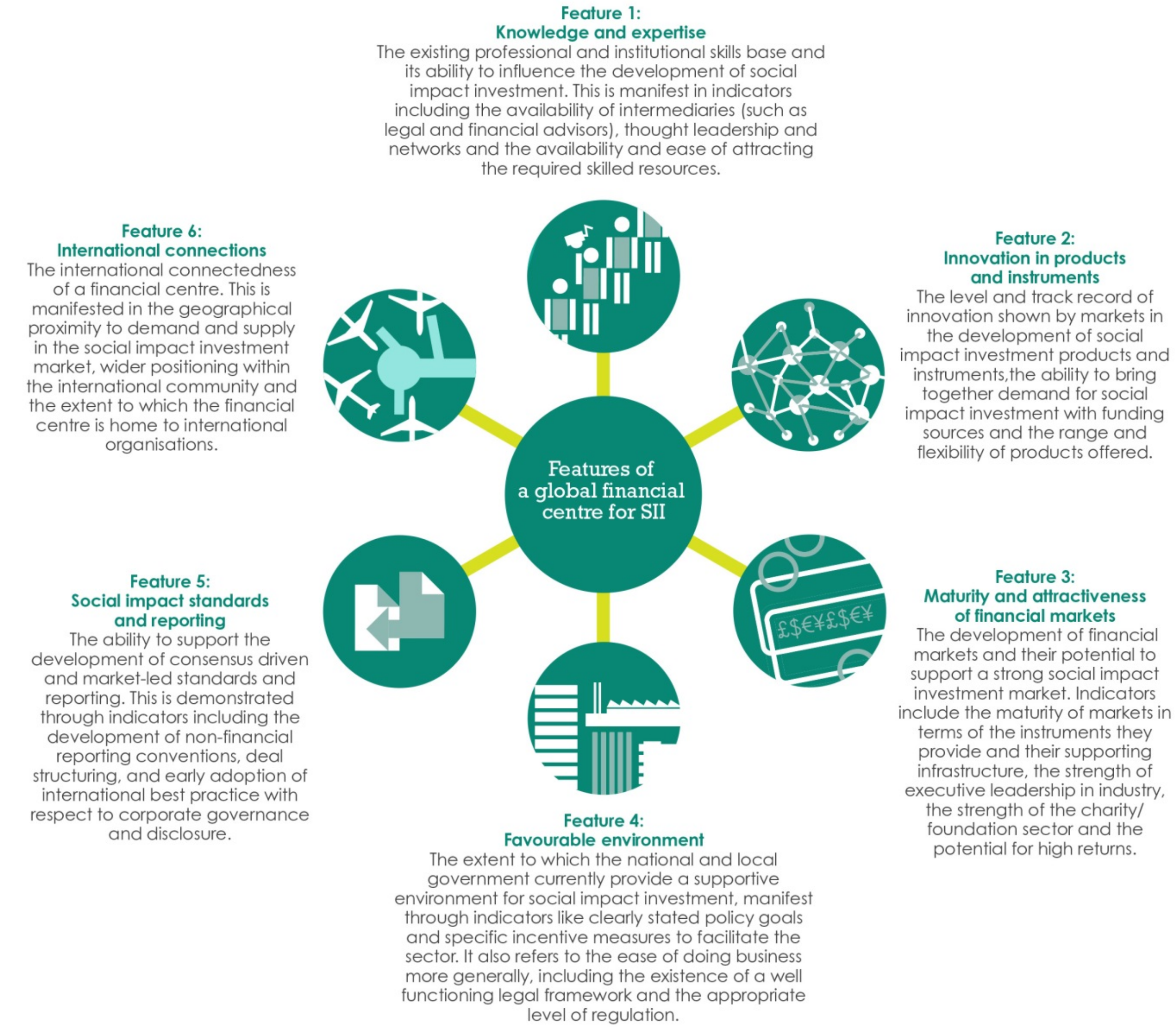
In the next chapter we therefore focus on the potential for progression from stage 1 to stage 2, and define the essential features that are required to attract greater international supply of capital – from investors such as government, charitable trusts and foundations, impact investing funds, mainstream financial investors and development finance institutions -as the next key step for London. This analysis is also relevant for any financial centre seeking to strengthen and improve its current position in the SII market, whether at a domestic level or looking forward to a more global level.

Finally, whilst this report examines in detail supply-side factors in thinking about the social impact investment market and its development, it acknowledges the need for stimulating demand and the role of enabling factors as part of this development. This is reflected in some of the practical recommendations we put forward towards the end of the report (see chapter 4).

3. The essential features of a global financial centre for social impact investment

This chapter explores the six essential features of a global financial centre for SII, applicable to any financial centre. These are presented in Figure 7, ranked in order of importance. The features have been identified through an extensive literature review, our findings from a quantitative survey and follow-up interviews with 24 representatives of the international and social impact investor community.

Figure 7: The essential features of a global financial centre for social impact investment



Source: PwC anaylsis

In addition to the six features presented in Figure 7, our research highlighted two further features of a global financial centre for SII, namely:

- Overall infrastructure - the extent to which the physical infrastructure underpins the development of a global financial centre, and the SII market; and,
- Quality of life - the maturity of health and social infrastructure in the financial centre, the cost of urban living and individuals' level of security.

Though relevant to the development of a global financial centre for SII, these are not differentiating features in the context of SII, any more than in any other international market, and are therefore excluded from the analysis presented in this report.

It should be noted that the six essential features were tested in the context of a stage 3 mature global financial centre for SII and therefore are not all equally relevant at the three different stages of development outlined in Figure 6. This is highlighted in the summary tables for each feature through this chapter.

As well as exploring definitions for the six features in detail, we also consider London's position against each feature, and which features need to be enhanced or developed to enable London to move from its current position - stage 1, as a predominantly national financial centre for SII - to a potential future position as a mature global financial centre.

We have based our analysis on our consultations and publically available 'case studies' of good practice. Accordingly there will be other views held of the relative importance and timing of change, and – given the nascent nature of the existing SII market – the likely emergence of new and other innovative considerations. It is also worth highlighting that the examples presented here are not necessarily the 'answers' to London's progression to a global financial centre for SII. They are interesting developments and provide useful learning to consider to support this progression.

3.1. Feature one: Knowledge and expertise

Table 4: Summary table analysis for Feature one: Knowledge and expertise

Definition	The existing professional and institutional skills base and its ability to influence the development of social impact investment.		
Relevance to SII market	A strong blend of social and financial acumen is a key driver in the development of financial products and models that deliver both social and financial returns. This is important in the case of intermediaries' skills base to broker deals which are not like other types of deals.		
	Stage 1: High	Stage 2: High	Stage 3: High
	London is seen as having deep expertise in both financial and social innovation. There is an opportunity to further integrate this expertise, creating stronger platforms for cross-sector collaboration and enabling the flow of skilled resource from the private sector into the social sector, and from SSOs/the not-for-profit sector into the SII market.		
	For London's progression, further focus is needed on how best to address the skills gaps in the domestic and international social sector. This includes training and education provision, greater collaboration, and market development initiatives especially around technical assistance for fund managers and for users of SII. This would also help address the challenge related to the shortfall of investable propositions in the sector.		

3.1.1. What does this look like in practice?

'Knowledge and expertise' refers to the existing professional and institutional skills base within a financial centre – its 'human resource' – which is linked to its competitive success and attractiveness as a work location. 'Agglomeration effects' relate to the benefits from the co-location of firms and people to a financial centre. Krugman, Porter et al have commented, for example, on 'knowledge clusters' like Oulu in Finland, Kista in Sweden, Cambridge in the UK and Silicon Valley in the US, as testament to the enduring desire for proximity to economically valuable knowledge[57]. The prevalence of specialist institutions like academia, local government and trade organisations, as well as intermediaries such as legal and financial advisors, can also reinforce these effects.

Interviewees consistently identified the need for a greater number of more investible business propositions and practices that address social needs for the continued growth of the global SII market. This was considered a key priority for any financial centre of social impact investment. A further trend amongst the investors consulted, is that the 'clustering' of financial acumen with knowledge of complex social issues and the mechanisms to address them, is of primary importance for stimulating investment. To achieve this, SII needs to attract and encourage greater participation by those with strong financial skills and expertise, but also those from the social sector more widely, who can transfer existing skills as well as bringing new and different skills to the market.

Our assessment of current activities in London and elsewhere, such as both the East and West coast of America, indicates that there are a number of possible channels for developing combined pools of financial and social expertise. These include:

- Education or training - social impact investment is gaining traction within professional education, with several leading business schools and the CFA Institute incorporating this subject into their curricula[58]. Many now hold annual events, such as the 2014 MBA Impact Investing Network and Training (MIINT) competition held at the Wharton School of the University of Pennsylvania, attended by over 60 students from seven top US business schools[59]. In the UK, CASS Business School runs courses for leaders in social impact investment or social enterprise over three to five years. In parallel with these developments, specialist programmes like On Purpose[60] and Year Here[61] have been developed to provide socially-motivated professionals with the opportunity to gain exposure to complex social issues and experience of the challenges in addressing such issues. They are well regarded as a means for channelling commercial expertise into the social sector.
- Collaboration between organisations or institutions to pool resources and aggregate models to scale - our interviews indicated that an important, and occasionally (in three cases), sole factor in choosing where to locate offices or funds has been where the specialists in SII they were seeking to recruit or work with, are based. Often these may be specific individuals. In addition, collaboration by organisations to develop a combination of financial and social expertise is considered significant at this stage of market growth, with examples like the Threadneedle Social Bond Fund[62] and the Cheyne Social Property

[57] Philip Cooke (June 2005) 'The asymmetric knowledge problem, regional innovation and geographical knowledge systems'. See:http://www.druid.dk/uploads/tx_picturedb/ds2005-1464.pdf
[58] Bugg-Levine. Non-Profit Finance Fund, 'The state and future of impact investing' (February 2012).
[59] Social Impact Initiative, April 2014, News: 'Top business schools compete at Wharton's impact investing competition'.
60 http://onpurpose.uk.com/
[61] http://yearhere.org/
[62] http://bigissueinvest.com/funds/threadneedle/

Fund[63], demonstrating how mainstream financial institutions are working with specialists in the implementation of new social impact investment products.

Increasing trends to support skills-based volunteering by large banks, such as Lloyds Banking Group's sponsorship of the School for Social Entrepreneurs, or Barclays partnering with Big Issue Invest on the Corporate Social Venturing Challenge[64], also provide opportunities to expose experienced financial services professionals to complex social issues, whilst also building financial acumen in the social sector.

- Market development initiatives such as the provision of technical assistance, to build capacity and networks - opportunities and platforms for financial experts and innovators to network and exchange ideas with thought leaders are seen as especially important. These create opportunities not only for ideas to be generated but for knowledge and skills transfer between communities. Examples cited from more mature markets have included Innovate Finance[65], an independent membership-based organisation dedicated to bringing together and supporting the financial technology sector in the UK. The OECD has recently acknowledged that SSOs could benefit from such technical assistance, for scalability and growth[66].

3.1.2. London's current position – Feature one: Knowledge and expertise

3.1.2.1 What London is doing well

Interviewees rated the knowledge and expertise base in London as a key strength, not only in relation to the financial acumen of commercial models that can be applied to the SII market, but also in terms of the depth and longevity of social innovation in the UK. As outlined in section 3.1.2, one of the key elements of this feature is that mechanisms are in place to enable financial and social funding and expertise to be combined, either at an individual, organisational or market level.

This can be through formal mechanisms like the On Purpose[67] programme, which are well regarded as a means for channelling commercial expertise into the social sector. Less formal programmes are also important, such as Impact for Breakfast[68], which provides the opportunity for like-minded people to share challenges and ideas.

Case Study - On Purpose

Description: On Purpose is a year-long programme which aims to help talented professionals develop the experience, knowledge and networks they need to lead change in businesses' operating models, to solve society's challenges and create social impact. Professionals are paid to work in challenging placements at a diverse mix of organisations, whilst receiving training, mentoring and executive coaching, participating in a cross-sector network of professionals and working in the social sector. Three cohorts of 12 to15 fellows have now completed the programme.

What this tells us: The On Purpose model demonstrates not only that there is appetite amongst young professionals to enter the social sector – sometimes leaving their higher-paid job in another sector to do so - but also willingness across government, SSOs and private sectors to collaborate in addressing the challenge of attracting talent into the social sector.

[63] http://www.bigsocietycapital.com/how-we-invest/cheyne-social-property-impact-fund
[64] http://uk.ashoka.org/changemaker-toolbox
[65] http://innovatefinance.com/
[66] Wilson, K. E. (2014) – Op Cit.
[67] http://onpurpose.uk.com/
[68] http://impactforbreakfast.com/

3.1.2.2 Areas for future focus

Whilst knowledge and expertise is seen as a key strength of London, it is also considered an area for future focus, in light of the current barriers related to the pipeline of investible models. Investors noted a shortage of financial and commercial acumen within the social sector, with a need to build greater understanding of scalable business models, and to attract individuals with the required expertise into the market to support the ongoing sustainability and scalability of SSOs. The latest SEUK survey of SSOs highlighted that capability and skills gaps are one of the major factors underpinning their difficulties in accessing finance, which in itself is reported as the most significant barrier for both start-up and established SSOs[69]. Some suggest that salary difference is the primary barrier to financial expertise entering the social sector, with a recent presentation to the London Assembly's Economics Committee flagging that the high salaries paid by the financial services sector is "starving" other sectors of scarce skills[70].

Several investors also suggested that the 'Technical Assistance Facility' (TAF) model used in international development offers instructive lessons for the SII market and for the UK specifically. This role has been traditionally taken by Government – such as through the Investment and Contract Readiness Fund, or by major institutional grant-makers, like Big Lottery Fund's Big Potential programme. A movement towards embedding TAF within investment funds as part of its management costs provides one potential solution to the challenge of having a pipeline of investible SSOs. In an international development context it is common practice for a funder to offer small amounts of grant funding to support the investee to prepare for and build the required capabilities to maximise the benefits of future investment[71]. The example of the Technical Assistance Facility implemented alongside the African Agriculture Fund[72] is illustrative of how investment and TAF can be combined[73].

Case Study - Technical Assistance Facility (African Agriculture Fund)

Description: The African Agriculture Fund (AAF), a private equity fund, was specifically designed to address food security challenges across the African continent.

The purpose of the Technical Assistance Facility (TAF) is to provide technical assistance to agriculture and food-related businesses that receive investment through the AAF, allowing them to create new opportunities for smallholder farmers, farm collectives and rural communities. The TAF is funded primarily by the European Union and managed by the International Fund for Agricultural Development (IFAD).

What this tells us: TAF funding can be provided alongside investment, and shaped through collaboration between government, foundations and investors. Through strong links to the investment fund, TAF is provided alongside (rather than in advance of or when working towards) repayable investment, to develop management capacity and deliver professional support to help the business to apply the investment to their best advantage.

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69 'The people's business' (2013) SEUK, http://www.socialenterprise.org.uk/uploads/files/2013/07/the_peoples_business.pdf

70 See: http://www.impactinvestor.co.uk/london-short-termist-social-impact-investing/

71 See: http://www.theguardian.com/global-development-professionals-network/gain-partner-zone/10-key-attributes-technical-facility-model

72 See: http://www.technoserve.org/press-room/detail/technical-assistance-facility-for-the-african-agriculture-fund-is-launched

73 Also relevant here is the G8 Impact Investment Taskforce International Development Working Group, which was assembled to inform the Taskforce on the role of impact investment in international development. The Working Group's report is available here: http://www.socialimpactinvestment.org/reports/International%20Development%20WG%20paper%20FINAL.pdf

3.2. Feature two: Innovation in products and instruments

Table 5: Summary table analysis for Feature two: Innovation in products and instruments

Definition	The level of and track record of innovation shown by markets in the development of social impact investment products and instruments.		
Relevance to SII market	Innovation is required to both attract new supplies of capital to the SII market and to bridge the gap between the needs of investors (supply) and social sector organisations (demand).		
Importance to each stage of development	Stage 1: Medium	Stage 2: High	Stage 3: High
London's current position	Whilst London has been at the centre of developing innovative products that have attracted flows of capital, it is seen to lag behind other locations in terms of developing products that meet both retail market and social sector organisation's needs. Adapting or refining such approaches may enhance London's position going forward.		
Recommendations for future development	For London to fully achieve national maturity as a financial centre for SII, greater focus is needed on developing products such as co-mingling funds or aggregated funds that spread risk across an impact portfolio and that are accessible and attractive to retail investors and thereby attract further flows of capital. To meet the gap between domestic supply and demand for SII, further focus is also suggested on simply designed products that allow the time for impact to be created, such as greater use of mixed finance including guarantees and first loss pieces to meet the underlying capital requirements of SSOs.		

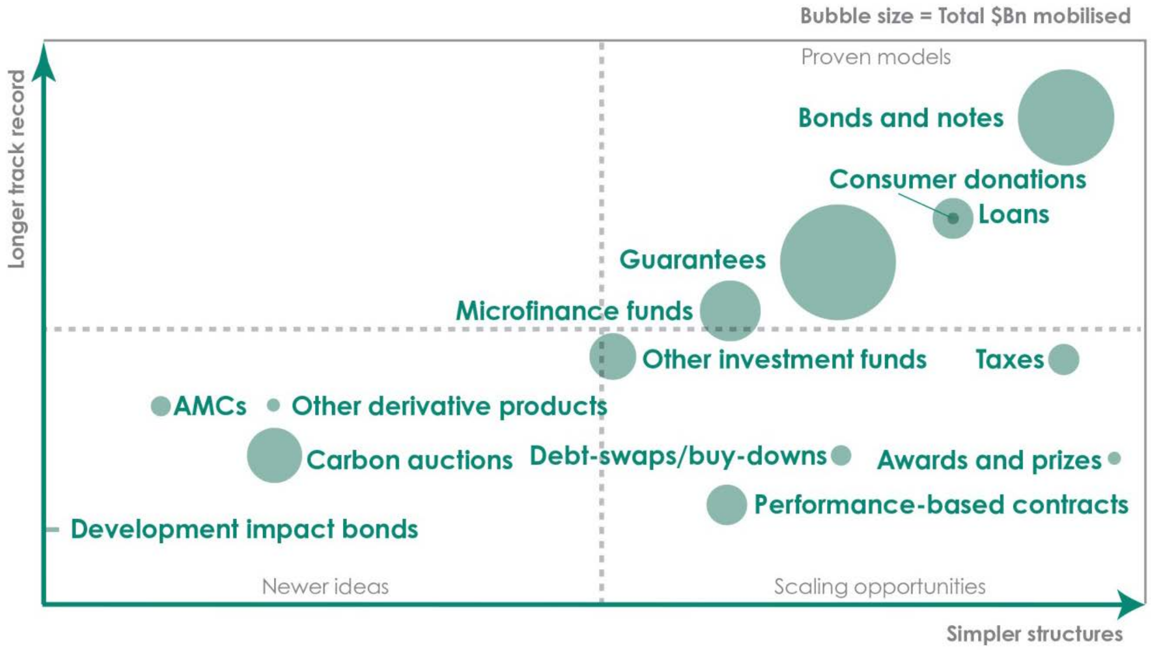
3.2.1. What does this look like in practice?

This feature is manifest in developing innovative social impact investment products and the ability to bring together demand for SII with funding sources and the range and flexibility of products offered. 'Innovation' includes the introduction of new products, the extension of existing products to new markets and the presence of new types of investors[74].

As depicted in Figure 8, this feature may include a broad range of financial instruments and assets including securities and derivatives, results-based financing and voluntary or compulsory contributions. Figure 8 compares a range of instruments in the context of their simplicity and track record, illustrating their impact on the market in terms of $bn mobilised. Whilst most of the 'proven models' with greatest impact are relatively simple in concept, (which resonates with feedback from interviewees i.e. the need for greater focus on product simplicity in London), there are some instruments, such as carbon auctions, that have also had a sizeable impact, despite being fairly new and relatively complex. This suggests that there is scope for innovative and simple SII products to be developed, but that more complex models should not be ruled out and can also be successful.

[74] 'Innovative financing for development: scalable business models that produce economic, social, and environmental outcomes, an initiative of the global development incubator' (September 2014).

Figure 8: Landscape of innovation in social impact investment products and instruments



Source: Innovative Financing for Development: Scalable Business Models that Produce Economic, Social, and Environmental Outcomes, An initiative of the Global Development Incubator, September 2014

Whilst interviewees agreed on the need for further origination of investible business models and financial products, their views varied on what form this innovation should take and the nature of the supportive environment required to encourage it.

On the one hand, investors look to the capital markets for 'exportable' models that can be applied to social impact investment. Indeed many believe that a critical feature in a global financial centre for SII is the ability to innovate in attracting a supply of capital from traditional sources, at either end of the spectrum between philanthropy and profit maximising investments. In this instance the application of products like co-mingling funds, enabling trusts and foundations to invest in SSOs is attractive, as it enables these organisations and intermediaries to access finance normally restricted to grant giving. At the other end of the spectrum is the application of products like retail bonds via the Allia Retail Charity Bond[75] scheme, enabling intermediaries to leverage retail investment into charitable organisations. For both these examples the critical enabler is access to a mature financial marketplace that already attracts a diverse supply of investment.

In contrast, others felt that the critical driver for any global financial centre for SII is the ability to stimulate innovation in business models that might stimulate demand for investment. The need for an increased focus on the demand-side is also highlighted by the OECD[76], and is strongly linked to knowledge and expertise in the social sector.

Bridging the gap between these divergent points of view requires a focus on developing products that are attractive to a range of investor groups, as well as providing access to the type of finance required by social sector organisations. Indeed this divergence could be interpreted as either a hindrance to market growth, or symptomatic of a healthy diversity in opinion which lays the ground for new developments. At the current stage of development of the SII market as a whole, the majority of SSOs raising investment are in growth stages,

[75] http://allia.org.uk/what-we-do/retail-charity-bonds/
[76] See Wilson, K. E. (2014) – Op Cit.

with resulting investments still relatively small and high risk[77]. In the UK and internationally this aggregation and distribution of risk has been achieved to date by the 'Fund of Funds'/intermediary model – as adopted by Big Society Capital in the UK, and many international SII funds (such as the DfID IMPACT programme). It should be noted that some interviewees called for greater diversity in the core models used for this purpose, including consideration of alternative models such as guarantee structures and peer-to-peer lending models, to reflect the changing needs of SSOs and the growing SII market.

3.2.2. London's current position – Feature two: Innovation in products and instruments

3.2.2.1 What London is doing well

Significant innovation has occurred in London relating to products that aim to attract new investor groups and supply of capital into the SII market. This has in part been attributed to the vibrant innovation community, and platforms and incubators both in the financial services sector – such as Level 39[78] – and the social innovation sector – for instance the Telefonica Wayra/UnLtd[79] social incubator collaboration.

Notably among these are SIBs, and based on the SIB model, Development Impact Bonds. Whilst interviewees raised concerns about the replicability and scalability of SIBs over time - due to their complexity in setup - there is a consistent view that the model has had a significant impact in aligning the interests of investors, commissioners and SSOs in the delivery of social impact.

In addition, platforms like the Social Stock Exchange (SSX)[80] have global applicability, with SSX being seen as a 'world first'. The concept has been subsequently adapted by other geographies. SSX provides a strong platform for London's progression towards being a stage 3 mature global financial centre for SII.

Interviewees felt that crowdfunding – a mechanism initiated by the micro-finance movement - is a tool with the potential to gain significant traction in the UK. Platforms like Buzzbnk[81] offer the opportunity for UK social sector organisations to access socially-motivated retail investors in the UK, with international platforms like US-based Kiva[82], demonstrating how these can be evolved to allow for international flows of capital.

However there are mixed views on the 2014 publication of the FCA's 'Regulatory approach to crowdfunding'[83]. This was received positively by some as providing greater clarity on peer-to-peer lending and crowdfunding schemes, and seen by others as providing additional restrictions on the pool of retail investors able to receive investment offers, a view supported by the Social Investment Research Council[84].

[77] JP Morgan, Spotlight on the Market, The Impact Investor Survey – May 2014
[78] http://www.level39.co/
[79] https://unltd.org.uk/2013/02/14/wayra-unltd-tech-starts-ups/
[80] http://socialstockexchange.com/our-mission-history/
[81] https://www.buzzbnk.org
[82] http://www.kiva.org/
[83] http://www.fca.org.uk/news/ps14-04-crowdfunding
[84] http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/marketing-social-investments-outline-of-the-FPO.aspx

Case study: The Social Stock Exchange (SSX)

Description: The SSX is a directory listing companies with a social or environmental mission, which are also members of regulated stock exchanges, providing businesses with an opportunity to promote their social impact. It also serves as a research service for would-be social investors. The SSX aims to connect investors as well as the public with SIIs. Currently, the SSX has 12 members listed on its platform. For the future, it is seeking to launch a 'pioneering funding platform' for SII, targeting enterprises of varying sizes. The new funding platform will provide a channel for financial markets to serve the need of the public and deliver social value whilst achieving financial returns.

The SSX earlier this year collaborated with ICAP Securities and Derivatives Exchange (ISDX). The collaboration involves the creation of a new market segment for SSX-accredited member organisations, and aims to help unlock access to capital for these organisations.

The SSX model has been replicated internationally. For example, Canada's Social Venture Connexion (SVX) has used a similar model as SSX; the US-based Mission Markets makes private placements only. While SSX was venture driven, with the trading platform set up later, the Singapore based IIX (Impact Investment Exchange Asia) has taken the reverse approach[85].

What this tells us: In this example, and in others, London is already generating ideas and products that not only have global applicability but provide a strong basis for attracting international investors seeking to achieve a social impact. This supports the view largely held by our interviewees, that London is a leading pioneer in the development of attractive products and instruments that attract new supplies of capital.

3.2.2.2 Areas for future focus

Despite progress in some areas – such as crowdfunding - London is seen as lagging behind other comparable financial centres in the field of retail investment for social impact. This marketplace includes wealthy private clients – (Ultra) High Net Worth Individuals – for whom SII is a mechanism to integrate their philanthropic giving and commercial investments based on aligned values. It also includes the public more generally, looking for opportunities to 'do good' with their savings, and who may not wish to make potentially higher risk investments associated with crowdfunding platforms or may not know enough to feel confident to enter the peer-to-peer lending market.

There are international precedents for approaching this challenge which could be considered to progress this marketplace in London. These include initiatives like French Solidarity Investment Funds[86] and the Dutch Green Funds Scheme[87] which both demonstrate how government-backed products – with simple and clear parameters – can provide an attractive option for retail investors.

Interviewees also highlighted the need for greater demand-led innovation in London, where a fund or product is created in response to a specific, identified social need or change. The mission-driven philosophy and approach to product innovation of US TAU Investment Management[88] offers a contrasting perspective to UK examples, given this product was developed first and then applied to a range of social issues. This approach attracts investment by rooting new products in the specific needs associated with a social issue,

[85] http://www.forbes.com/sites/ashoka/2014/03/27/stock-exchanges-for-social-enterprises-heres-where-you-can-find-them

[86] http://iipcollaborative.org/bringing-mass-retail-impact-investing-french-9010-solidarity-investment-funds-2/

[87] http://ec.europa.eu/environment/ecoap/about-eco-innovation/business-fundings/netherlands/13112012-promoting-investment-in-sustainability-green-funds_en.htm

[88] http://tau-investment.com/en_US/philosophy/

geography or group of SSOs, rather than with the goal of attracting a particular group of investors. The recently launched North East Social Investment Fund offers a UK example of a fund designed to target the capital needs of a particular region in this way[89].

Case Study: French Solidarity Investment Funds

Description: To increase the finance available to solidarity organisations in France, via engagement with employees and the private sector, a 5% law was passed. This mandated that between 5% and 10% of employee savings schemes can be contributed to a fund, which would then invest between 5% and 10% of its assets into unlisted solidarity organisations.

Solidarity organisations can access low-rate financing provided at least a third of their staff is comprised of workers who are employed as part of a work integration programme. This entails training and integration of long term unemployed individuals, people with disabilities, ex-convicts, and others; or, where management is elected by the workforce, members or owners of the organisation, while abiding by rules concerning pay for executives and staff (effectively establishing a salary ceiling).

What this tells us: This example demonstrates how a relatively simple scheme can provide an attractive option for retail savers and investors and create new pools of supply of capital for social impact investment. The two critical enablers in this example are government legislation providing clear direction that SII products can (and should) be offered to retail investors, and a simple accreditation mechanism for solidarity organisations.

3.3. Feature three: Maturity and attractiveness of financial markets

Table 6: Summary table analysis for Feature three: Maturity and attractiveness of financial markets

Definition	The development of financial markets and their potential to support a strong social impact investment market.		
Relevance to SII market	Provides a robust platform for product development and access for social sector organisations to mainstream groups of investors.		
Importance to each stage of development	Stage 1: Medium	Stage 2: High	Stage 3: High
London's current position	As a global financial centre, London has a diverse range of financial markets to draw on in supporting the growth of the SII market. There is an opportunity for London to better leverage the full range of SII markets and products.		
Recommendations for future development	For London to fully achieve stage 1 national maturity, greater focus is needed on encouraging mainstream financial institutions in the UK to develop products and funds to offer to clients, working in collaboration with the social impact investment market. Given London's key role in product development for mainstream finance this should be exploited more fully. In time this would help reduce transaction costs, and maximise the ability of mainstream organisations to engage in SII by spreading risk across a wider portfolio of investments.		

[89] See: http://www.forbes.com/sites/ashoka/2014/03/27/stock-exchanges-for-social-enterprises-heres-where-you-can-find-them/

3.3.1. What does this look like in practice?

Feature three focuses on the development of financial markets and their potential to support a strong SII market at an international level. As investors look both inside and outside of their national boundaries for growth opportunities, SII products and ventures across the globe may benefit from access to existing developed international capital markets and infrastructure.

Alongside origination, high transaction costs are a key barrier to growth in the global SII market, in the context of comparably lower financial returns than other capital markets[90] (not forgetting the social return of SIIs). Mature financial markets, like London and New York, have sophisticated infrastructures (such as trading platforms, data security protocols, risk management frameworks etc.) which lower implicit transaction costs overall. Some interviewees felt that harnessing a diversity of disciplines associated with mature financial markets – such as asset management, private banking, investment banking, and venture capital – is especially desirable as a means to drive greater efficiency and scalability in the SII market[91].

Another point of interest interviewees raised is that any global financial centre for SII must be reflective of a wider and robust civil society. This is defined as an active and thriving not-for-profit or social sector with a long tradition of philanthropy, social responsibility and public accountability more generally across society and business. Some went so far as to say that they would never invest in a financial market – however mature – that did not have a comparable maturity and history in the civil society underpinning it. For others, a domestic social sector is simply seen as the likely driver for developing a specialist focus on SII in the first place.

3.3.2. London's current position – Feature three: Maturity and attractiveness of financial markets

3.3.2.1 What London is doing well

London's established financial markets, and the opportunity to leverage the infrastructure, skill sets and products that they offer, is the capital's key strength in supporting its potential as a global financial centre for social impact investment. London's existing status as a mainstream global financial centre for investment and wealth management means it is uniquely placed to attract those seeking values-based investment. It provides a clear opportunity to channel finance currently directed towards either commercial or social products, towards SII products that combine financial and social returns.

This perceived strength is in part due to the robust civil society in the UK that underpins not only the ethics and transparency of established financial markets, but which also led to the SII 'movement' gaining traction in the UK in the first place. In London, arguably in contrast to other comparable locations, social impact investment is already seen as a 'market' and the strength of relationships across that market and between intermediaries, is seen as providing a unique platform for supporting the growth of the global market. The existence of market institutions – like Big Society Capital[92] – is key (in developing the market, building connections between intermediaries, investors, SSOs and with the mainstream financial market). For

[90] Big Society Finance Fund (Understanding the demand for and supply of social finance research to inform the Big Society Bank).
[91] It should be noted that introducing such infrastructure – while reducing risks – might also bring new transaction costs in the form of brokerage commissions, market fees and clearing and settlement costs.

[92] See: http://www.bigsocietycapital.com/how-we-invest/cheyne-social-property-impact-fund

example, the Big Society Capital Advisory Board is made up of over 20 representatives from financial intermediaries, investors, incubators, social sector organisations and membership bodies, contributing to the depth of relationships across the market. In addition, trade missions organised by the Cabinet Office at UKTI have played an important role in forging international relationships between intermediaries.

Whilst there are still relatively few examples of SII at scale, there are financial intermediaries in London who have been successfully operating for a number of years – including Bridges Ventures and Social Investment Business – and the longevity of their experience in this marketplace is seen by international investors as a particularly attractive feature of London and the UK more generally.

There are also UK examples of investment managers collaborating with intermediaries or advisers to develop more 'mainstream' products with positive social impact. The Cheyne Social Property Impact Fund offers an exemplar of how mainstream financial organisations and SII specialists are collaborating to develop funds and products that are attractive to a range of private and institutional investors. This provides an illustration of the opportunity that the broader financial markets offer to the SII market in London. The Threadneedle Social Bond Fund is another such example.

Case Study: Threadneedle Social Bond Fund

Description: Threadneedle Investments and Big Issue Invest formed a social impact investment partnership to bring the first daily tradable, FCA-registered diversified Social Bond Fund to the UK market. This partnership combined an experienced SII organisation with one of the largest mainstream asset management organisations in the country.

With a £10m cornerstone investment by Big Society Capital, the fund aims to reinvigorate the Local Authority bond market, which has fallen behind similar markets in the US.

What this tells us: This offers an illustrative example of how mature financial markets can be leveraged by the social impact investment market to address specific barriers to growth, in this case using asset management expertise and experience of the Local Authority bond market to address the challenge of liquidity for individual investors (in a marketplace currently dominated by long term institutional lending and investment).

3.3.2.2 Areas for future focus

One area of opportunity for London is for greater integration with mainstream markets to enable other investor groups to access SII products.

The lack of integration currently is perceived to be limited by the culture and reticence in the mainstream financial institutions, with SII products frequently failing to pass mainstream product review processes. Some interviewees suggested that this is a cultural barrier, and have pointed to initiatives like the Finance Innovation Lab as being critical to challenging the financial services sector on topics of equality, resilience, fairness and sustainability. Others identified regulatory barriers – such as a lack of clarity on how the 'Financial Promotion Regime' regulation[93] applies to social impact investment products - as a key challenge (explored in further detail in section 3.4.2.2).

While there is increasing interest and activity in social impact investment among corporates and mainstream banks[94], interviewees also highlighted that the lower rates of return and

[93] A 'financial promotion' is a communication which is an invitation to engage in investment activities. The 'Financial Promotion Regime' is the legislative and regulatory regime which the investee seeking to make the financial promotion is required to comply with in order to do so.
[94] See for example, the Social Investment Research Council's report, 'New specialist sources of capital for the social investment market' (April 2014) which explored eight institutional groups' appetite for social impact

potential for higher levels of default are a barrier to mainstream banks increasing their exposure to the SII market. Bank of America and Merrill Lynch's participation alongside NESTA and Esmée Fairbairn in the Arts Ventures Fund, demonstrates how mainstream financial instructions can co-mingle funds with philanthropists and other grant-making institutions[95].

European institutions have been highlighted as ahead of the UK in this regard, with several examples of mainstream banks developing products or funds with impact, with the goal of offering these to their private clients. Santander, AXA Investment Managers, Berenberg Bank, UBS and ABN Amro all play active roles in the SII market.

However, fund values across European banks are still relatively small, especially when compared with some high profile initiatives in the US, such as the Goldman Sachs Social Impact Fund, which aims to raise $250m for domestic social impact investing.

Case Study: AXA Investment Managers

Description: Investing on behalf of AXA Group, AXA Investment Managers have set up a €200m French domiciled fund of funds to invest in the areas of access to finance, healthcare and education.

By combining responsible investment experience and skills with Fund of Funds management expertise across their Paris and London offices, the 10-year fund is now fully committed on a global basis, building a track record and pipeline that provides the opportunity to replicate the fund for other private clients, such as pension funds and high net worth investors.

What this tells us: This illustrates how mainstream fields of expertise can be extended into the social sector by combining skill sets, in this case from internal teams. It also demonstrates how a broad global and thematic remit has enabled substantial funds to be committed relatively quickly, an indicator of the importance of future evolution in the role of a global financial centre to attract global demand both at an intermediary and enterprise level.

investment, including corporates. Available at: http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/New-specialist-sources-of-capital-for-the-social-investment-market.aspx. The EVPA has also launched in May 2015 a report, 'Corporate social impact strategies – new paths for collaborative growth'.

[95] https://www.gov.uk/government/publications/co-mingled-funds-subordinated-investments

3.4. Feature four: Favourable environment

Table 7: Summary table analysis of Feature four: Favourable environment

Definition	The extent to which national and local government provide a supportive policy, regulatory and legal environment for SII.		
	Helps build investor confidence in the SII market, and provides transparency and predictability in a new investment area.		
	Stage 1: Medium	Stage 2: High	Stage 3: High
	The overall environment in London is favourable, with transparency of regulatory and legal frameworks giving investor's confidence in making investments in London. For SII in particular, Government support for growth of the market, through policy development, funding and tax relief has strengthened and supported London's current position to encourage risk capital by UK individuals into SIIs.		
	Despite this feature being seen a key strength in London, and in particular the role that government has played in creating a favourable environment, for the capital to reach and fully achieve stage 3 there is a need to leverage the environment further to address the issue of scale and develop a pipeline of investable opportunities. This might involve: • Creating programmes that manage the business support and investment readiness needed, as well as providing ongoing technical assistance after investment. • Ensuring that the different policy options are consistent so that consumer protection and incentives for individuals are aligned. • Ensuring that the new powers open to trustees of charities and the ability of pension fund trustees to include overall societal benefit in their investment decisions are fully utilised.		

3.4.1. What does this look like in practice?

This feature reflects the extent to which national and local government provide a supportive environment – encompassing policy, regulatory and legal systems - for SII. The OECD highlights that a favourable environment is a key component of a successful SII market, alongside supply and demand forces[96].

Interviewees commented on the ease with which 'business can be done' in a location, and specifically the ease with which alternative financial structures can be set up. A degree of 'flexibility' is also required within the regulatory framework, to enable market growth and allow for changes to accommodate market development. These conditions are relevant for a financial centre for SII at each of the three stages of development, though not specifically geared towards the challenges of supporting international flows of capital. The latter is a question that London, as it progresses through the stages of development, will need to consider further.

For a national financial centre (stage 1) to progress towards a global financial centre for SII (stages 2 and 3), favourable environmental conditions include:

- Policy support. Identifying SII as a priority policy area, for example the government of Singapore's public support for the development of SII as a critical component of its

[96] Wilson, KE (2014) – Op Cit.

private banking industry. In addition to signalling long term government commitment to the SII market, which provides comfort to investors, such support can lead to cross-boundary initiatives; the international agreement of the London Principles for social impact investment is one example of collaboration by policymakers across continents.

- Tax incentives. Creating incentives such as tax relief measures – for example the UK Social Investment Tax Relief (SITR) – to encourage investments of this nature over traditional philanthropy or other enterprise investment schemes. Whilst this provides tax relief only to UK investors, its existence could help generate a future pipeline of scalable investment opportunities for international capital.
- Market initiatives. Introducing initiatives to catalyse the market, for example New York is home to initiatives such as Ceres and the Investor Network on Climate Risk - platforms on which asset owners and asset managers collaborate on public policy issues[97].
- Regulation. Interviewees felt that a principles, rather than rules-based legal and regulatory framework is a key enabler to engage new investors into the SII market. They also voiced concern, however, that increased global regulation – following the global financial crisis - could threaten the market, making access to capital for social impact investment onerous and restrictive.

It should also be noted that whilst technology plays a critical role in creating a favourable environment, our research did not identify any distinct requirements for the SII market than for other markets and so is not considered here.

3.4.2. London's current position – Feature four: Favourable environment

3.4.2.1 What London is doing well

The introduction of the SITR in the 2014 Finance Bill has been a key development for the UK market. The tax relief seeks to encourage retail investors to make social impact investments, by allowing investors to deduct 30% of the cost of their investment from their income tax liability, for an investment held over a minimum three year period.

Though welcomed by the sector and investors, it is widely recognised that the SITR's effectiveness could be enhanced through an increase in the investment cap per investee (currently limited to €344,827 over three years). For example key stakeholders such as Big Society Capital[98] and the British Venture Capital Association[99] (BVCA) have argued that the cap limits intermediaries' and financial advisors' ability to offer opportunities to their clients, and also limits the growth of SSOs and the sector more widely. In the 2014 Autumn Statement, the Government announced a commitment to increase this investment limit to a maximum of £5m per organisation per year up to a total of £15m over three years, subject to EU State Aid approval. This is expected to come into effect in 2015 and was pending at the time of writing[100].

Another notable strength of London is the consistent policy support by central and local government, driven in part by the Office for Civil Society in the Cabinet Office, which has developed various policy and funding initiatives to support the growth and development of the SII market in the UK and influence how government uses SII as a tool for delivering public

[97] On Values, June 2012, a comparison of leading financial centres in the field of sustainable finance.
[98] See: http://www.bigsocietycapital.com/social-investment-tax-relief
[99] See: http://investmentagenda.co.uk/social-impact-investing/policy-recommendations-to-drive-the-social-impact-investment-market/
[100] See: 'Social investment tax relief guidance note' (March 2015), https://www.gov.uk/government/publications/social-investment-tax-relief-factsheet/social-investment-tax-relief

policy[101]. In doing so, this has both stimulated the supply and demand for SII in the UK, and increased the accessibility of government markets for outcomes.

The announcement in the Queen's Speech of the Charities (Protection and Social Investment) Bill is a recent example of central government support to strengthen London's position as a national financial centre for SII. The Bill, in part, will provide charity trustees with legal powers to enable them to more easily undertake social impact investments[102], building on consultations undertaken in 2014[103]. At an international level, the Cabinet Office has been working with UKTI to 'export' the UK SII market – in terms of its expertise, SSOs and capital - to international markets as well as encourage international flows of SII capital into the UK as part of the 'Britain is GREAT' Campaign.

The support environment for start-ups and social sector organisations across the UK, but especially London, is also referenced as a key strength of London's policy, regulatory and legal environment, with multiple examples of social incubators – many supported by the Cabinet Office's Social Incubator Fund[104] – to assist social sector organisations.

These connections are also mirrored in the wider business community with networks such as Heart of the City (HOTC)[105], which brings together businesses based in the City of London and surrounding boroughs, to consider and address social issues through four pillars of corporate social responsibility – community, the workplace, the environment, and the marketplace. While HOTC and other similar networks and platforms are not explicit advocates of social impact investment per se, they demonstrate that positive social action and social innovation is important for the business community. Additionally, they also provide a conduit for social sector organisations into new markets and create opportunities for engagement with business. Finally, they support the broader challenge of attracting skills and expertise into the social sector - one of the key challenges for London's progression to a stage 3 mature global financial centre for SII.

Case Study: Social Incubator Fund

Description: The £10m Social Incubator Fund, which sits as one part of the Cabinet Office's Investment Readiness Programme, aims to help create a favourable environment for start-up SSOs in the UK, by increasing incubation support and attracting new incubators into the market.

The first four awards totalled c. £5m which has in turn enabled c.65 new social sector organisations to be intensively supported, through a combination of grant, investment and business support. With the call for proposals specifically inviting collaboration between the private and social sectors, the fund has driven new partnerships including UnLtd's with Wayra UK, Telefonica's technology incubator, to offer support and investment to tech start-ups who want to create social change.

What this tells us: This highlights the role central government has played in creating a favourable environment which supports the social impact investment market and specifically where it has stimulated cross-sector collaboration. This provides an illustrative example of the role other market institutions can potentially play to encourage collaboration on specific market challenges such as achieving scale.

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101 See: https://www.gov.uk/government/collections/social-investment
102 See: https://www.gov.uk/government/news/charities-protection-and-social-investment-bill-introduced
103 For example the Law Commission's consultation which reviewed charity trustees' powers to make and duties when making, social impact investments. The Law Commission's recommendations were published in September 2014. See: http://lawcommission.justice.gov.uk/publications/social_investment_charities.htm
104 See: https://www.biglotteryfund.org.uk/socialincubatorfund
105 See: http://www.theheartofthecity.com/about-us

3.4.2.2 Areas for future focus

Despite London's relatively 'favourable' policy, regulatory and legal environment for SII, some investors noted other financial centres where embedding innovative social solutions are culturally perceived as 'easier', with simpler and more scalable models. The Delancey Street Foundation[106] is an illustrative example of a scalable social innovation that has originated in San Francisco – seen as a more entrepreneurial and risk-taking environment to that offered by London.

Several interviewees indicated the lack of scalable financial and business models as one of the key barriers to further growth in the international SII market. Interviewees agreed that this is a key area of any global financial centre for SII – and in particular London – in order to remain at the forefront of this market.

Another area of challenge, as flagged in section 3.3.2.2, is the UK Financial Promotion Regime regulation as it currently applies to social impact investments. This is a topic explored in 2014 by the Social Investment Research Council[107] and previously by others[108]. The Council's research illustrates how, depending on the route to market followed and the legal form of the investee, current FCA rules, regimes and exemptions apply in different ways to retail SII products and offerings. This in turn introduces complexity and potentially significant compliance and approvals costs for the investee, as well as limiting retail investor's access to SII products. Taken together, these 'barriers' prohibit all but the largest social sector organisations from leveraging retail investments. Many interviewees raised a similar point and called for clearer guidance from the FCA about how social impact investments can be promoted under the Financial Promotion Regime, potentially with adjustment to the Regime for a more explicit consideration of SII.

Case Study: Delancey Street Foundation – San Francisco

Description: Delancey Street, San Francisco, is the United States' leading residential self-help organisation for former drug-addicts, criminals and homeless people. Started in 1971, the organisation has since helped over 18,000 people. The programme receives no state funding. The programme's achievements to date include:

- Over 10,000 formerly illiterate people receiving high school equivalency degrees;
- Moving over 12,000 violent, racial gang members away from gangs into active non-violence;
- Building or re-modelling over 1,500 units of very low-income housing built by the residents themselves with union support, training over 1,000 people in the building trades, and moving over 3,000 homeless people into permanent housing;
- Developing over 20 enterprises run by formerly unskilled people collectively providing about 60% of the funding and growth of the organisation; and,
- Replicating the model in eight US cities, with an international training academy working with 20 overseas countries.

What this tells us: This case study provides an example of the scale of social innovation that occurs in the US, which is seen by investors as leading the UK in terms of the development of scalable social businesses. This difference is attributed to a more entrepreneurial and risk-taking environment in San Francisco, rather than specific to the social sector. Looking to

[106] http://www.delanceystreetfoundation.org/index.php

[107] http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/marketing-social-investments-outline-of-the-FPO.aspx

[108] For example, the 2011 report 'Investing in civil society: a framework for a bespoke regulatory regime' by Luke Fletcher of Bates Wells and Braithwaite (BWB). Available at: https://www.nesta.org.uk/sites/default/files/investing_in_civil_society.pdf

other such financial centres and the initiatives undertaken to stimulate innovation – across all sectors – may offer useful reference points for further activity to address this challenge in London.

3.5. Feature five: Social impact standards and reporting

Table 8: Summary table analysis of Feature five: Social impact standards and reporting

Definition	The ability to support the development of consensus driven and market-led standards and reporting.		
Relevance to SII market	Enables investments to be considered based on the balance of financial and social returns, and for multiple investments to be compared on an impact basis.		
Importance to each stage of development	Stage 1: Low	Stage 2: Medium	Stage 3: High
London's current position	The standard measurement of social impact remains a live challenge, not only for London but for the global SII market as a whole. Unlike other global financial centres, London and the UK more widely do not have a standard accreditation model, which is seen as a key enabler to market growth. Poor measurement of social impact is identified by the OECD[109] as one of the barriers to attracting mainstream and retail investors in the SII market.		
Recommendations for future development	For London to progress towards stage 2 and on to stage 3, our research identified the need to embed international standards for social impact measurement. SII standards and reporting should be done collaboratively, at global level, as well as incorporating more 'local' considerations. Potentially, in the first instance, by adopting existing accreditation models such as LuxFLAG for certain types of investment funds, B Corp Certification for impact-focused corporations and IRIS for measuring outcomes of development finance.		

3.5.1. What does this look like in practice?

This feature relates to consensus driven and market-led standards and reporting. The development of carbon trading markets[110] and accounting standards for Islamic finance[111] described in chapter 2 are examples of innovative approaches to standardisation in an alternative finance market. In both cases these have catalysed the development of the market and accelerated growth and stabilisation.

For SII, standards and reporting relate in most instances to the measurement and reporting of the social impact of an activity, SSO, investment or fund. These in turn, relate to a quantification of some kind of positive social change – or the change in state for a beneficiary or group of beneficiaries – and may include outcomes and impacts such as accessing and retaining employment, education or training and preventing or treating health conditions. Whilst measuring and reporting these impacts has strategic and operational importance for any organisation, the importance of standards is also driven by

[109] See: http://www.oecd-ilibrary.org/science-and-technology/new-investment-approaches-for-addressing-social-and-economic-challenges_5jz2bz8g00jj-en;jsessionid=4fc3cu0n4q9b9.x-oecd-live-02
[110] 'The EU emissions trading system union registry: how it works, how Kyoto units are used for compliance within the EU ETS and how to participate in carbon allowance auctions' (22 January 2013) UK Department of Energy and Climate Change.
[111] 'Global alignment: bringing consistency to reporting of Islamic finance through IFRS' (November 2012).

funders – both grant-making and investing – who need to compare the potential social impacts of different investment propositions. In theory a standard framework for measuring impact enables investments to be compared and choices to be made in the context of both financial and social returns. While there is broad consensus that standards are important, there is still much room for improvement. For example a larger proportion of respondents to the 2015 JP Morgan/GIIN survey than in previous years indicated that they felt no progress had been made in this area over the last year, despite a majority agreeing the significance of standards for the market. Research by the OECD[112] in turn highlights the lack of consistency in measuring social impact as one of the barriers to attracting mainstream and retail investors into the SII market.

While interviewees had strong views on this, its importance as an essential feature of a global financial centre for SII was ranked fairly low, comparative to the other five features explored. Whilst the development of relevant and practical global standards for measuring and reporting social impact is a critical enabler to the growth of the global market - allowing for robust comparison between investment options in different geographies - it is not considered an area that any one location or financial centre can or should take the lead on. Interviewees felt that effectively developed social impact standards and reporting requires truly global collaboration, of the nature started under the Impact Measurement Working Group as part of the G8 Social Impact Investment Task Force. The Working Group has made a series of recommendations, such as for investors to take greater accountability for impact; and the application of best practice guidelines and alignment of proprietary metrics to existing standards, contributing to the creation of a shared language and data systems[113].

While there was agreement among interviewees that SII standards and reporting should be done collaboratively at a global level, the need to incorporate more 'local' factors was also raised as a relevant consideration in the ecosystem of a global financial centre for SII. For example standards should consider not only the potential social impact of an investment, but also the broader intent, sustainability and scalability of the SSO being invested in.

Interviewees also identified accreditation as an important first step of standardisation, to enable investors to credibly draw comparisons between potential investment opportunities. The LuxFLAG[114] accreditation system in particular was identified as an example of innovation in packaging existing investment products to help investors make informed decisions. The B Corporation Certification model[115] provides an alternative example for how this can be achieved through a specific organisation legal form which 'locks' in its social mission with profit-making activities.

The importance of measuring social impact for investors is supported by other research, such as the 2015 JP Morgan/GIIN survey; respondents generally placed high importance on measuring outputs and outcomes of investments consistently, and specifically through the use of the IRIS indicators, but were less focused on putting a dollar figure on impact. The value of standardised indicators is also illustrated by the fact that this survey research series has consistently used the IRIS indicators to help benchmark investors and enables comparability over the years.

[112] See: http://www.oecd-ilibrary.org/science-and-technology/new-investment-approaches-for-addressing-social-and-economic-challenges_5jz2bz8g00jj-en;jsessionid=4fc3cu0n4q9b9.x-oecd-live-02
[113] See: http://www.socialimpactinvestment.org/reports/Measuring%20Impact%20WG%20paper%20FINAL.pdf
[114] 'LuxFLAG launches the first European ESG label' (21st May 2014) Luxembourg for Finance.
[115] See: https://www.bcorporation.net/what-are-b-corps

3.5.2. London's current position – Feature five: Social impact standards and reporting

3.5.2.1 What London is doing well

Whilst investors largely felt that standards and reporting for SII is an area of development for London, some tangible progress has been made to date.

Notable is the Inspiring Impact Programme[116], a market-led initiative supported by Government, to develop standards in the metrics, processes, tools and systems used for social impact reporting across the UK, drawing on international standards such as the Global Impact Investing Rating System (GIIRS) and IRIS Indicators developed by the GIIN. In addition, Big Society Capital's Outcomes Matrix[117] has provided a valuable framework for UK-based SIFIs and underlying SSOs to focus their own impact measurement and reporting.

There are also isolated examples of accreditation models being used in London to address the social impact reporting challenge, as a way to attract supplies of SII capital. Examples – as indicated previously - include the listing process used by the Social Stock Exchange (see section 3.2.3) and the Threadneedle Social Bond Fund, where Big Issue Invest is 'accrediting' the underlying ventures as having a positive social impact[118] (see section 3.3.3).

The B Corporation Certification model developed by B Lab in the US[119], has also started to have some take-up in the UK, with over 50 organisations committed to accreditation with B Corp status at the time of writing. Existing B Corps in the UK include Charity Bank, the social purpose bank; Volans, a strategic think tank and consultancy; and Cook Trading Ltd.

Case Study: Inspiring Impact Programme

Description: Inspiring Impact is a 10-year collaborative programme aiming to make impact measurement the norm for charities and social sector organisations by 2022, and increase the number of organisations measuring their social impact and sharing their experience and lessons learned with the rest of the sector. In doing so – and hence developing precedent and standards in terms of common data – charities and social sector organisations can improve their strategy, raise more funding, and most importantly, create greater impact.

What this tells us: Whilst the Inspiring Impact Programme provides yet another example of collaboration and cross-market working, the duration of this programme highlights the significant time that may be required to develop a sufficient body of evidence and precedent in relation to longer term social benefits.

3.5.2.2 Areas for future focus

While some progress has been made in SII standards and reporting in the UK, the US is seen as the global leader, with many referencing the GIIN's work on GIIRS and IRIS Indicators[120] as leading examples of how standards are being developed and practically implemented.

Many interviewees felt that in light of existing international standards, developing standards in London and/or replicating the work already done elsewhere with a London focus, is at odds with the requirement for global standards in an international marketplace. This led to the view that efforts should focus on truly embedding already established international standards into practice in London. The carbon markets – for which London is a global leader - offer a precedent for how London has previously adopted international standards in this way.

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116 See: http://inspiringimpact.org/
117 See: http://www.bigsocietycapital.com/outcomes-matrix
118 See: http://www.bigsocietycapital.com/blog/threadneedle-uk-social-bond-fund-first-its-kind
119 See: https://www.bcorporation.net/what-are-b-corps
120 See: https://iris.thegiin.org/introduction

Building on this, an appropriate next step for London is adopting an accreditation model – with most investors favouring the use of an existing model developed overseas, such as the LuxFLAG[121] accreditation model developed in Luxembourg or B Corp Certification.

Our interviewees also felt that it was important to broaden the focus on social impact reporting from the SII market to the private sector more generally. If reporting social impact became standard practice across private sector organisations – as has happened with carbon 'footprinting' – then reporting investments that have a social impact would become an important business driver, adding momentum to current global developments. The Sustainable Accounting Standards Board provides an example of how this issue is being addressed in the US[122]. At an international level, a 2014 PwC report on 'total impact measurement and management' prepared for the UN High Level Panel, adds to the discussion about the need to drive transparency in impact reporting by businesses in the context of the post-2015 millennium development goals[123].

Case Studies: Social Impact Accreditation

B Corp Certification is private certifications issued to for-profit organisations by B Lab, a US-based non-profit organisation. A B Corp certifies that a firm has met certain standards related to its social and environmental performance and enables them to be identified as organisations having a positive social impact. To date, there are c.1,000 organisations with B Corp certification in the US. The movement is also gaining traction worldwide.

LuxFLAG originated from the 'Round Table on Microfinance' hosted in 2005 as part of the United Nations' Year of Microcredit. Set up as an independent non-profit making association with seven 'Founding Members', it seeks to encourage investment in 'responsible' sectors by awarding a recognisable label. As of November 2014, 28 funds hold the 'Microfinance Label', representing c. $4bn in assets under management. Nine funds have been granted the 'Environment Label', with c. $713m in assets under management and three funds have been awarded the 'ESG Label' in light of their respect of Environment, Social and Governance objectives[124].

What this tells us: These examples demonstrate how social impact certification at either an enterprise level (B Corps) or at an intermediary or fund level (LuxFLAG) can help niche products more readily demonstrate their impact to mainstream, as well as SII, investor groups. As a concept, this has relevance to the challenges outlined previously in terms of unlocking retail investment from 'ordinary' investors and gaining confidence from mainstream institutions to invest in specialist funds.

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121 'LuxFLAG launches the first European ESG label' (21 May 2014) Luxembourg for Finance.

122 See: http://www.sasb.org/

123 See: http://www.pwc.com/gx/en/sustainability/publications/total-impact-measurement-management/assets/pwc-timm-for-ceos.pdf

124 Environment, Social and Governance objectives (ESG) refers to three key areas of focus for measuring the sustainability and ethical impact of investments, covering a broad range of different types of investments, including SII but also socially responsible investment (SRI) and ethical investments.

3.6. Feature six: International connections

Table 9: Summary table analysis of Feature six: International connections

Definition	The international connectedness of a financial centre, manifested in the geographical proximity to demand and supply in the SII market.		
Relevance to SII market	With geographical variation between supply and demand, international flows of finance will span different geographies.		
Importance to each stage of development	Stage 1: Low	Stage 2: Low	Stage 3: Medium
London's current position	Whilst London is geographically distant from many of the target geographies for SII placement, this is in part mitigated by the extensive history the UK has of trading relationships across the world, and by the robust transport infrastructure in London. There is an opportunity to explore how technology can provide further international integration. For many the UK's membership of the EU is also attractive at this stage.		
Recommendations for future development	This research makes no specific recommendations related to feature six at this point in the development of London as an 'emerging' global financial centre. This feature will require more attention if the market develops and grows towards securing a stage 3 mature global position.		

3.6.1. What does this look like in practice?

The final and sixth feature of a global financial centre for SII, 'international connections', refers to the geographical proximity of a financial centre to either the supply of, or demand for, SII capital, or both. Arguably a more 'local' presence may lead to a better understanding of client/investee needs, nurturing longer term relationships and enabling funders and investors to adapt rapidly to changing market conditions.

International development banks such the World Bank (WB) and the Inter-American Development Bank (IDB) have steadily increased the number and financial volume of their operations to increase private sector funding in developing countries over the last two decades[125]. An increasing portion of funding is drawn towards South Asia and Sub-Saharan Africa, which are home to over 75% of the world's poorest people[126]. The 2015 JP Morgan/GIIN report indicates that almost 50% of SIIs are made in developing countries, despite the majority of funds (90%) being headquartered in the developed world. In this context, interviewees felt that whilst to date location decisions have been driven by the presence of knowledge and expertise, in the future greater importance may be given to proximity to investing clients and the projects or businesses that are receiving investment.

3.6.2. London's current position – Feature six: International connections

3.6.2.1 What London is doing well

London's international connections and its positioning between time zones make it a very attractive location, despite the relative expense of operating in the capital. This view is arguably supported by the fact that while New York may have more capital in aggregate terms, London has the larger proportion on non-domestic investors[127].

[125] 'International Development Banks Working with the WB and the IDB', Jacqueline Breidlid and Nina Prochazka.
[126] 'How long will it take to lift one billion people out of poverty?' (2013) The World Bank Policy Research Working Paper, Martin Ravallion.
[127] See: http://www.lseg.com/resources/video-library/worlds-most-international-exchange

Several investors noted that strong relationships with Europe are also an attractive feature of London, with potential departure from the EU seen as a significant risk to London's ongoing leading status in the SII market[128]. This risk was particularly highlighted by UK intermediaries already raising finance from EU institutions and/or investing in EU ventures. For them, Europe is seen as the most obvious route to 'internationalising' a hitherto predominantly domestic SII market in the UK. This is in part due to the geographical proximity to investors and SSOs based in the EU, when compared with other locations such as Sub-Saharan Africa or Asia, but also in the context of the complex SEC regulations involved in working with US-based investors.

3.6.2.2 Areas for future focus

Channelling investment overseas from London raises various challenges related to money laundering, conducting effective due diligence and investing in SSOs that are set up in a different regulatory and compliance environment. This impacts on the speed at which new products can be developed in an international context. Some interviewees pointed to the design duration of Development Impact Bonds[129] in Sub-Saharan Africa (that are taking significantly longer than that for UK-based Social Impact Bonds), as an example of the impact of complexity of working across continents and time-zones.

Innovation in the use of technology to narrow the geographic divide has been indicated as a future trend for all financial centres for SII. The UK-based charity GROW movement[130] offers an example of how adopting technology-based business practices for connecting with remote locations in the developing world – via SMS – is helping provide technical assistance remotely and in real time to micro and small businesses in Africa.

3.7. Summary - London's current position

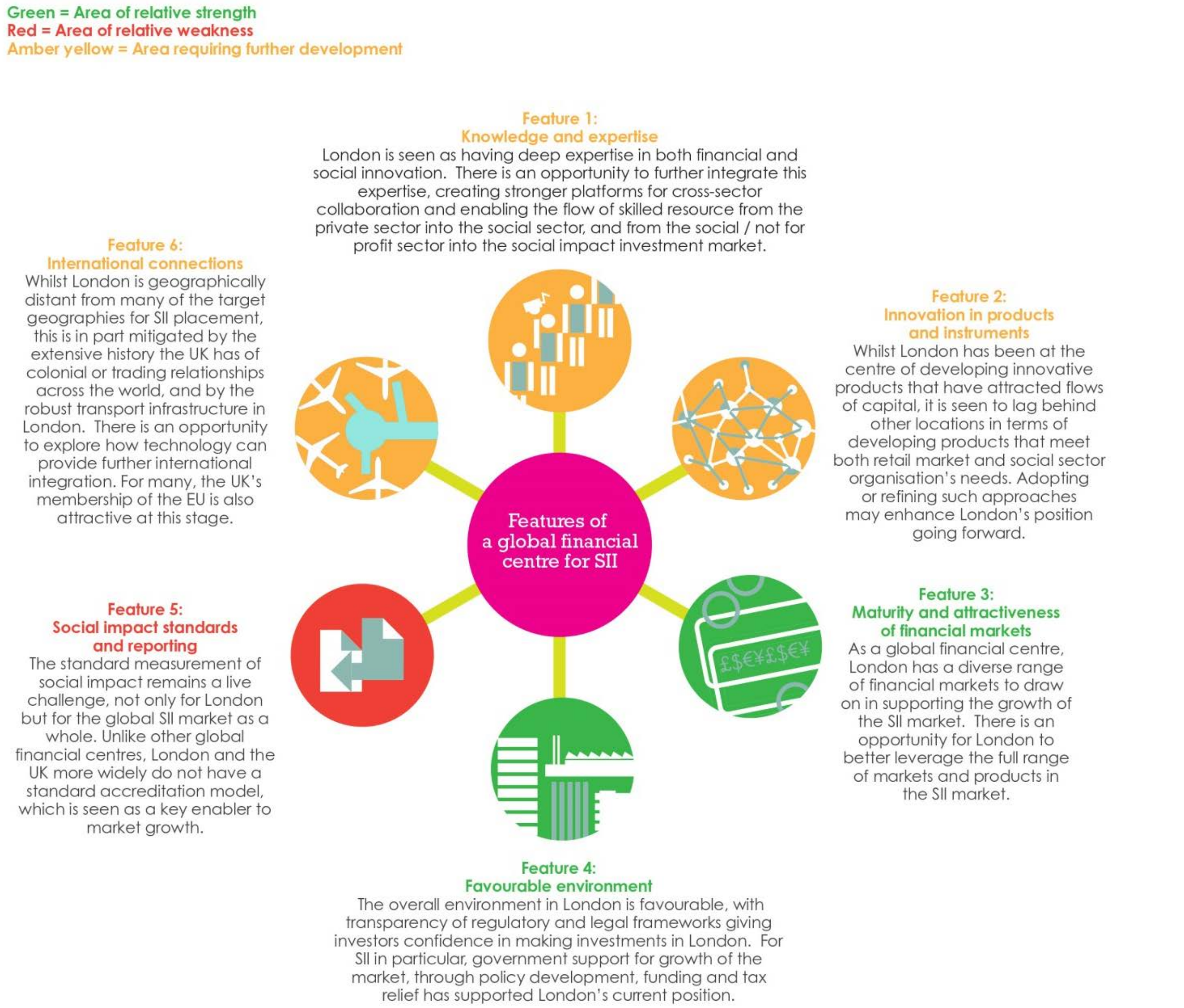
This chapter has presented a detailed consideration of London's current position, assessed against each of the six essential features of a global financial centre for SII.

We conclude that overall, London's current position is predominantly seen as a strong national financial centre for SII. London is therefore at stage 1 of development in our model.

How have we reached this conclusion? Figure 9 presents a RAG analysis to determine London's position assessed against the six essential features of a global financial centre for SII. As discussed in this chapter, it is clear that across all six features London has some form of activity. However, London performs strongly in some features – such as Feature three: maturity and attractiveness of financial markets and Feature four: Favourable environment - and less so in others, particularly Feature five: Social impact standards and reporting. The features RAG analysis therefore suggests that London has a sound basis to progress and develop as a global financial centre for SII; however there is also room for progression within all the features, as well as particular areas for further development. While this research did not include a detailed comparative analysis between London and other financial centres, we might expect other leading financial centres to be similarly positioned.

[128] See: http://www.ft.com/cms/s/0/9d646b06-9124-11e4-914a-00144feabdc0.html#axzz3VqkUxlAf
[129] See: https://www.gov.uk/government/news/uk-development-bonds-will-combat-global-poverty
[130] See: http://www.growmovement.org/

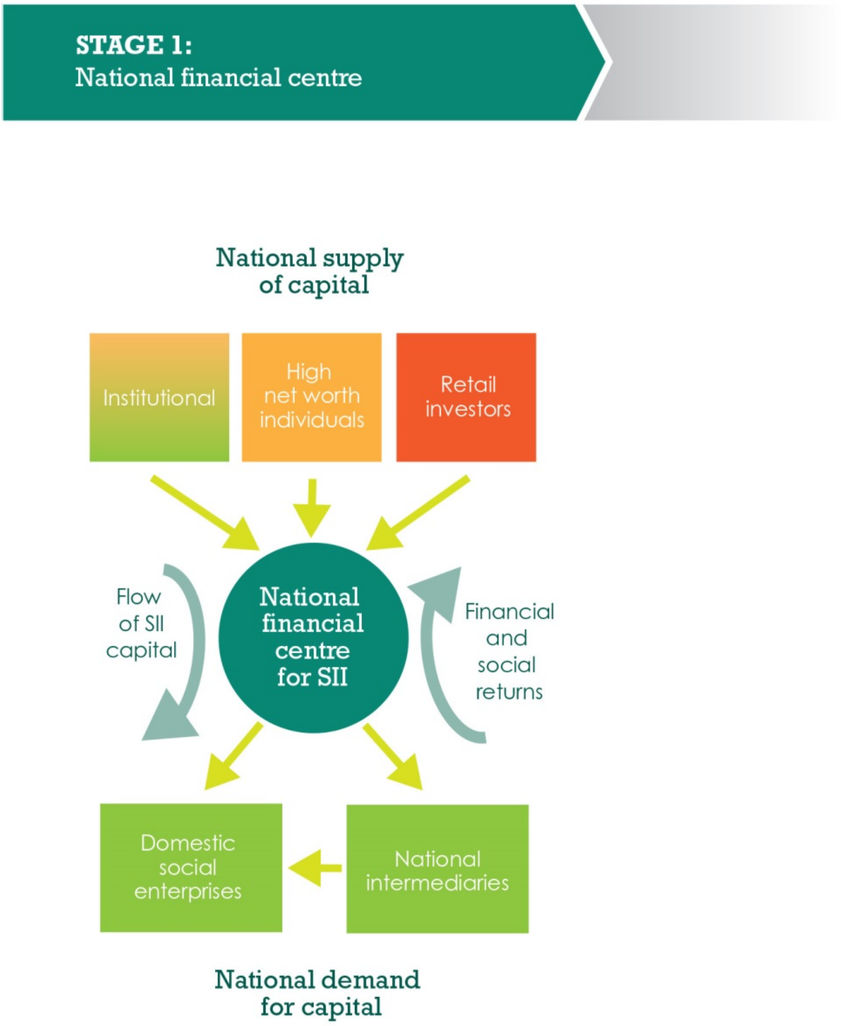
Figure 9: London's current position against the six features of a global financial centre for SII



Source: PwC anaylsis

Building on this analysis, consideration is given to what stage of development London is at in terms of its potential to be a global financial centre for social impact investment. This is presented in Figure 10 and allows us to identify some of the more strategic implications and particular areas for further improvement for London to progress to stage 2.

Figure 10: RAG analysis of London's current stage of development



Source: PwC anaylsis

Taken together, this analysis allowed us to develop an informed understanding of London's current position and performance. This highlights that:

- London is currently at stage 1 of development, predominantly seen as a strong national financial centre for SII.
- To fully achieve stage 1 and progress to stage 2 requires further improvements, across some features in particular. For example, thinking about an area that could be addressed within Feature two and Feature three, a greater supply of capital from retail investors is a key area for improvement on a national level. This would arise from the development and utilisation of a favourable environment alongside improved innovation in products that meet both retail investors and social sector organisation's needs.
- There are also some aspects already in place that might attract international social impact investment and support London's progression to global status – namely London's knowledge and expertise base (Feature one).
- On reaching maturity for the different elements of a national financial centre for SII, London has the potential to progress to stage 2. To do so it needs to address the issues for each of the six essential features of a global financial centre, presented in Figure 2,

including in developing a pipeline of investable propositions to attract and allocate international capital.

Overall London is yet to progress beyond its position as a national financial centre for social impact investment. This research has found there is great potential for London to do so, should the areas of challenge and issues identified, be addressed.

While this research did not include a detailed comparative analysis between London and other financial centres, we might expect other leading financial centres to be similarly positioned i.e. as national financial centres for SII rather than emerging (stage 2) or mature (stage 3) global financial centres. The work of the G8 Social Impact Investment Taskforce[131] for example highlights how, whilst developments in the SII market are occurring across a number of leading financial centres, there is no clear global financial centre for SII. The following chapter presents six practical recommendations, based on these findings, for how London can move closer to becoming a global financial centre for social impact investment. These considerations more broadly might also apply to other centres seeking to take up the opportunity to be a global financial centre for SII.

[131] For more information see: http://www.socialimpactinvestment.org/

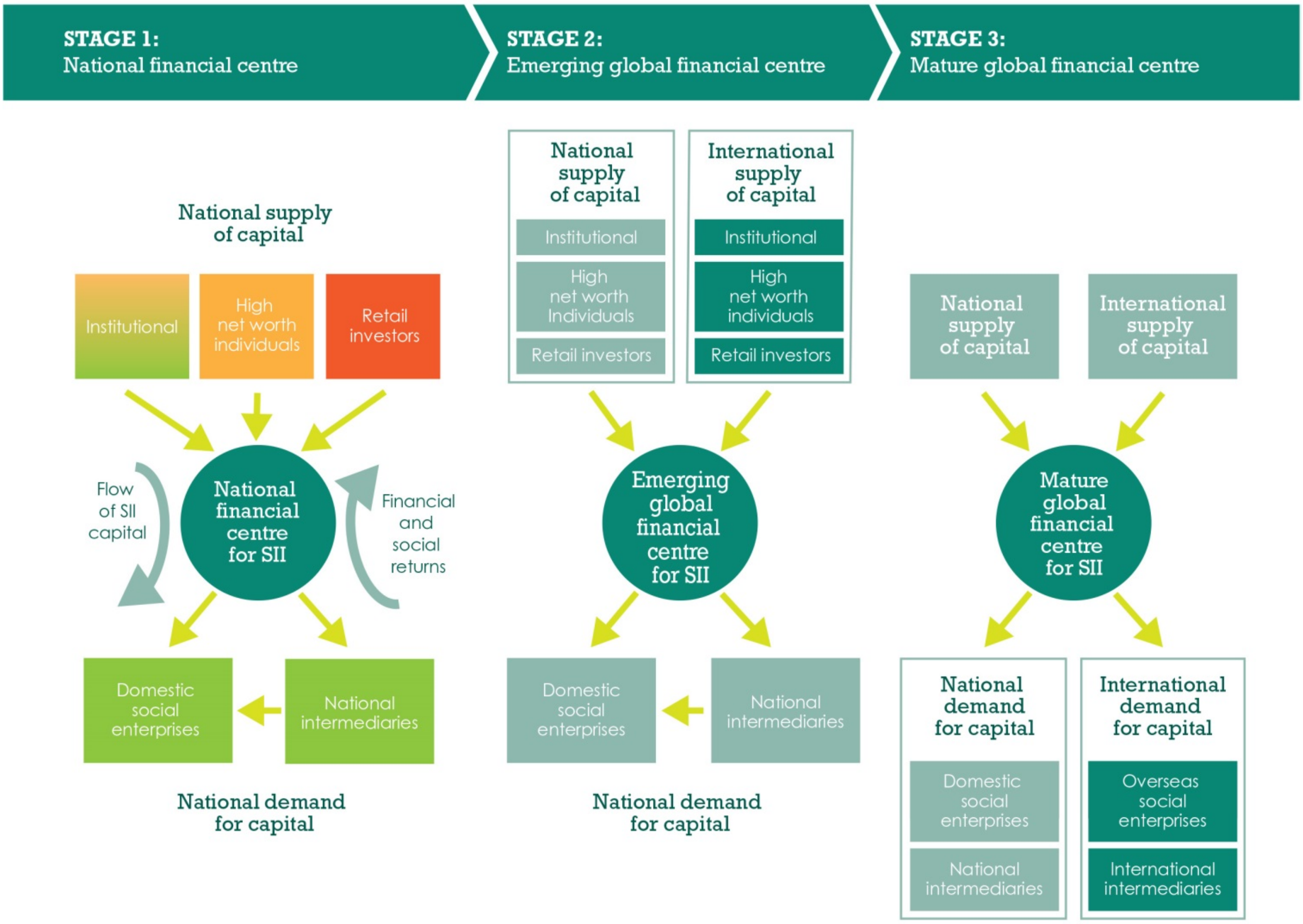
4. Concluding remarks and practical recommendations

4.1. Summary conclusions

The global investors interviewed for this research see the UK generally, and London more specifically, as a 'test bed' for new social impact investments and structures that others can learn from and/or adopt. London is, however, by no means alone in this respect. Further, SII flows in the UK tend to be predominantly domestic and its status as a pioneer does not necessarily mean that London does or will attract new flows of international capital.

As illustrated in Figure 11, based on our RAG[132] analysis of London's current position, the capital operates well as a predominantly national financial centre for SII. There are, however, various developments needed across each of the six features for London to progress to operating as a global financial centre.

Figure 11: RAG analysis of London's current position as a global financial centre for SII



Source: PwC anaylsis

[132] Those areas flagged as green are where London is perceived to be most developed or attractive, whilst amber and red indicate areas for further development. It should be noted that whilst green indicates a positive or fairly strong position, it does not mean that no further support or development is required.

As the analysis in chapter 3 highlights, London is seen as a strong financial centre in terms of the maturity and attractiveness of its existing financial markets, with some notable examples of how mainstream institutions are leveraging broader experiences to enter the SII market. The overall environment for SII is also seen as generally favourable, with policy support in particular being viewed as a key strength. London is also fairly strong in SII knowledge and expertise, with a particularly strong intermediary market and potential to develop this feature on a more international basis.

A number of developments are required, however, for London to progress towards becoming an established (stage 2) and finally mature global financial centre for SII (stage 3). The remainder of this chapter outlines the primary challenges and associated recommendations for London to progress through the stages and provide a robust platform for channelling flows of SII internationally and attracting retail social investment to London.

In keeping with the focus of this research, the majority of the recommendations are practical improvements on the supply-side required to progress from stage 1 to stage 2 of development. This includes improvements to the regulatory environment and a greater focus on leveraging existing infrastructure to draw highly skilled intermediaries and investors into SII. Finally, a holistic assessment of SII would be incomplete without reference to development needs on the demand-side, particularly greater capacity building assistance through technical assistance and scalability support, noted in relation to progressing to stage 3. It is worth highlighting that the examples presented as part of our recommendations are not necessarily the 'answers' to London's progression to a global financial centre for SII. They are interesting developments and provide useful learning to consider to support this progression.

4.2. Challenges and recommendations

4.2.1. Achieving complete maturity as a national financial centre for SII: diversifying domestic supply of SII

The challenges to engagement with social impact investment which ordinary retail and (Ultra) High Net Worth Investors face is a key barrier to the domestic market's further development. In particular it limits the involvement of mainstream institutions in providing access to retail investors to the SII market, when compared with European counterparts. At an international level, retail investors also have a key role in contributing to the SII market's growth and development. In the longer term, creating robust platforms for international investors to access the SII market is also a crucial element for London to progress to stage 2.

Supporting and encouraging the SII market to enable retail investor's greater access will also involve creating a supportive, holistic regulatory environment. Another key consideration here is the active encouragement of retail investment through mainstream financial institutions, such as pension funds, and through remedying current inconsistencies within the Financial Promotion Regime to promote SII. As outlined in section 3.4, the current Regime presents a number of barriers to the growth of the SII market in relation to:

- Enabling ordinary retail investors interested in making social impact investments to access SII products; and,
- Complexity and costs for SSO investees seeking to raise capital through the marketing of social impact investments to ordinary retail investors.

The investors we consulted consistently called for a simpler, more coherent set of guidelines, which recognise the objectives, size and scale of investments being raised by social sector organisations, and enables compliance and professional approval costs to be more aligned with the size of investments raised. This in turn will enable SSOs in the UK and elsewhere to access potential large pools of funding at the small deal sizes currently demanded by the market, more efficiently. This is a recognised issue in the industry, with recent reports by the G8 and the Social Investment Research Council calling attention to it.

Recommendation 1: Creating and fully utilising a supportive regulatory environment for SII

This could include new powers for trustees of foundations to make social impact investments and for pension fund trustees to consider the overall societal benefits of their investments, as within their fiduciary duties[133]. In addition, this will require the adoption of simpler, more coherent regulation and associated guidelines which recognise the objectives, size and scale of investments being raised by SSOs, and enable compliance costs to be more aligned with the size of investments raised. A degree of 'flexibility' is also required within the regulatory framework, to enable market growth and allow for changes to accommodate market development.

Recommendation 2: Encouraging retail investment and introducing more opportunities for retail investors (through a supportive regulatory environment)

Through reform of the regulatory framework to increase the flexibility and autonomy of, for example, pension fund managers, allowing the opportunity for developing new SII products, including for those making international investments. Given that pension funds and other traditional long term savings schemes, such as government bonds, are a natural route to access and engage retail investors, the inclusion of SII options as part of these schemes' offering could have a material impact on increasing uptake by individual investors at scale. Our interviewees felt that mainstream institutions could be further encouraged to develop products with these options, leveraging international experiences.

For example in Canada, the Nova Scotia's Community Economic Development Investment Fund (CEDIF) programme has raised more than CAD$52m since its inception in 1999 for deployment toward local economic development. By working in conjunction with policy formulation and established securities regulations, the CEDIF programme helps mitigate transaction costs for impact investors in uncoordinated markets. Some of the transaction costs addressed via tax incentives include inconsistent social metrics for valuing impact; significantly higher legal costs incurred when structuring new financial products; and the need for performing greater due diligence. Local investments are now eligible for up to 35% in provincial income tax credit, providing a foundation for the CEDIF programme to incentivise investors to direct private capital for multiple bottom-line returns from community-based growth[134].

As recommended by the UK Advisory Board to the Social Impact Investment Taskforce[135], this could be based on the French model of Solidarity Investment Funds, which allocate at least 90% of the money to traditional mainstream investments and the other 10% or so to funding SSOs.

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133 A review of fiduciary duties of investment intermediaries was launched in the UK in 2014 by the Law Commission to address the lack of clarity around such duties when taking into account social and environmental impact in investment decisions. The review found that pension fund trustees do not have to focus solely on maximising returns in the short term at the expense of risks over the longer term. The reform to increase the flexibility and autonomy of pension fund managers opens the opportunity for developing new social impact investment products, including those making international investments. See: 'Fiduciary Duties of Investment Intermediaries' (June 2014) Law Commission.

134 See: http://globalpolicy.iipcollaborative.org/wp-content/uploads/sites/5/2014/11/2014-IIPC.v7_FINAL.pdf

135 'Building a social impact investment market: The UK experience' (September 2014). Available at: http://www.socialimpactinvestment.org/reports/UK%20Advisory%20Board%20to%20the%20Social%20Investment%20Taskforce%20Report%20September%202014.pdf

Some interviewees suggested that this model should be adapted to reflect characteristics of the UK SII market, potentially linked to products like Social Impact Bonds. For example, the product-design aspects of SIBs, whereby impact is given greater emphasis, are generally recognised to have broad relevance and replicability, though evidence on results generated and the longer-term investment opportunity (for example, tradability like conventional bonds) will only become clear over time. This view was contradicted by other investors who concluded that the model should be broad-based and not directed towards any single product type, or potentially any single geography. A key enabler of a more broad-based fund would be a simple recognisable concept of 'impactful activity' – as per the solidarity organisations in the French model.

In addition, this recommendation can be taken forward by ensuring that relevant regulation for retail investment into SIIs is proportionate, balancing the need to consider consumer protection against the costs of promoting investment opportunities to retail customers, and joining up thinking across regulatory structures. Remedying current inconsistencies within the UK Financial Promotion Regime to recognise and promote social impact investment is one example of how implementing this recommendation could be targeted as a first step, at a domestic level, to enable access to SII for retail investors.

4.2.2. Progressing London to stage 2: Extending the pool of skilled resources, product range and standardising social impact

Challenge: The demand for knowledge and core staff skills. The future development of London's position in the international SII market will depend on attracting skilled professionals who combine an understanding of complex social issues and expertise in financial innovation and management. This view is supported by The Rockefeller Foundation in its report 'Accelerating impact: achievement, challenges and what's next in building the impact investing industry', which calls on the leadership of the sector to create career paths and provide training support to young professionals looking to enter and progress within the SII market[136].

Recommendation 3: Growing and drawing on London's highly skilled workforce to attract more skilled professionals into the SII sector. Through targeted education, training and greater cross-fertilisation of knowledge and expertise between the financial, corporate and social sectors, both in the UK and internationally. This could draw on cross-sector collaboration initiatives and market network platforms using digital technologies and includes training for social fund managers, wealth and financial advisors to determine the appropriateness and suitability of SII products for their international and domestic clients. In addition, mechanisms and incentives by which international skilled resource can be attracted to London should also be explored. Attracting higher numbers of skilled professionals for instance, through collaboration with existing professional bodies such as the Personal Finance Society (PFS) and the Wealth Management Association (WMA), among others, could yield useful results.

Challenge: An increasing need for product innovation. The innovative nature of social impact investment in this stage of market development calls for financial innovation, packaging and/or adaptation of socially-oriented projects to make them suitable for traditional financial products and instruments, or both. UK SIFIs already play a key role in the transfer of funds from investors to investees and, whilst this capability is recognised as a key strength in London, the importance and scale of this role is set to increase as the investor and investee bases become more international, creating more demand for innovation.

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[136] See: http://www.rockefellerfoundation.org/report/accelerating-impact-achievements/

Recommendation 4: Stimulating supply and demand for SII opportunities for international capital in the future

As well as having supporting factors in place for global SII market development and growth, there is a need for more direct stimulation of demand. For the most part, this can be done through the development of products which are suited to new investors – such as foundations and trusts which now have a specific power to make SIIs, and for retail investors. An example of such a product might be 'solidarity' style funds. In addition, making greater use of mainstream funds and product design for SII use (as exemplified by the Threadneedle Social Bond Fund) is also an important aspect, as is carefully structuring guarantee facilities or first loss (especially popular in development finance) and ensuring that these new products meet the needs of SSOs in their simplicity, with time lags for outcomes to be measured. Products should also be designed with due recognition of mixed motives of social investors.

In addition to these direct product development considerations, wider activities and support might include building on existing efforts and marketing of social business opportunities, for example through further use of SII and social enterprise trade missions, such as the work of UKTI. Encouraging fund managers to actively explore SII opportunities within the EU and US as well as emerging markets for investment is also important for building knowledge and awareness-raising of new developments. Linked to this, there is scope to replicate and/or adapt tried and tested workable models from other countries, amended to meet international investors' needs and operate within the UK's existing market framework and infrastructure. Finally, there are opportunities for global SII market development through international development finance, and better matching together of potential social impact opportunities with development finance.

Challenge: The need to build on existing social impact accreditation models. If the over-arching regulatory environment allows for wider participation in social impact investment, this would pave the way for new types of investors to enter the market. Measurement of social impact is a critical step in enabling investors to identify options that have social and other impacts. This may also provide a mechanism for private or listed companies to articulate and promote their social objectives (both internally and to external stakeholders), potentially introducing new investable 'mainstream' business models into the SII market.

For London to progress to stage 2 (emergence on the global stage) and further onwards to stage 3, it needs to use and embed international social impact measurement standards; for instance by adopting accreditation models – derived from common values regarding impact. In addition, reporting impact to investors in a relatively transparent manner with low transaction costs, as well as providing a platform for simplifying regulation, would help to make social impact investments accessible to international investors.

Recommendation 5: Introducing international social impact measurement standards and accreditation models

This has been identified as an area of relative weakness and as the feature requiring the most attention for London to progress towards being a global financial centre for SII.

As outlined by others – such as the 2015 JP Morgan/GIIN report and the OECD - the consistent measurement and reporting of social impacts remains a key challenge in the future development of the global SII market. In light of the longevity of the challenge, and the need for international standards, we believe that this is a crucial step for London.

Rather than create a new UK model, investors have a strong preference for London to adopt an existing accreditation model such as LuxFLAG from Luxembourg or the US B Corp Certification model. For example, over the last decade LuxFLAG has widened its scope from microfinance only, to responsible sectors more generally, and applicants for certification do not have to be domiciled in Luxembourg. As of November 2014, 28 funds hold the 'Microfinance Label', representing c. $4bn in assets under management. Nine funds had been granted the 'Environment Label', with c. $713m in assets under management and three funds had been awarded the 'ESG Label' in light of their respect of Environment, Social and Governance objectives[137]. B Lab is officially launching its B Corp model in the UK over 2015.

Adoption of proven accreditation models and standards developed in other markets would have the benefit of leveraging existing processes, reducing duplication for investors and achieving the objective of accreditation more efficiently whilst providing potential for attracting international investment via a familiar model. This would involve encouraging investors and fund managers to adopt greater accountability for social impact measurement standards; by using existing accreditations such as LuxFLAG for labelling funds; B Corp for identifying socially impactful corporations; and IRIS for positive impacts generated from emerging market development finance. In addition, it is important for investors to use existing platforms where possible to encourage collaboration to move towards globally recognised impact measurement principles and standards. There is an opportunity for existing institutions such as Big Society Capital and other key market actors, like the Cabinet Office, to actively support and enable the uptake of such models.

4.2.3. Moving to a stage 3 secured global position – building a pipeline of investable international propositions

Finally, building on the investments made to date in establishing a domestic pipeline of viable social sector organisations, and recognising the finite government and foundation resources available to support investment-readiness, there is an opportunity for greater leverage of models used in an international development context and in other countries to build on progress made to date and to start to build a more international pipeline of scalable models. Moves toward this have already been made in the UK on a domestic level, with the creation of the Access Market Development Foundation, though going forward there is also a role for financial institutions to enable retail investment through the creation of suitable investment vehicles.

Recommendation 6: Invest in developing investable, scalable solutions

6a. Greater and/or more consistent 'technical assistance'. Anecdotal evidence from our interviews with market participants suggests that the UK lags behind other geographies in the provision of technical assistance to social sector organisations as a pre-requisite to obtaining funding. More generally, while social entrepreneurs often have a range of ideas, many do not come from 'traditional' business backgrounds and often require specific types of technical support to develop investable propositions. The international development model of providing technical assistance funding alongside investment, which is in turn funded by the returns to the investment fund, provides the opportunity not only to focus capacity building at the point of investment, but also to match government funding with that of investors to better leverage scarce government resources. The OECD has similarly advocated for such technical assistance for social sector organisations and market development[138]. The fact that at an international level, a large proportion of investments are made directly into SSOs rather than indirectly through funds or intermediaries, also lends

[137] Luxembourg for Finance (21 May 2014) – Op Cit.
[138] Wilson, K. E. (2014) – Op Cit.

weight to this recommendation[139].

As well as providing support and assistance to the recipients of investment, a technical assistance vehicle might add value by acting as a 'scouter' of opportunities for SII funds, before money is invested, to help identify and prepare investees.

6b. Greater focus on scalable models. To date, considerable attention has been devoted to providing social entrepreneurs with small amounts of 'seed funding' to kick start their ventures, and provide some support around access to networks and customers. As the market starts to mature, the question of scaling will acquire increasing prominence. This lifecycle challenge affects businesses in every market, but is particularly vital for social sector organisations which must not only grow their business, but also continue to ensure a high degree of accountability and impact, given their social purpose. Building on the strong international connections built by the UK via the G8 Taskforce and other international platforms, there is the potential now to seek proven scalable models which have applicability in the UK and internationally. For example, initiatives like the Schwab Foundation's Policy Guide to Scaling Social Innovation[140], which provides a framework of policy interventions, supported by international case studies of government intervention to support calls for similar action by governments worldwide.

4.3. Conclusion

The SII market has undergone considerable evolution. It now appears to be reaching a level of maturity where there may well be potential to develop from a series of disparate, domestically-focussed markets for specialist investors, to a more global market. There is a clear role for key financial centres to play in supporting this growth, to bring together supply and demand for social impact investment, with knowledge, expertise and appropriate regulatory environments and infrastructure.

A number of major financial centres, largely national capitals, have been at the forefront of driving change so far, with London pre-eminent among them. Our research suggests that London has certain features that it must address – not least in relation to creating a supportive regulatory environment; accreditation; enabling greater retail investment; developing its skills base; and technical assistance models - if it is to act a global financial centre for social impact investment in the future.

[139] JP Morgan and GIIN (May 2015) – Op Cit.

[140] 'Breaking the binary: policy guide to scaling social innovation' (April 2013) Schwab Foundation for Social Entrepreneurship.

Appendix A: Secondary sources used in literature review

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Appendix B: List of respondents

No.	Organisation	Location of HQ
1	Total Impact Capital	UK/Europe
2	Calvert Investments	USA
3	CASS Business School	UK
4	Tridos Bank	Europe
5	Generation IM	UK
6	Social Stock Exchange	UK
7	TIAA CREF	US
8	Rianta Capital Zurich	Switzerland
9	Social Finance	UK
10	Allia	UK
11	Cabinet Office	UK
12	Charities Aid Foundation	UK
13	ClearlySo	UK
14	Lok Capital	India
15	Big Society Capital	UK
16	Omidyar Network	US
17	Arendt & Medernach	Luxembourg
18	Generation IM	UK
19	DOB Equity	The Netherlands
20	Swedfund International	Sweden

Further detail on the profile of respondents is available in the online Appendices. See the City of London Corporation research webpage: http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/Developing-a-global-financial-centre-for-social-investment.aspx

Developing a Global Financial Centre for Social Impact Investment

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