

ACTION GUIDE

Supporting the Development of Your Impact Investment Wholesalers

**MARKET
DEVELOPMENT**
— TOOLKIT —

Supporting the Development of Your Impact Investment Wholesalers

NAB Action Guide from
The Global Steering Group for Impact Investment

Following on from the GSC Working Group report *Building Impact Investment Wholesalers*, released in October 2018, this guide outlines how National Advisory Boards (NABs) can take practical action, with the help of GSC, to build support in a national impact economy around the case for creating impact investing wholesalers.

The GSC can support NABs with early-stage concept development and process design as well as government stakeholder engagement to 'make the case' for a wholesaler.

1. Introduction

An impact investment wholesaler invests in intermediaries, attracts new capital and develops the impact investment market. As such, a wholesaler can play a pivotal and catalytic role building supply-side momentum within a national impact economy.



With the creation of Big Society Capital, the UK pioneered the creation of an impact investment wholesaler. It's an innovation that has attracted significant international interest, prompting the GSG to convene an international working group to help learn from the UK experience and disseminate knowledge across the global NAB network.

In October 2018, *Building Impact Investment Wholesalers: Key Questions in Design of an Impact Investment Wholesaler* was published by the GSG as the first comprehensive report into the opportunity and challenges of establishing impact investment wholesalers. This GSG Working Group report, chaired by Cliff Prior, CEO of

Big Society Capital, is rich with insights and practical design advice for NABs interested in advancing efforts to create new impact wholesalers.

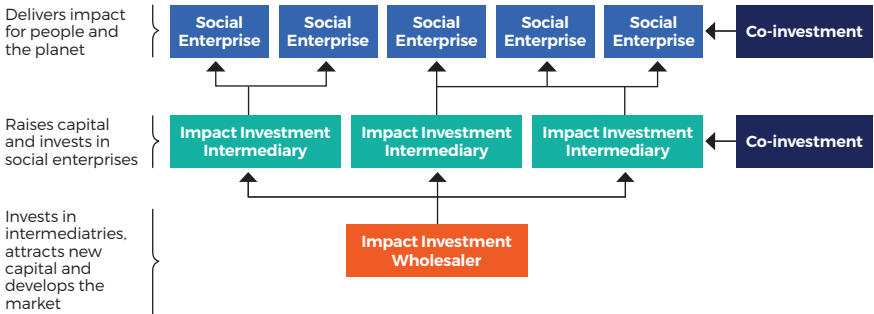
This guide is intended to build on that report by outlining how, in practical terms, NABs can advance national or regional efforts to create wholesalers, and the support offered by the GSG to help advance those efforts.

1.1 WHAT IS AN IMPACT INVESTMENT WHOLESALER?

An impact investment wholesaler is defined by four characteristics:

- ▲ A wholesaler invests. Typically, it invests indirectly through funds or other intermediaries but it may also invest directly into social enterprises.
- ▲ A wholesaler draws in other investment. It invests in ways designed to catalyze capital from other investors, such as foundations, individuals and institutional investors.
- ▲ A wholesaler measures, manages and reports impact and financial data. It measures impact and financial data at the wholesale, intermediary and (if possible) enterprise levels. It reports as transparently as possible. It facilitates progress toward shared norms for measuring and managing impact.
- ▲ A wholesaler seeks to develop its impact investment market. It builds the market through ways and means other than investment. For example, it may strengthen enterprise capacity, encourage policy change, build new intermediaries and promote integrity.

Definition of an impact investment wholesaler



An impact investment wholesaler can help to address several common challenges observed in most markets:

- ▲ **Responding to complex social problems:** By drawing in new sources of capital on different terms, from conventional public funding on the one hand and philanthropy on the other, wholesalers can help bring to bear new approaches to complex social challenges.
- ▲ **A lack of origination:** Evidence also suggests that a skilled impact intermediary like a wholesaler (and others they support) can address the skills gap that often exists to originate impact-oriented investments.
- ▲ **Deal complexity & risk:** In many cases investors shy away from impact investments because of the perceived complexity. Through their participation, wholesalers can help to mitigate the perception other investors have about complexity and risk.

CASE STUDY

Big Society Capital

Big Society Capital (BSC) was launched in 2012 as the world's first impact investment wholesaler. By 31st March 2019, BSC and its co-investors had made £1,700 million of capital available to the market, with £1,000 million drawn down by 1250 social enterprises. In its first seven years, BSC helped boost the availability of risk finance by six times, increased the number of intermediaries with over £50 million in assets under management from one to eight, and created an agency (Access – The Foundation for Social Investment) to, among other things, lend small amounts at affordable rates to small social enterprises.

▲ **Limited flexibility:** Wholesalers can also help to address the challenge faced by impact enterprises that often struggle to find finance on terms that works for their business model.

▲ **Weak secondary markets:** Wholesalers can also help to address a reluctance of impact-first investors to commit because of the absence of reliable exit options.

Wholesalers help to overcome these challenges and scale a national impact investment economy by playing a number of roles:

▲ **Educating** stakeholders, from policymakers to investors, impact entrepreneurs and charitable organizations.

▲ **Encouraging** traditional investors to be more impact oriented and traditional impact enterprises to be more rigorous around measuring outcomes.

▲ **Supporting** the evolution of the national impact economy as a whole by supporting market intermediaries.

▲ **Leveraging** new capital into intermediaries and enterprises.

▲ **Promoting** innovation both in financial instruments for impact investment and with respect to impact enterprise business models.

▲ **Building** critical buy-in for common measurement approaches to understand and manage impact.

By the end of 2018, seven wholesaler initiatives were committed or operating across the global NAB network, with Japan ready to launch its Designated Utilization Fund in 2019, and countries from Canada to South Africa actively evaluating the design options for a wholesaler in their markets.



2. Expected benefits

Expected Benefits from Promoting Impact Investment Wholesalers



National Advisory Board

- ▲ An opportunity to help create a catalytic intermediary at the heart of the national impact investment ecosystem, delivering benefits to NAB members across-the-board.
- ▲ Provide scale and expertise to instill confidence in the market.



National Impact Economy

- ▲ A new source of impact capital for social ventures.
- ▲ A source of funding to support the establishment of impact economy intermediaries.
- ▲ A platform for education and capacity building across the impact economy.
- ▲ A vehicle for upgrading the practice and rigor of impact measurement.



Global Impact Movement

- ▲ New roles models for how wholesalers can be designed and funded, serving as inspiration for other countries and NABs.

3. Pre-requisites for Success

Patience and persistence are critical to the task of getting stakeholders aligned and supportive of the idea of an impact investment wholesaler. Because most wholesaler initiatives to date have relied on government legislation to unlock sources of funds for the initial capital of the wholesaler, extensive awareness building, advocacy and consultation with government and parliamentary

oversight bodies – across the political spectrum – is typically required.

Early international experience – from the UK, EU, Portugal, Japan, Australia and elsewhere – is that the process of launching a wholesaler typically takes several years, from concept to launch.

The UK and Portugal and Australian experiences are instructive:

UK: Big Society Capital

2006: First concept outline for a wholesaler was drafted for the UK Government's Social Investment Taskforce.

2007: A more detailed investment plan shared with the UK Government.

2008: The critical enabling legislation providing the initial capital for Big Society Capital, the *Dormant Bank and Building Society Accounts Act*, was passed by the UK Parliament.

2009-11: Lengthy and detailed consultations with the UK Government, major national financial institutions and the European Union in order to secure State Aid exemption.

2012: Big Society Capital was formally launched and open for business.

Portugal: Portugal Inovação Social

January 2014: At a meeting between the Minister of Regional Development, Calouste Gulbenkian Foundation and an impact investment intermediary, MAZE, the opportunity of using EU Funds for impact investment was identified.

January-May 2014: First concept outline for a catalyst entity was developed by an internal taskforce comprising representatives of the Social Security Ministry, the Ministry of Regional Development, an external expert on EU funds and a representative of MAZE.

May 2014: First proposal to the EU Commission counterparts negotiating the Multiannual Framework 2014-2020.

May-September 2014: Incorporation of comments and suggestions received from the EU Commission.

December 2014: Law incorporating Portugal Inovação Social was finalised.

2018: Commencement of social investing activities.

Australia: Impact Capital Australia

2014: The NAB recommended five key areas for action, including an impact investment wholesaler.

2015: A blueprint for a game-changing impact investment wholesaler (Impact Capital Australia, ICA) was developed and launched by Impact Investing Australia (IIA) in consultation with 20 stakeholders from across the sector. Extensive broad-based engagement with the Australian financial industry, government and other stakeholders was undertaken.

2019: The Australian Government announced the establishment of a Social Impact Investing Taskforce. The Taskforce is guided by an expert panel and IIA CEO, Sally McCutchan has been appointed as a member.

Status update: There has not yet been the launch of an impact wholesaler, but we have made significant in-roads, evidenced by the growth in our market, the rising interest and number of players, and the steps taken by our governments at the Commonwealth and state levels.

Success also requires a clearly written, **well-presented investment proposition**, well evidenced with data, investment analysis and risk/return/impact scenarios.

Given the novelty and complexity of the issues involved, the timeline for 'making the case' for a national wholesaler will likely be longer than the national political cycle, underscoring the importance of **engaging both political leaders and senior public servants** in NAB advocacy efforts. For the same reason, it is critical that advocacy and outreach at a political level be across the national political spectrum.

While NABs and governments evaluating the merits of a wholesaler now have international precedent to draw from, the feasibility analysis and the solution design are both highly context specific. Any NAB

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Engage government early in the process – ideally both across the political spectrum and within central government departments. This is particularly important given that there are limited examples of successful impact investing funds or transactions to draw upon. The government saw this as high-risk use of funds in a tight budgetary environment. This has become easier as the market matures. Examples like Big Society Capital provide global evidence as having significantly enabled the market over the past six years.

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AUSTRALIA'S NAB

spearheading efforts to promote and launch a wholesaler will need to be able to pull in **best-in-class local market expertise** - from local law firms, to financial market leaders and investment analysts - to design and propose a solution that is appropriately customized to local market needs and the national regulatory context.

For example, the Australian NAB has explained about the importance of creatively addressing unlocking the supply of capital: “Think about ways to make it easier for government to fund: unclaimed bank accounts (if available); models of co-funding/co-investment with the private sector and/or foundations. (A blended finance model potentially provides more flexible capital to enable intermediation and origination than purely commercial funding)”.

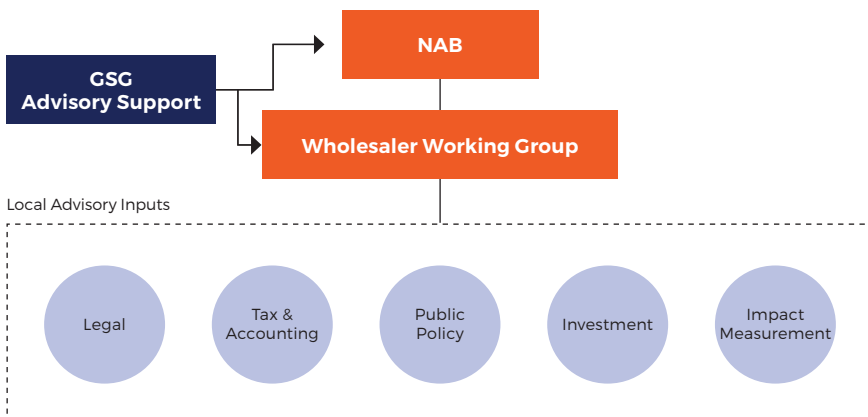
Finally, orchestrating all of these technical and stakeholder

engagement activities is a significant undertaking and one that requires vision, leadership from the NAB, **high-quality project management** skills and financial resources commensurate with the task.

To help manage this complexity and time commitment, the GSC recommends that NABs organize a multi-disciplinary effort through a working group structure under the auspices of the NAB:

- ▲ Leadership and governance will need to be provided by the NAB itself;
- ▲ Full-time research, project management and administrative support is likely to be necessary; and
- ▲ A broad array of local technical capabilities - from legal counsel to investment analysis and tax advice - will need to be leveraged by the NAB from its member organizations and partners throughout the process.

A NAB Working Group

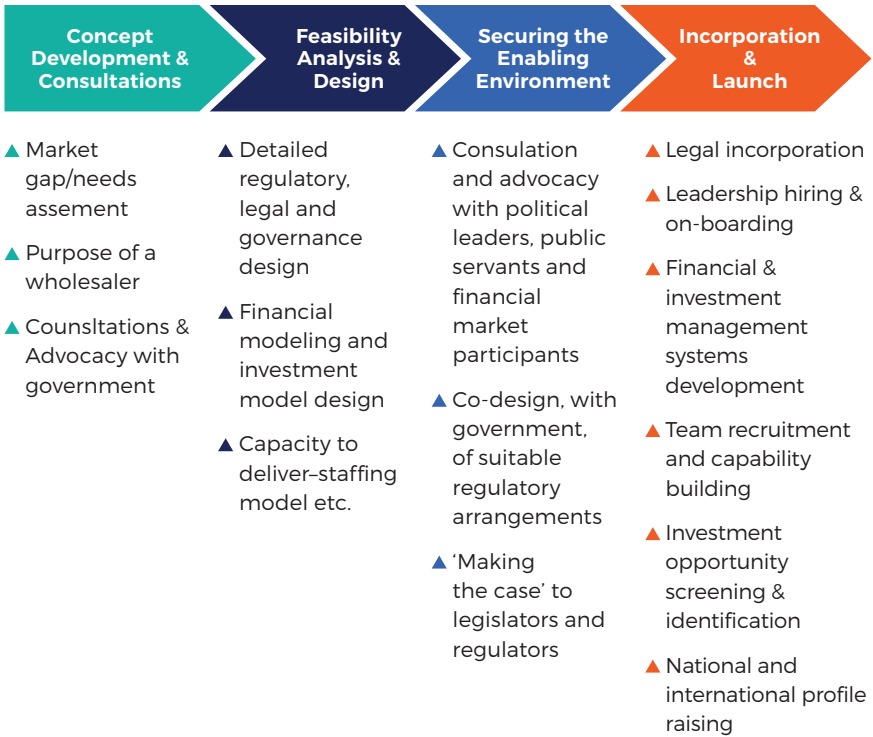


4. Activities, Roles & Responsibilities

Based on international experience to date, there are four development phases associated with the design and

launch of a national impact investment wholesaler:

Launching a National Wholesaler – Development Stages



The GSG can provide the following support to NABs throughout this 4-stage process:

- ▲ Process design support to the NAB; and

- ▲ Government relations and advocacy support to help secure the enabling environment.

NAB Wholesaler Initiatives

| | GSG Role | NAB Contribution | Estimated Time Commitment |
|--|----------|------------------|----------------------------|
| 1 Concept & Process Design Support | ● ○ ○ | ● ● ○ | 4-6 weeks |
| 2 Government Relations / Advocacy Support | ● ● ○ | ● ● ● | Significant over 12 months |

4.1 CONCEPT & PROCESS DESIGN SUPPORT

As outlined above, the GSG recommends that NABs looking to lead or support the creation of an impact investment wholesaler establish a 'wholesaler working group', given the complexity and likely timeline involved. The GSG is available to advise NABs on working group design considerations and provide general process management advice, drawing on our own approach at an international level and the lessons learned from previous successful campaigns to launch wholesalers.

For instance, the GSG team can direct NABs to members of the GSG's Working Group that published the *Building Impact Investment Wholesalers* report in 2018 and other experts from NABs across the global network. For example, the chair of the GSG Working Group on Wholesalers, Cliff Prior, hosts regular online meetings

for those looking to set up wholesalers. Access to this group can be requested by any NAB through the GSG. Topics for these sessions vary but include wholesaler co-investments, enterprise readiness and blended finance.

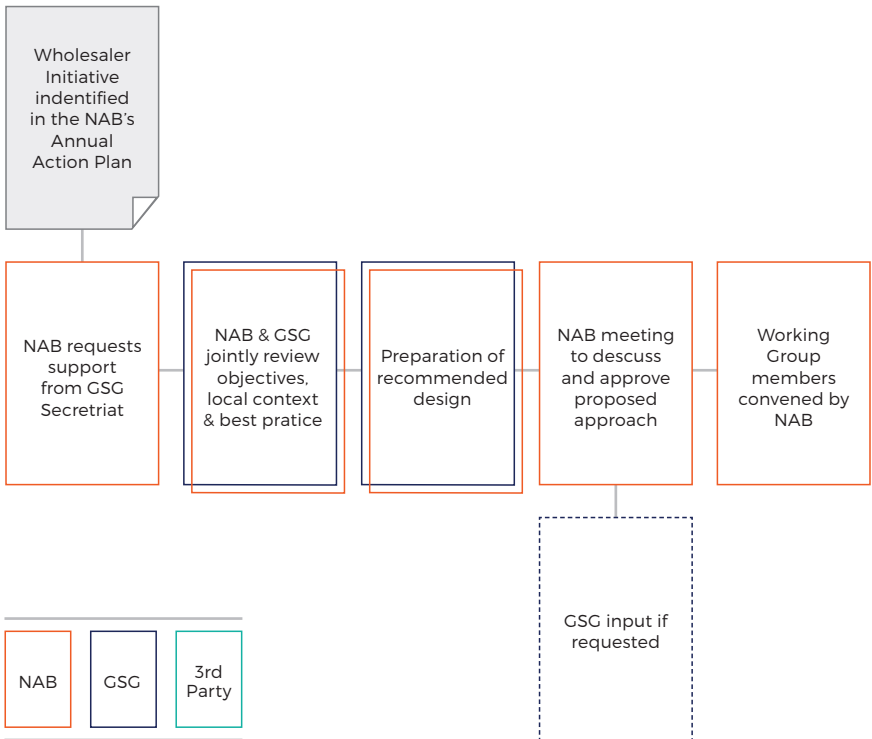
Ideally, the wholesaler development initiative will have already been identified as a NAB priority in its three-year strategic plan and annual action plan. The GSG leadership team and the NAB will then agree on a joint work plan and timetable for developing a process design recommendation, to be presented by the NAB Chair to the full board for consideration and a decision to proceed with the formation of a NAB Wholesaler Working Group.

The plan should include all the key aspects of both the wholesaler and the ecosystem within which it will operate, including:

- ▲ Market size;
- ▲ Size of wholesaler;

- ▲ Likely source of funds and terms;
- ▲ Existing impact investors and investment;
- ▲ Existing deployment universe of social enterprises and others;
- ▲ Product types of most value;
- ▲ Level of support required to each aspect of the market;
- ▲ Required staff and whether they are available;
- ▲ Governance requirements; and
- ▲ Level of independence of action.

1. Wholesaler Initiative - Concept & Process Design



4.2 GOVERNMENT RELATIONS AND ADVOCACY SUPPORT

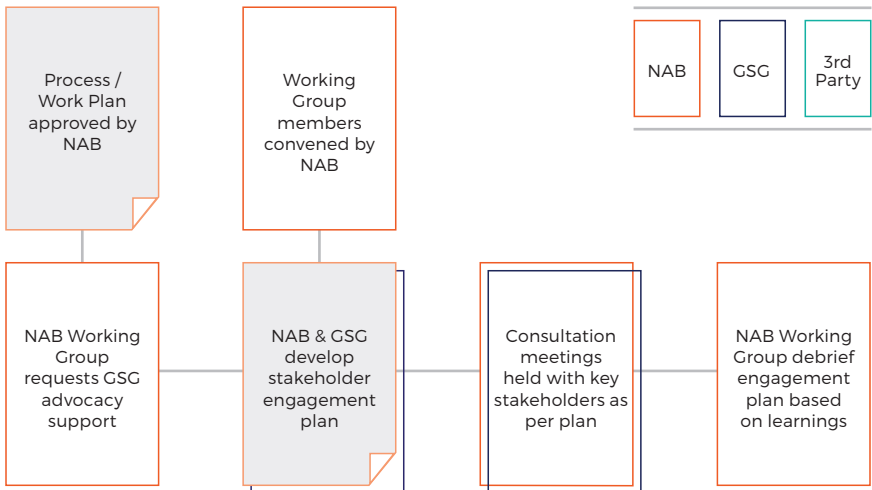
With a detailed business case and investment model developed by the NAB, the GSG leadership team are happy to provide additional leverage and international support for the NAB's efforts to 'make the case' to key decision makers and key opinion leaders leading up to a final decision. This stage of the campaign typically involves meetings with leaders in government, regulators and legislators.

As noted earlier, gaining buy-in from government and other key stakeholders can take years, with both setbacks and moves forward likely as and when politicians change. NABs and their working groups need to be patient and resilient when nothing is moving, and quick to act on opportunities.

Once stakeholders have given permission for a wholesaler and committed an amount of money, vested interests often come into play. This can cause real difficulty if the wholesaler is highly structured into fixed tranches of money, as it reduces the agility and operating capacity of the organization. It is therefore critical for the NAB Wholesaler Working Group to anticipate these issues ahead of time and ensure that its government relations and advocacy campaign seek support across different interest groups, to build towards an independent wholesaler which can achieve more than the sum of its parts.

The GSG can mobilize the benefits of first-hand experience and tradecraft from across the global NAB network to help anticipate and engage with special interest issues.

2/3/4. Wholesaler Initiative - Advocacy Support



5. Anticipating implementation challenges and risk factors

▲ **Securing buy-in:** The concept of creating a wholesaler to help catalyze the impact investment market and accelerate the supply of impact capital made available by traditional lenders will be unfamiliar to many, if not most, policy makers, regulators and market participants.

For the reasons outlined earlier in this guide, the NAB, as lead proponent, will need to be willing and able to over-invest early in educating the market and key decision makers.

▲ **Sustaining momentum:** As with any change campaign, winning early supporters and advocates is one challenge; sustaining their interest and commitment while finding other supporters for the cause is another significant challenge.

From past experience, the chances of success are greatly improved by building an early coalition of core supporters from across the five pillars of the impact economy – government, business and impact enterprises – rather than just trying to win over the early commitment of one or two decision makers. These efforts to build a broad-based coalition behind this initiative will greatly assist the wholesaler once it is established.

▲ **Financial risk:** Should NABs wish to be the lead proponent of a wholesaler initiative, they will need to secure the financial resources to sustain a multi-year campaign of education and outreach,

design and advocacy (organized and funded as a NAB wholesaler working group, as recommended above). Most wholesalers now in existence were the result of a multi-year effort led by passionate and experienced individuals who contributed significant amounts of their time and energy *pro bono*, as well as securing grant funding and sponsorships to fund research, travel and advocacy costs associated with their wholesaler campaign.

▲ **Implementation challenges:**

The task of designing an impact investment wholesaler is a complex one, requiring significant technical expertise. Implementation risk can be significantly mitigated by an experienced and genuinely multi-disciplinary team at the core of the NAB wholesaler working group. Consistent administrative, project management and research support is also ideal. The GSG stands ready to provide connections across the global NAB network that can also best support the working group's research, design and advocacy efforts.

▲ **Post-implementation agility:**

However good your research and planning may be, practical engagement in the market will show up new issues and opportunities. One of the most important implementation issues is balancing long-term mission with short-term agility reflecting market experience.

6. Measurements for success (i.e. KPIs)

The ultimate measure of success is simply the creation of a new impact investment wholesaler in the relevant national or regional market. But given the multi-year, campaign-style nature of these efforts, interim measures of success are also important to track, such as:

- ▲ Growth in the level of awareness among government officials of the role and potential 'value add' of a wholesaler; and
- ▲ The advancement of proposals in government related to enabling laws and regulations.

7. Additional and Related Information Resources

Further information related to the GSG Support Services outlined in this action guide include:

- ▲ GSG Working Group Report, *Building Impact Investment Wholesalers: Key*

Questions in Design of an Impact Investment Wholesaler, October 2018.

› <https://gsgii.org/resources/>

8. Contact

GSG Market Development Team

Francesca Spoerry
francesca.spoerry@gsgii.org

Krisztina Tora
krisztina.tora@gsgii.org

