Impact investing for everyone

A blueprint for retail impact investing

Report produced for the Social Impact Investment Taskforce, established by the G8.

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Foreword

Impact Investing is not just a concept defined by 'what' it is – there is a philosophy underpinning it which is related to 'how' it is practiced. It is much more directly participatory and meaningful than other forms of investment and ultimately recognizes a greater degree of humanity within investment relationships. For that reason, impact investments should evolve inclusively – ensuring that almost everyone has the possibility of interacting with entrepreneurial ideas and activities that benefit society and becomes a co-creator and participant in the most practical, direct way. Clearly, we must consider the broader contexts of risks and other factors like financial education, but citizen participation in impact investing is one of the most promising developments in modern times and is vital to the long term success of the impact investment market.

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Executive summary

We believe impact investing should be available to everyone. More particularly this paper argues that:
• the wider public want, and should have, better access to impact investing opportunities
• this will build a more diverse, resilient and better informed market
• and that regulation, tax incentives and opacity in the financial industry have, to date, combined to prevent this happening.

In addition, we recommend:
• that impact investment funds should be created and regulated specifically to encourage and safeguard a retail audience's interests
• the expansion of impact-enabled employee savings and pension plans with funds dedicated to impact investment
• mainstream tax incentives for retail impact investments.

This is not a road-map to a more inclusive impact investment industry. It is a document designed to catalyze an important debate, among policy-makers and regulators in particular. It both explains why a more inclusive impact investment industry matters, and suggests some initial ideas about how to make it happen.

The opportunity

Impact investing is growing worldwide. Surveys have found that impact investors committed $8bn in 2012[i] and $10.6bn in 2013, with plans to commit $12.7bn in 2014. It has been fuelled, in large part by philanthropists, foundations, and specialized institutional investors. However, in this period of growth and analysis of how large institutional money can adopt impact investment strategies, there is a risk that one factor has been relatively overlooked: the inclusion of the wider public.

The benefits

There are a number of reasons why the current market should be extended to a more inclusive, retail impact investor audience:
• It increases the diversity within the market, allowing for a wider range of more customized and local approaches to emerge.
• It builds a more resilient investor culture, more practiced at understanding all aspects of an investment and better equipped to form judgments about their financial and social interests.
• It can stimulate more long-term thinking; something more widely required by governments and society from the entire financial market.
• It encourages inclusive participation, with the potential to evolve more natural balanced governance which incorporates the right balance of economic and social performance.
• It will educate people about the relationship between 'risk' and 'innovation' and the experience of finding the right balance between taking risk and looking for security.

The barriers

There are many barriers to widening the scope of impact investing to the wider public:
• Regulation that can simply block the vast majority of people from gaining access to these types of investment. Often financial promotion rules set minimum investments at levels (per investment) way beyond the reach of most people. And setting such high limits could prevent sufficient diversification.
• Financial institutions have tacitly separated people from understanding the connection between their money and the underlying activities of their investment.
• Most tax and fiscal incentives are designed to keep people investing in mainstream approaches (e.g. mutual funds and stock listed investments).

Supply and demand

There is plenty of evidence to suggest that there is market demand from individual investors and many forms of market supply in various forms which could be extended to address this market:
• The majority of investors are interested in making impact investments. In the US, a survey of financial advisors suggested 72% were interested in recommending impact investments to their clients; in the UK, 73% of people with net wealth of between £50,000 and £100,000 expressed an interest in social investments.
• There is a broad range of retail impact investment vehicles – including specialist impact funds, social banks, cooperatives, and crowd funding platforms. These could be built on further, scaled up, and become more diverse in scope if the barriers were reduced or removed.

Actually, the broader population has been involved in one form of impact investment or another for many years – through cooperatives, Community Development Finance Initiatives (CDFIs) in the US and Europe in particular, social banks, and the original set of impact funds that pre-dated this classification. More recently this has extended to new approaches –such as crowd funding and the structuring of community investment notes and evergreen impact funds. But the movement remains relatively small and constrained both by the regulatory framework and the available market structure for such investments.

Recommendations to unlock retail impact investing

This paper concludes that there are viable mechanisms that can overcome these barriers and have the potential to unlock the benefits of retail impact investing for all:

- Identifying and classifying retail impact investment funds and specifically designing them so that they are accessible and regulated to ensure risks are clear and appropriate. One example could be the current legislation proposed for the European Long Term Investment Fund (ELTIF) classification.
- Widening access to impact investment via employee savings plans, for example by building on the French system whereby up to 10% can be invested in high-impact social investment products.
- Aligning incentives so that impact investment benefits directly from the same tax and fiscal benefits as mainstream investments, or that they receive complementary tax treatment to level the playing field, such as the Social Investment Tax Relief scheme being introduced in the UK.

This paper is not intended to be comprehensive. We believe it only scratches the surface of the full range of potential for this segment of the market. Our goal is to stimulate the debate about how these various solutions could be brought forward. We encourage all actors within the system, but in particular governments and regulators, to look closely at which mechanisms could best overcome the current market barriers. If successful, this could help transform the entire culture of investing within society and redefine what could be built together inclusively for the common good.

Introduction

Impact investing

The field of impact investing covers a variety of asset classes and investments into companies, organizations, and funds with the intention to generate positive social and environmental impact alongside financial returns. These investments are made into enterprises and funds that expand access to critical goods and services, and/or generate positive impact through their operations.

The impact investing market today is still small, but growing fast. It addresses a range of social and environmental issues by supporting entrepreneurship and appropriate market-based solutions. It allows investors to use their money for socially beneficial purposes whilst aiming to return capital with a financial gain. At a time when there is a huge disillusionment with the opacity of financial markets, it is little wonder that a more transparent form of investment which demonstrates its social benefits directly is becoming increasingly popular.

The forgotten public

The impact investing market is still very young and unfamiliar to many. The major funders of impact investment have, to date, been foundations, philanthropic institutions, and governments. In most of the literature, the range of likely investors tends to focus on institutions – broadening to more mainstream investors such as pension funds and insurance companies, together with foundations and traditional sources of philanthropy. The one group often overlooked is ordinary people – retail investors.

For those within the industry, recognizing that impact investment is not yet a mature market, it appears that retail investment is some way off. In recent publications, the inclusion of the retail investor in the impact investor ecosystem is seen as a vision for the future.

However, there are already many thousands of ordinary citizens who are impact investors. Banks and credit unions of the Global Alliance for Banking on Values (GABV) serve 20 million people who use their finances for wider social good. Microfinance platform Kiva has over 1.2 million lenders worldwide supporting microfinance loans to individuals. And there is a vibrant cooperative movement – Cooperatives Europe members represent over 160,000 cooperatives across Europe with a combined total of 123 million members. Many of these cooperative enterprises are now creating significant local impact – for example, through owning and operating local electricity grids at a city level and major renewable energy infrastructure.

Retail investors already are a significant force in the development of impact investment. They participate through a wide variety of mechanisms – from charity bonds to crowdfunding for community-based initiatives. They also represent a huge latent opportunity for the development of impact investment. This paper argues that additionally there are several less-obvious benefits to enabling access for ordinary people to impact investment. Further, this paper concludes with recommendations for some simple interventions that could be introduced to support this development.

Benefits of citizen impact investment

Investing your money to make the world better. This should be the norm and not considered an 'alternative' investment

Calvert Foundation

Scaling up through diversity

The more diversity there is within the investor market, the greater the diversity of approaches that will be funded with impact investing. At an early stage in any market, diversity accelerates the rate of learning and allows the best business models and entrepreneurial approaches to rise to the top. But for the impact investing market, where the outcomes are as much social as financial, it is even more important that the investor ecosystem be able to support a diverse range of approaches and enterprises to meet the needs of a diverse society. Scalability in impact investing is not just about finding a theoretical model to conduct transactions; it is about cultivating a set of meaningful relationships to support social entrepreneurs develop over the long term. Having more retail investors engaged and participating in impact investing – either directly or through a wider range of retail impact funds - is more likely to diversify the investor ecosystem and thus to support the diversity within the impact enterprise market.

Building a resilient investor culture

During the middle of the financial crisis, there was not only confusion and panic within the financial sector, there was also widespread confusion and bewilderment among the public. Financial institutions had, for years, separated people from their money and an understanding of the system in which it existed. As a result, when there was a crisis, people felt worried and angry, but also disconnected from a financial system that seemed impenetrable.

Encouraging citizens to become impact investors, even at very modest levels, gives the opportunity for people to become reconnected – not just to their money, but also to the social and environmental impacts that this has. It builds a more resilient, better informed, investor culture that it is more practiced and aware of making investment decisions and understanding investment risks. Resilience among a distributed and diverse population of investors could help to enable a less fragile and more stable financial system – creating benefits for the whole of society.

Creating a more inclusive approach to impact investing will have wider benefits too. Taking balanced risks is essential to renewing and growing our economic base. Broader participation in taking informed risks necessarily means a better informed investor community, and encourages a healthy engagement with what risks should be taken to benefit society. The alternative is for these risks to be taken on by the tax payer, via government, without their consent and understanding.

Long-term funding, long-term thinking

For many parts of the real economy – for example infrastructure and SMEs – a huge funding gap has been identified. The World Economic Forum estimated a global infrastructure gap of $1trillion per year (1.25% of GDP). When looking at the green infrastructure gap in 2013, the World Economic Forum estimated additional investment of $700bn per year to meet the needs of the climate challenge – for clean energy infrastructure, sustainable transport, energy efficiency and forestry. In the EU Green Paper on Long Term Financing, there was a particular emphasis on SMEs who, combined, represent two thirds of employment within the EU. Most social impact investing programs, however they are structured, require patient capital over the long term. Bringing in retail funds to support this long-term investment can help bridge this funding gap.

But the lens of the 'contribution to closing long-term investment funding gap' might not be the best way to contextualize retail impact investing. Encouraging more long-term investments where impacts are considered and factored into the decision-making will allow retail investors (the general public) to develop more integrated behaviours towards money and finance. This could be a powerful counter-balance to the shift to short-termism within financial markets. This trend has accelerated over the past decades – equity holding periods have diminished and approaches such as high-frequency trading have developed. Enabling citizens to participate in long term financing with positive impacts could be a powerful force for change across the entire financial sector.

"...the balance of investment in the market as a whole has moved too far towards short-termism. So the markets are now dominated by strategies that focus on maximising short-term returns, while underestimating or ignoring the systemic risks, wider impacts or irreversible consequences of this behaviour. This may not deliver the best outcomes for the investor, either from a financial or from a wider social and environmental perspective."

Overcoming the Barriers to Long-term Thinking in Financial Markets, Forum for the Future.[ii]

Inclusive participation

Impact investments at early stages often require the skills and experience of professional investors. However at later stages, there are benefits to having a broader, more diverse base of investors. By encouraging inclusive and participatory forms of governance, impact enterprises can have more meaningful dialogue with their stakeholders, helping the organisation to continually renew itself and optimize the impact it creates. There is a long history of participatory inclusion – for example, the many thousand cooperatives and similar structures around the world, many of whom are impact enterprises.

Barriers to opening impact investment to the public

Before an airplane has taken off the ground, it is a risk to itself and the surrounding area… it is only once it is in the air that the risk diminishes

Edward de Bono, Future Positive

The separation of people from their wealth

Over the past few centuries, financial institutions have, effectively, separated people from their money: an understanding of what it is and the sense of agency about how it can be used. Over the years, complexity has grown in financial markets and financial products – often with negative systemic consequences. The world of finance and financial products has become very difficult for most people to engage with directly. This has led to necessary regulation to protect individuals from taking risks they cannot understand, and ensuring that intermediaries are sufficiently compliant in providing advice. The overall effect of this has been a reduction in diversity of investment approaches.

Impact investment can rebuild the connection between people and their money. It does this by directly relating people to an organisation which produces social, environmental, and economic benefits which can be measured, observed, and (most importantly) understood. It can help people regain a sense of agency within the realm of money and finance, allowing them to act in their own best interests in a more balanced sense than solely financial. And it can help meet the growing evidence of consumer demand (see below) which shows there is a strong opportunity to engage significant capital from people who want to align their capital with their values.

Protecting people from themselves (regulations)

Regulations on the promotion of financial 'products' to retail investors have tightened significantly over the years. The threshold to access many unlisted financial products has increased from having net financial assets in excess of €50,000 to having in excess of €100,000; this relates to a very small fraction of the population. Crowdfunding has had a disruptive effect on the landscape for raising financial capital - however recent consultations in the EU, US, and UK will likely result in tighter rules in this arena too.

An alternative qualification for gaining access to investment opportunities is the investor's individual level of sophistication for understanding financial investments demonstrated by previous experience. However this presents an interesting conundrum as to how investors would get experience of making investments (unless working within the financial industry) if not allowed to start in the first place.

The new crowdfunding rules are likely to incorporate some de minimis criteria, such as individuals investing no more than a certain percentage (10% for instance) of their net financial wealth on aggregate into crowdfunding opportunities of any type. This may also result in an effective barrier to serious public engagement into impact investments. Consumers should be properly protected, as the financial crisis has made clear. And, while this is equally true in the crowdfunding arena, the specifics of appropriate crowdfunding regulation is not the subject of this paper. Suffice it to say that this criteria should be robust and appropriately balanced, protecting consumers' interests and allowing appropriate investment in impact-focused finance opportunities.

Together with increasingly tight regulation of intermediaries and advisors, who have the potential to play an important role in providing informed advice on impact investments, in terms of the compliance requirements before introducing clients to new financial products, the pool of readily available impact investment opportunities is likewise being constrained by regulation.

Regulation is intended to protect people from their own improvidence. There is insufficient regulatory capacity to be able to interact with every single financial promotion to ensure that it is true, fair, clear and not misleading to the public. And seemingly, there is insufficient trust in the self-regulation of the financial sector to ensure high standards of information. Therefore restrictions are placed on individuals on the basis of lack of wealth or experience. Regarding the development of social impact investment, this is an especially short-sighted move: it prevents people from developing the experience necessary to make good financial judgments and it blocks the majority of people from using their wealth in line with their values.

Systemic incentives which block change

Most of the regulatory, tax and fiscal incentives for individuals and families to save are restricted to cash deposits at banks (which are protected by the government) and investments in stock listed companies (generally through mutual funds). Stock market investments are subject to generous tax shelters, either for investment plans or pension savings, creating a clear driver for market behaviours.

The impact of these incentives is to drive the general public into systemically concentrated products. Everyone is herded into mutual funds, most of which are in turn concentrated in the largest blue chip companies. People with greater wealth are afforded more flexibility, being allowed to purchase property and other asset classes and achieve more diversification as a consequence.

Small changes are beginning to appear, such as the potential for UK investors to place peer-to-peer loans into ISA (Individual Savings Account) tax wrappers starting in 2015. However the pace of change is slow, and most impact investments in the form of unlisted equity, bonds, or funds are excluded from the mainstream conventional investments.

Investor demand

[in the future...] a wave of individual retail impact investing would have taken off, spurred by social networking, tied to a positive brand experience and validated by real results.

Investing for Social & Environmental Impact, created by Monitor Institute, 2009.[III]

The social impact investing market is an emerging force in the wider investment industry. Historically, private foundations, through grants, PRIs, and MRIs, have played an important role in building the social impact investment market to its current size, as have high net worth individuals and families. Apart from a few champions, large financial institutions (including banks and pension funds) are only gradually beginning to join the effort.

The report, Impact Economy (Maximilian Martin, 2013)[IV] cites the ecosystem of impact investors as containing: philanthropists, angel/early-stage investors, professional investors, institutional investors, private sector corporate partnerships, the financial industry, and governments. Notably absent from this list is ordinary citizens: small investors investing directly in impact opportunities – whether via crowdfunding, charity bonds, local cooperatives, social banks, or impact investment funds.

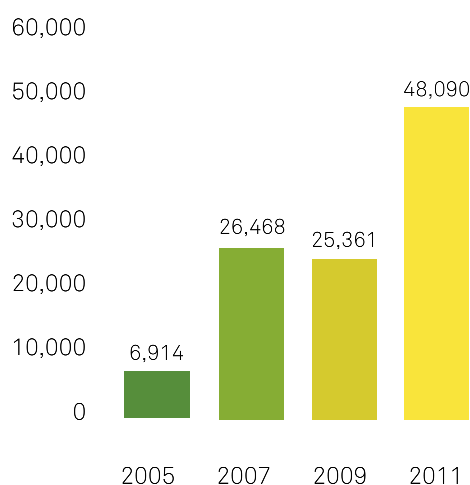
Distribution of financial wealth

Figures from the UK Office for National Statistics show the distribution of financial wealth of households in Great Britain, providing a useful perspective for other parts of Europe in particular (Appendix 1). The majority of households (69%) have net financial wealth (excluding pension assets) below £25,000. New rules could potentially restrict the amount an individual could invest in unlisted opportunities to 10% of their investable assets. This could make it very difficult for people to get started in social impact investment. Most retail impact investments are made by individuals over 40[V] with very few younger investors. To facilitate broader access, it might be easiest for individuals to start with diversified impact funds rather than direct participations.

What investors want

The EUROSIF European SRI Study[VI] noted a growing appetite for themed sustainability funds (still comprised of underlying stocks on listed markets), with greater connection to the underlying impact. Year-on-year growth of themed investments has averaged 40%.

Growth of sustainability themed investments



EUROSIF European SRI Study, 2012

This shows that there is an increasing appetite to be connected to a particular theme, or area of impact. More interesting is the priority order, ranked by survey respondents, to the motivations and barriers to impact investment:

Motivations for impact investing

- Contribute to Sustainable Development
- Contribute to Local Community Development
- Looking for stable long-term return
- Risk management
- Financial opportunity
- Alternative to Philanthropy
- Generational tranfer of wealth
- Responsibility of client/Fiducary duty

Most · Least

Barriers to impact investing

- Lack of viable products/options
- Lack of qualified advice/expertise
- Performance concerns
- Mistrust/Concern about Green Washing
- Risk concerns

EUROSIF European SRI Study

This clearly demonstrates that motivation is connected to the theme – either in sustainable development or local community development – and barriers are oriented around the lack of options and intermediaries.

When looking at product features, research suggests that liquidity is a high priority for investors (Appendix 2). However this is only one of several factors that are important to them. Liquidity does not necessarily mean daily trading. Most investors interested in impact investments expect to invest for the long term.

Financial products

One factor, yet to be explored for retail investors, is the extent to which there may be scope to expand the market for impact investing by broadening the inclusion of impact products into mainstream investment products. In the UK, for example, four times as many people hold investments in ISAs as hold individual shares in companies. The majority of people's financial wealth is generally retained within a pension scheme.

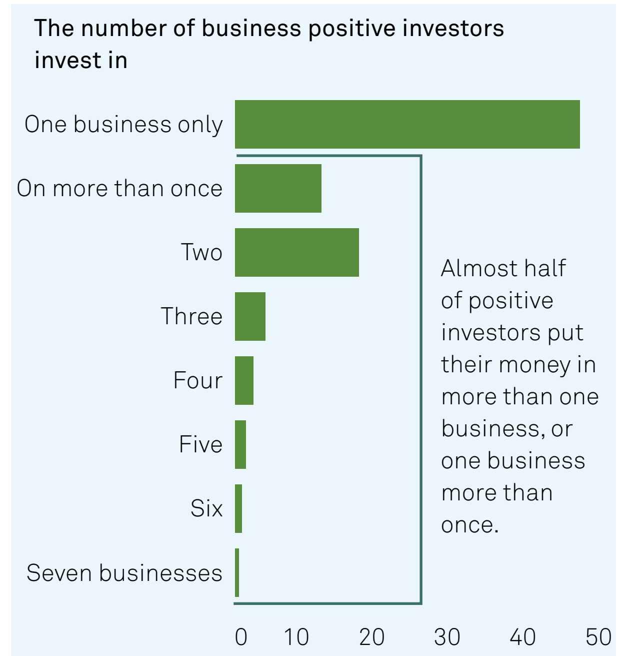
Distribution of financial products held by individuals in the UK

Type of financial product	% of population	Median amount
Savings account	58%	£4,000
ISA	48%	£9,000
UK Shares	12%	£19,700
Unit/Investment Trust	5%	£20,000
Pension	76%	£40,400

Office of National Statistics

Number of impact investments

Positive investment platform Ethex (UK) conducted research into the individual impact investment market in the UK covering over 50,000 investments into 14 high-impact social businesses. It showed that around half of its investor-members have invested in more than one impact investment product.



Ethex, Positive Investing in the United Kingdom, 2013.

Market supply

Social impact through values-based banks

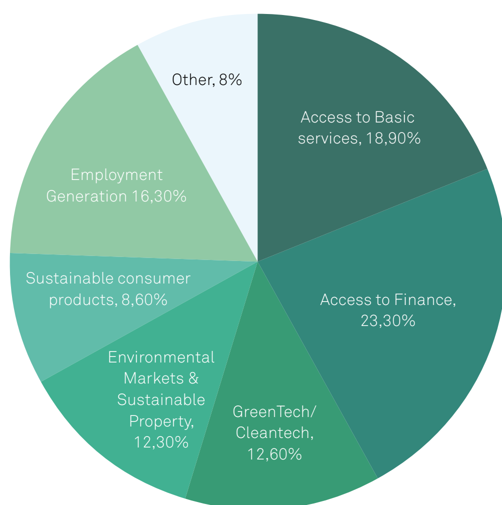
The Global Alliance for Banking on Values (GABV) has member banks and including social banks, microfinance institutions, and credit unions. Each entity focuses on the issues most directly relevant to their local markets including the promotion of equitable economic and social development, renewable energy and energy efficiency, sustainable food and agriculture, health and social care, and cultural initiatives. Combined, the 25 financial institutions represent nearly $100 billion of assets with over 20 million customers across six continents.

Many of these banks offer individuals the opportunity to invest directly in an institution delivering social impact in line with a clear set of values related to the context of the countries and communities they are working within. Many of these investments are in the form of savings accounts, one of the simplest and most accessible forms of impact investment for retail investors.

Beyond banks, there are several Community Development Finance Institutions (CDFIs) – many of which are in the US and UK. These tend to offer community loan notes to investors to support community investment in affordable housing, community enterprise, and social business.

Impact funds

There are 305 Impact Investment funds registered with the Global Impact Investors Network (GIIN) Impact Base (as at date of publication).



Diversity of Impact Funds (from GIIN Impact Base, 2014)

The majority of these are designed for institutional investors who form the largest proportion of subscribers to the Impact Base register, and all of whom are accredited investors. However, there are now also many impact funds open to retail investors.

Retail impact funds

The majority of impact funds are based on equities – including many in private equity/venture capital. However there are a number of debt and bond funds. One of the first such schemes was the Dutch 'GroenFonds', a fiscal regime introduced in the Netherlands in 1995. These green funds allowed retail investors to invest in funds, managed by banks, specifically directed at qualifying green projects such as renewable energy, wildlife conservation, and organic farmland. At least 70% of the funds' volume had to be invested in qualifying green projects. Between 1995 and 2008, there were 5,761projects financed with over €11bn of funding from 234,000 individual investors. This scheme, which continues today, has helped widen the access of impact investment to Dutch retail investors. It has also been used to support other themes, including microfinance investments in emerging markets and cultural enterprise.

There are other global funds too; the TriLinc Global Impact Fund is a publicly registered, non-traded limited liability company providing loans and trade finance to small and medium-sized enterprises, mainly in developing countries. The fund's US $2,000 minimum investment is open to investors with an annual gross income of at least US $70,000 or a liquid net worth of at least $250,000. It offers an annual yield of 8 percent on net asset value, paid monthly.

The Triodos Fair Share Fund, launched in 2002, is another example. It has invested over €200m in microfinance institutions around the world through both debt and equity. It is funded by retail investors in the Netherlands and has returned 6.3% over the last 10 years (as of 31 May 2014). Oikocredit, one of the oldest impact investment institutions, invests in fair trade, microfinance, and agriculture in over 60 countries. It has 52,000 investors from over 20 countries and has over €800m in assets. It serves as a model of a truly global impact investment fund open to retail investors.

New platforms & crowdfunding

The Global Financial Crisis and resulting backlash against large banks have led many to explore community banks and credit unions. Internet-enabled peer-to-peer lending platforms are also emerging, with

unique challenges to the existing regulatory regimes. Kiva.org, a website that enables the public to make very small loans globally for socially valuable purposes, is now making investments in the United States. The Calvert Foundation, working through MicroPlace, offers a similar way to make small, online investments to help alleviate poverty. In such fashion, retail investors can make US impact investments over the internet for as little as $20.

In the UK, the crowdfunding platform Abundance allows individual investors the ability to invest directly in renewable energy project debentures. Since its launch in 2012, over $11m has been raised from 1,380 investors. Investors can participate with as little as £5. Consequently, such platforms are able to significantly reduce the barriers to entry for individuals with modest means.

Cooperatives

Cooperatives have a long history as a social movement over the past two centuries, promoting community and social cohesion. Many new cooperatives have formed around a specific project which delivers positive social or environmental impact. Their number is growing, with now over 160,000 cooperatives across Europe having a combined total of 123 million members. Some of these cooperatives and community ventures are reaching a very large scale, and increasing the scope and type of projects they are willing to undertake. For example, over 100 wind turbine cooperatives have been set up in Denmark. In combination, they own three-quarters of the country's wind turbines. Similarly, cooperatives have bought (and now operate) city-wide energy grids in Germany.

Growth in crowdfunding investment

	2012 Volume	Growth rate
Global total	$ 2.7 billion	81%
North America	$ 1.6 billion	105%
Europe	$ 945 million	65%
All other markets	$ 155 million	125%
Donations- and reward bases	$ 1.4 billion	85%
Lending-based	$ 1.2 billion	111%
Equity-based	$ 116 million	30%

Statista, The Statistics Portal (2102)[VII]

Case study: Community-owned energy grids in Germany

Community energy cooperative Energienetz Hamburg eG was founded in 2010 based on a vision of a "democratically controlled, fairly priced and renewable energy supply" for Hamburg's residents. The group has since been campaigning to achieve greater energy efficiency in the city, sell cheaper electricity directly to the community, and to decide for itself how much renewable capacity to connect to the local distribution grid.

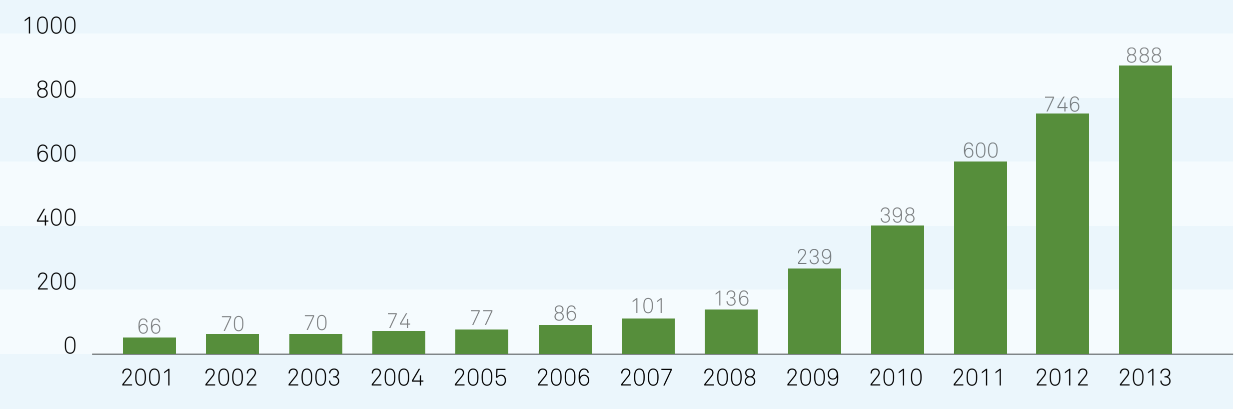
The volunteers who founded Energienetz felt that the international corporations which supplied electricity to the city were profiteering and making decisions about local energy matters behind closed doors. After its inception, the immediate target of Energienetz was the purchase of Hamburg's electricity distribution grid from the Swedish energy giant Vattenfall.

Energienetz began an ambitious campaign to recruit supporters in their bid for a 100% community-owned and run energy industry in Hamburg. Every member in the growing collective has a financial stake in the project, and equal voting rights – independent of the size of their investment.

Three years of campaigning culminated in a public referendum in September 2013 in which 1.2million Hamburg residents were asked to vote for or against investment in community owned energy networks – and voted in favour. The city senate of Hamburg, supported by capital raised via the community energy cooperative, is now set to purchase the grid from Vattenfall and embark on a programme of local decision-making.

The purchase of the local grid is just the first step in Energienetz's plan for a truly energy independent Hamburg. Its future plans include investment in distributed generation with energy storage, with the goal of moving Hamburg towards total independence from the national transmission grid – and away from any reliance on fossil fuels. This example of a community energy cooperative is part of a growing trend in Germany and a great example of community-led impact investment on a large scale.

The increasing number of community energy groups in Germany



OVO Energy, Community Energy White Paper April 2014[VIII]

Charity bonds

Charity bonds are fixed income instruments or 'bonds' issued directly by registered charities to both institutional and retail investors. Charity bonds can provide a useful alternative source of funding for the charity which can be more flexible and lower cost than bank debt, and allow the charity to engage directly with its supporter base. For investors, charity bonds can provide a way of reconciling their social impact preferences with their investment portfolios in a simple and sustainable way.

There has been a steady increase in activity in both listed and unlisted charity bonds that are open to the public in the UK in the last two years. For example:

- The UK charity Scope raised £2million through an exchange-listed 2% bond in 2012.
- The £10million 4% bond raised by Golden Lane Housing Limited (the property arm of Mencap) and the £5million 5% bond raised by Greenwich Leisure Limited, both via Triodos Bank, attracted many hundreds of retail investors in 2013.
- In 2014, Golden Lane Housing Limited raised a further £11million through the issue of a listed 4.25% bond on the London Stock Exchange Order Book for Retail Bonds (ORB) through a new listed charity bond platform established by Allia and Cannacord Genuity plc.

Mechanisms for progress

"In recent years, impact investing has caught the attention of diverse investors, including many retail investors interested in aligning their portfolios with their values. New opportunities to engage these investors will expand the impact investing market and increase its capacity to address social and environmental challenges."

Amit Bouri, Managing Director, Global Impact Investing Network

There are a variety of mechanisms that can help overcome the barriers and unlock the latent market demand for retail impact investment.

This section outlines three themes and illustrates examples of mechanisms that could achieve these goals. This list is not exhaustive in terms of the potential universe of ideas nor is it comprehensive in describing the many innovative mechanisms being employed at the moment. However, it highlights areas which could help to significantly transform the market if adopted widely across the globe, in particular led by G8 economies.

Retail impact via European long term investment funds

To overcome the barriers to retail investors accessing impact investments, a sensible place to start would be to make more entry-level impact funds available. These funds should be well diversified, generally lower-risk, and very transparent in terms of their investment portfolio. There could be appropriate 'thematic' differentiation to reflect that people are drawn to different impact investments (e.g., sustainable finance, the environment, social enterprise, health and social care, etc.).

An example of a new structure that could hugely benefit impact investing is the European Long Term Investment Fund (ELTIF) – a pan-European fund which could be opened to retail investors. The current proposal for ELTIFs are to be:

- Fully 'passportable' across the EU.
- Invested in long-term assets (such as long-term debt facilities to SMEs, private equity type funds for SMEs, or infrastructure investment) subject to qualifying criteria.
- Open to retail investors.

Whilst the ELTIF would not necessarily apply exclusively to impact investments – its primary motivation being to support long-term infrastructure and SME investment - there could be a huge overlap with what is today commonly regarded as impact investing. Examples include private-equity funds (such as EU Social Entrepreneurship Funds), renewable energy projects, and long-term financing for community and social enterprises. For the retail impact investor, it is vitally important to ensure that:

- The minimum threshold for investment is low (around €500 rather than the €10,000 originally proposed). Doing so would enable more ordinary citizens to participate in impact investments funds. Given the distribution of financial wealth held outside pension schemes, it is highly unlikely that these products would be accessible to the majority of the population if a €10,000 minimum was imposed.
- The funds could invest in real assets with a low minimum value (around €500,000 rather than €10m originally proposed). This would enable the funds at a local community scale, rather than exclusively applying to large infrastructure projects.
- The funds do not need to be fully closed-ended e.g. that redemptions for investors could come through a secondary investor market, rather than needing to be an exit-driven fund. The advantage of this approach would be to allow the impact investment space to develop with a diversity of fund approaches – especially including those without an exit driven approach.

To meet retail investor demand, it is likely that the most fertile ground for retail impact funds structured as ELTIFs will be through lower risk entry-level products. However with appropriate diversification and lengthening track records, the scope of investment approaches could broaden over time.

Fitting impact investing into mainstream retail tax incentives

The US National Advisory Board to G8 Social Investment Taskforce recommended reviewing the tax code to target opportunities to support impact investments. Their report concluded that: "To influence greater participation in the impact investment field, Congress can provide tax incentives that lower capital gains rates for investors supporting qualified impact businesses, allow impact investors to write off losses as a charitable tax deduction, or allow individuals to deduct contributions to US impact initiatives".[IX]

By placing impact investment funds within the basket of products that can be accessed through mainstream long term savings and investments, they will automatically become more accessible to a wider array of investors. As demand increases, advisor scrutiny and familiarity will also increase, helping to improve the quality within the market.

Where mainstream tax incentives are not employed, complementary or supplementary tax incentives could be designed to level the playing field. In the UK, for example, the Social Investment Tax Relief has been introduced to create an incentive for social impact investing along the same lines used for many years to promote growth capital in SMEs (under a scheme known as the Enterprise Investment Scheme –familiar to retail investors).

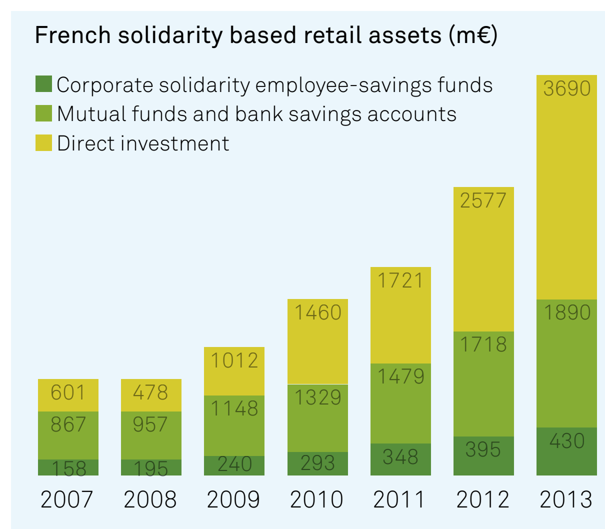
Impact choices for employee savings and pension plans

A large proportion of the financial wealth held by individuals (particularly those at lower levels of wealth) is held in employee savings and pensions plans. Thus, one mechanism that could have a profound effect on the impact investment landscape would be opening employee savings and pension plans to impact investment opportunities.

In France, there is already a fully functioning social employee savings mechanism. This allows individuals to invest up to 10% of their portfolio in high-impact social ventures and the remaining 90% into a socially responsible stock market portfolio managed with strict environmental, social and governance criteria. Employee savings plan providers must offer this choice to individuals. As a result, investors achieve significantly greater choice and the opportunity to integrate impact investment into more mainstream investments.

Companies deciding to offer an open-end 90/10 fund usually rely on one of the three largest employee-savings asset managers (large mainstream asset management companies, namely Natixis AM, Amundi, or BNP Paribas AM). These three funds currently manage three quarters of the French 90/10 funds' assets. These large players tend to invest large sums of capital into three national-scale social investment intermediaries which are themselves eligible social enterprises, hence accounting for in the 10% solidarity part: France Active (support and financing of entrepreneurs), Adie (microfinance), and Habitat et Humanisme (affordable/social housing). As solidarity assets grew, several large asset managers began to further develop in-house analysis skills to increase their due diligence capacities and thus increase potential deal flow.

A similar model adopted in other countries could be instrumental in broadening access to investment investors by ordinary citizens.



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Conclusions

When looking at the development of a new investment concept, there is a tendency to base projections on how money is used today rather than assessing future possibilities. Within impact investing, it is critical not to forget ordinary citizens – regular people who wish to integrate their values into their investments, at least for a portion of their financial wealth. Ultimately, individuals are the only asset owners – in some instances they can participate directly, but the real opportunity could lie in a new market of professionally managed retail impact funds offering expertise and diversification.

The real risk is that retail investment is overlooked in favour of the large sums of money offered by institutional investors. Institutional investment is important– the early institutional investors have been critically important in catalyzing the development of the market and will continue to be so. But now there are approaches which are maturing, and impact funds being developed, with a clearer track record. So it is time that impact investing is made more inclusive and reflective of the broader community of interests it is designed to serve.

As argued in this paper, regulation tends to exclude smaller investors (under the banner of protection) which can all too easily have the effect of preventing people from being able to act in their own broader best interests.

Our recommendations for governments and regulators when considering mechanisms that could unlock retail impact investment include:

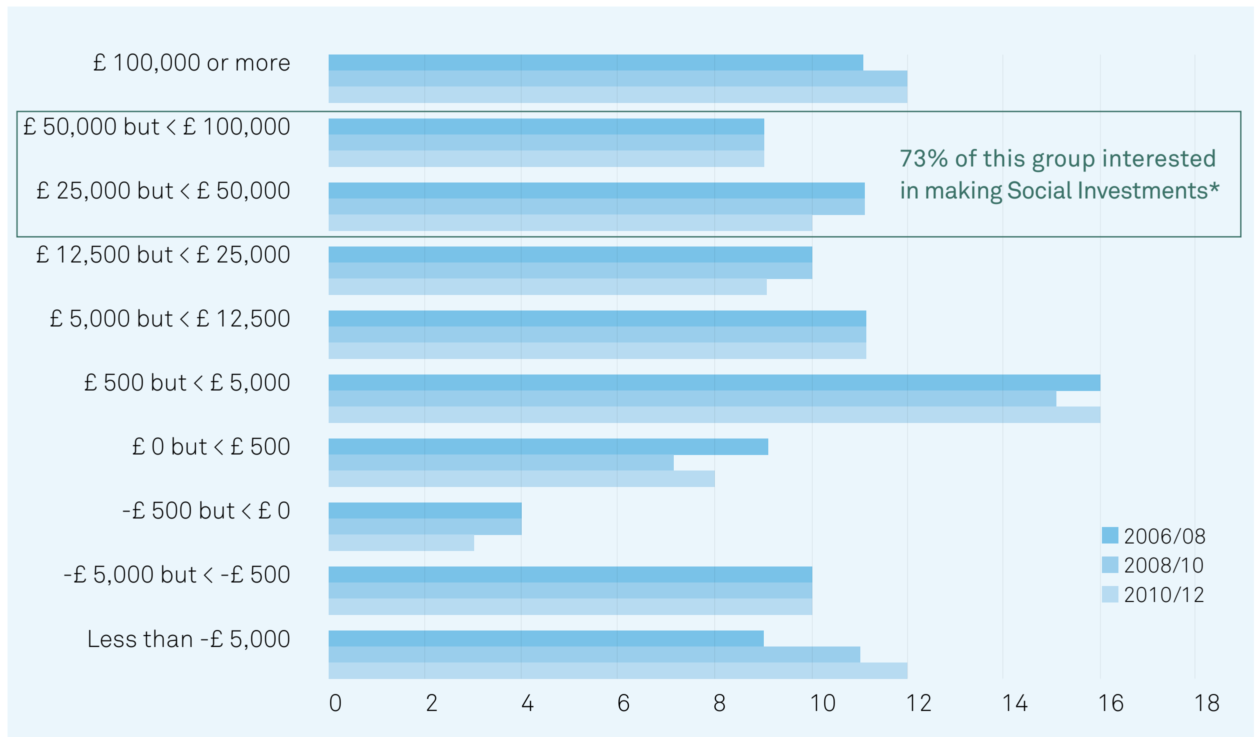
- ELTIF rules to allow a broad spectrum of retail impact investments within long term funds across the EU.
- Mainstream tax incentives for retail impact investments.
- Impact-enabled persons and personal savings plans.

The benefits of opening the retail market go beyond supporting the impact investment market. They can help create a more resilient, inclusive, and knowledgeable investor-society.

We hope that this paper stimulates further debate and will be used by practitioners, civil society groups, regulators, and others to create a fairer, values-based, and transparent financial sector.

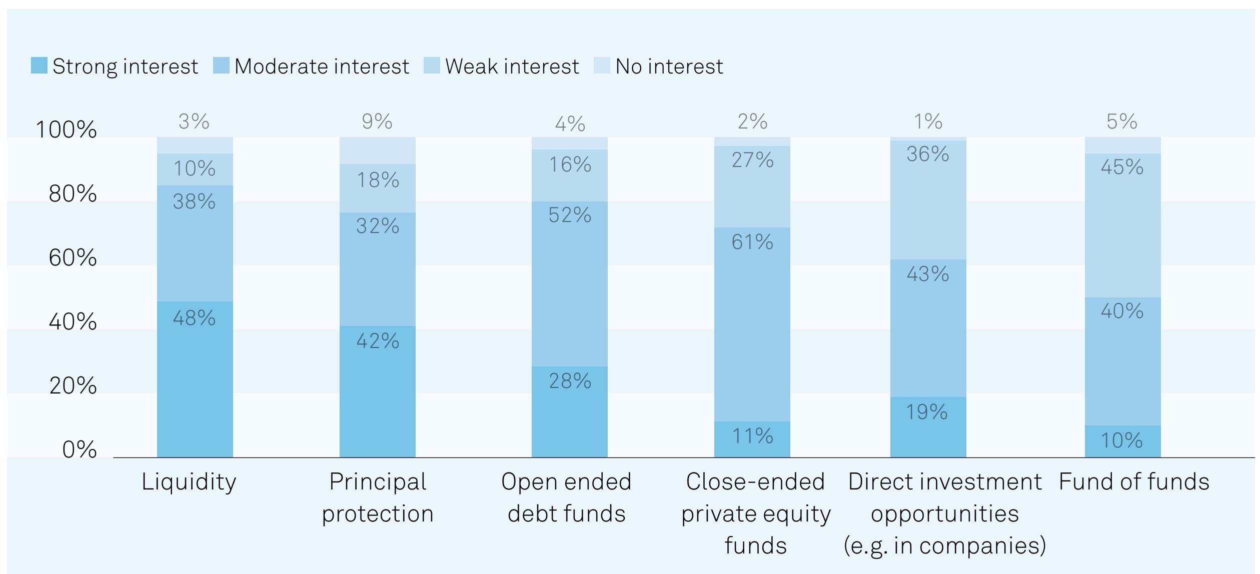
Appendices

Appendix 1: Household net financial wealth (banded): Great Britain, 2006/08 – 2010/12



The UK Government Cabinet Office update on Social Investment (June 2014) reported a survey of retail investors with investable wealth of between £50k and £99k. The analysis, based on responses to social investment opportunities presented, was that as much as 40% of this group would be actively interested in making social investments, and 33% 'passively' interested.

Appendix 2: Degree of Interest for Impact Investment Structures and Structural Features (The GIIN & JP Morgan). Note: this research is based on institutional investors' views.



Appendix 3: Distribution of financial products; Excerpts from Wealth in the UK, ONS (2014)

Percentage of households with formal financial assets: Great Britain, 2006/08 – 2010/12 (%)

	2006/08	2008/10	2010/12
All current accounts	95	96	96
Current accounts in credit	85	90	90
Savings accounts	62	68	58
ISAs	42	49	48
National Savings certificates and bonds	24	28	22
UK shares	15	16	12
Insurance products	10	10	7
Fixed term bonds	8	12	11
Employee shares and share options	7	8	6
Unit/investment trusts	6	6	5
Overseas shares	2	2	2
UK bonds/gilts	1	1	1
Any formal financial asset including current accounts in credit	**98**	**98**	**98**
Any formal financial asset excluding all current accounts	**75**	**80**	**75**

Table source: Office for National Statistics

Median Value of formal financial assets: Great Britain, 2006/08 – 2010/12 (£)

	2006/08	2008/10	2010/12
All current accounts	800	900	1,000
Current accounts in credit	1,000	1,000	1,200
Savings accounts	3,500	3,000	4,000
ISAs	7,000	7,000	9,000
National Savings certificates and bonds	300	300	600
UK shares	4,000	2,000	4,000
Insurance products	15,000	17,500	19,700
Fixed term bonds	17,000	20,000	20,000
Employee shares and share options	4,000	3,000	3,600
Unit/investment trusts	15,000	14,000	20,000
Overseas shares	3,000	2,000	3,000
UK bonds/gilts	15,000	11,500	16,200
Any formal financial asset including current accounts in credit	**7,000**	**7,900**	**8,000**
Any formal financial asset excluding all current accounts	**10,200**	**10,300**	**12,000**

Table source: Office for National Statistics

Proportion of households with wealth in private pensions and amount of wealth (£) held in such pensions, by type: Great Britain, 2006/08 – 2010/12[1,2,3,4]

		% with	1st quartile	Median	3rd quartile
2010/12	Current occupational DB pensions[1]	31	19,500	59,100	175,100
	Current occupational DC pensions[1]	14	4,100	12,100	35,100
	Personal pensions[1]	15	6,600	18,000	45,400
	AVCs[1]	2	4,000	10,000	23,400
	Retained rights in DB pensions[1]	18	9,300	26,300	67,400
	Retained rights in DC pensions[1]	16	3,500	12,100	36,600
	Rights retained in pensions for drawdown[1]	0	13,000	30,000	130,000
	Pensions expected from former spouse/partner[1]	1	11,400	36,000	88,300
	Pensions in receipt[1]	30	38,500	117,800	294,200
	Total pension wealth[1]		25,000	82,300	228,000
	Total pension wealth (whole population)[2]	76	900	40,400	162,600

1 Calculations for wealth estimates exclude those with zero pension wealth (i.e. only cover those with pensions)

2 The rows highlighted in bold and labelled 'Total pension wealth (whole population)' include those with zero pension wealth.

3 Although the methodology for calculating DB pension wealth has remained the same in all three waves, there have been changes in the financial assumptions. These are detailled in chapter 7: Technical details.

4 Households can have wealth in more than one type of pension

References

I These numbers are based on surveys of investors. The 2012 and 2013 survey samples contained overlapping but distinct sets of respondents, with sample sizes of 99 respondents in 2012 and 125 respondents in 2013. The 2014 projections were made by the same 125 investors responding in 2013 about their plans for the next year.
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