

CENTRE FOR LONDON

# In London and For London: Impact investing for the capital

*Claire Harding, Josh Cottell, Jon Tabbush and Zarin Mahmud*



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Impact investing for the capital**

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The views expressed in this report are solely those of the authors, and all errors and omissions remain our own.

## Foreword

Bridge House Estates is an ancient charity. We support and maintain five Thames bridges at no cost to the taxpayer, and we distribute the surplus income on our investments for the general benefit of Londoners, typically through grants to charitable organisations. This all requires careful consideration of how our assets, not least our investments, advance our vision and aims.

London is a place of great wealth and opportunity, but also a city of great inequality, with persistent disadvantage, significant marginalisation and the highest poverty rate in the United Kingdom. We need to find creative ways to tackle the issues that hold London and Londoners back, and this work must of course be resourced.

Alongside public investment and philanthropy, private investment capital is an increasingly significant force in forging a London that works for all, and I am therefore delighted to see Centre for London's important new report, which examines how we can use investment finance to deliver social impact. Developments such as this will doubtless help us fulfil our role in bridging and connecting London for the benefit of Londoners today and for the generations to come.

*Giles Shilson*

*Chair, Bridge House Estates Board*

*Chair, City Bridge Trust*

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# Summary

## What is impact investing?

In this report we define impact investments as investments made with the intention to generate a financial return alongside positive, measurable social impact.<sup>1</sup>

The impact investing market can be categorised in a variety of ways. Our definition is broad enough to include the three main areas of the economy that the Impact Investing Institute argues ought to be priorities for such investments: real estate (including affordable housing and commercial property), infrastructure (transport, utilities, schools and hospitals), and finance for small and medium-sized enterprises (SMEs). Actors in the system include social investors, commercial investors looking to develop impact funds, and institutional investors such as pension funds.

## Why is impact investing important for London?

We believe that impact investing is likely to play an increasingly important role in addressing London's key challenges over the next few decades. This is partly because the market is growing and maturing – there is more capital available, and some of our interviewees felt that it was now being used more effectively as people's experience of impact investing has grown.

The government's focus on growth over poverty alleviation risks diverting money away from addressing the critical challenges that London faces – which leaves an increasing gap to be filled by philanthropy and private capital. While the new government has so far made little use of Boris Johnson's "levelling up" language, we believe that current political arithmetic means London is unlikely to be an electoral priority for some time – so enabling private capital to play a role alongside public investment in addressing Londoners' needs will continue to be important.

## How much impact investing is there in London?

- Interest in impact investing has grown considerably in recent years, as has the size of the market – by as much as 10 times in the decade to December 2021.<sup>2</sup>
- Available data suggests that London receives between 5 and 13 per cent of all impact investment in England. After accounting for missing data, this rises to between 27 and 42 per cent.<sup>3</sup>
- This suggests that London receives more impact investment per person than the average across England, as Londoners represent just 16 per cent of the population of England.<sup>4</sup>

## Opportunities for greater impact

### Build more connections in the network of stakeholders

- A wide group of actors play a role in the impact investment market in London – including asset owners and investors with varied priorities, grant-makers, recipients of investments and grants, and government at the local, city, and national level.
- The networks in London are strong compared to other UK regions, but there are still issues that prevent the market from working as effectively as it could.
- Local authorities and the Greater London Authority (GLA) can play an important role in bringing stakeholders together and addressing barriers to investment.

### **Assign capital to gaps in the market**

- For commercially focused investment, mid-stage capital can be difficult to attract.
- It can be hard for projects with high impact but lower potential returns to access early-stage capital.
- Place-based impact investors can find it challenging to identify suitable projects to invest in, since there will be relatively few investable projects within their chosen area.
- Blended finance, investment readiness grants, and incubators offer promising solutions to these issues.

### **Make access to capital more inclusive**

- Many SME founders struggle to access impact investment, particularly when their organisations are at a relatively early stage in the pipeline. This reflects a pattern observed in access to business finance more generally.
- This is often due to bias, discrimination and structural inequality, rather than the quality or viability of their project.
- This often means that the projects that could make the most impact don't get off the ground.

### **Talk more clearly about aims and impact**

- The language that people use to describe impact investing – especially its aims and the impact brought about – varies considerably.
- This can make it harder for investors and investable projects to find each other. When they do, it can be a challenge to agree on what will be delivered and what financial return they should target.

### **Reflect real needs**

- Some investors and investment projects have a strong record of involving potential beneficiaries in their decision making, but this remains relatively rare.
- There aren't always clear standards for what good engagement by investors looks like, and public involvement is less established than in other sectors.
- Engaging with the people intended to benefit from a programme of work makes it more likely to meet their needs and so achieve its intended social outcomes.

# **Glossary of terms**

**Impact investing:** We use GIIN's widely endorsed definition of impact investing, but with a focus on social impact. "Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."

**Impact investor or asset manager:** Unless otherwise stated, we use "investor" to refer to the people or organisations that make decisions about how to invest funds with the intention of generating social impact alongside financial returns. This may be the owner of the asset themselves, but is often an asset manager (an organisation that invests on behalf of an asset owner).

**Asset and capital owners:** Organisations and people that provide the capital to be invested, either directly or via an asset or fund manager.

**Grant-maker:** Grant-makers include institutions, charities, private foundations and giving circles that award monetary aid or subsidies to organisations or individuals.

**Blended finance:** Blended finance uses grants alongside repayable finance to make the latter more affordable and increase the chance of success. The aim of this "blending" is to facilitate lending to charities and social enterprises which would otherwise be lacking.

**Project or recipient of impact investment or investee:** We use these interchangeably to refer to organisations or projects that have received impact investment.

**Place-based impact investing:** Place-based impact investment works to create positive social outcomes through investing in a specific area or community.

# 1. What is impact investing?



## What is impact investing?

In this report we define impact investments in a similar way to the widely endorsed definition of the Global Impact Investing Network (GIIN):

**Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.<sup>5</sup>**

Although the above definition mentions environmental impact, in this report we mainly consider investment approaches that have a social impact. Environmental goals remain critically important for London, and some of our findings will be relevant for impact investors who are primarily seeking environmental impact. However, our focus has been primarily on investments with a social impact dimension.

When an individual or organisation makes an investment, they usually do so with the hope or expectation that they will not only get their money back, but also receive a positive financial return. An impact investor explicitly seeks for their investment to also result in a positive impact in the world, and one which can be measured. Advocates of impact investing argue that the investment market as a whole should shift towards measuring the impact of investments, moving from a focus on the risk and financial return of each investment to a focus on risk, return, and impact.<sup>6</sup>

An impact investment made with the intention to bring about a *social* impact might in theory aim to improve the lives of everyone within a society. More commonly, however, such investments are intended to improve the lives of people facing certain challenges, or those of a certain age, or who live in a particular place. This last type of investment, often called “place-based impact investment”, is something we focus on at points in this report due to the possibilities it offers in a defined geographic area like London.

At present, place-based impact investing is a relatively small part of the market. However, a group of experts who wrote an influential and informative report on it<sup>7</sup> (The Good Economy, the Impact Investing Institute, and Pensions for Purpose) are aiming to develop shared thinking and a knowledge network to scale up this type of investment.<sup>8</sup>

Some investors are focused primarily on securing market-level financial returns, often due to the fiduciary duties of these investors (such as pension funds who are responsible for securing members’ retirement incomes). Others are focused primarily on measurable high-impact solutions, with a willingness to accept a lower financial return.

We recently published a [report](#) on how local authorities can make the most of their assets – including how local government pension schemes can invest in local place-based impact investments.

The impact investment market is heterogeneous, with variations on the risk and return expectations of investors, the asset classes invested in, and the type of impact sought. The opportunities for impact investment to achieve greater impact will vary along all these lines.

## Arguments for impact investing

Proponents of impact investing argue that all investments have impacts on the world other than their financial return. Some of these impacts can be negative (for instance, an investment in oil exploration which leads to more global heating) and some positive (e.g. investing in a business which provides jobs). By seeking to measure the impact of investments and considering this when making investment decisions, an impact-investing approach ought to shift the market towards more positive impact.

Some remain sceptical of the consequences of impact investment. For instance, economist Tyler Cowen argues that social impact investing could be used to whitewash harmful policies – for example, if an investor is only explicit about the impacts within their portfolio that are positive, and does not disclose the negative impacts of other investments (like those into fossil fuels).<sup>9</sup> In response, it might be argued that it is better for the impact of some investments to be transparent than none at all, and that hiding negative impacts should never be acceptable.

Cowen also argues that by declining to invest in a profitable but harmful product, an impact investor passes the opportunity on to other investors, who may be less socially conscientious. To the extent that this leads to a redistribution of power, it is one from more to less conscientious investors. Others have argued that talking about impact doesn't do enough to meaningfully alter the incentives faced by the investment market as a whole, which are determined by financial risk and return.<sup>10</sup>

In response to these claims, others might argue that as transparency about the impact of investments increases, the value of investments will shift towards those with a greater positive impact as consumers vote with their wallet. Already, some argue, there are investment opportunities that align social impact and financial return.<sup>11</sup>

Some might also object to the idea that impact investors should be in a position to decide what is socially valuable and worth pursuing (the same argument is sometimes made about large-scale philanthropy). To respond to this claim, impact investors should ensure that their work is informed by the proposed beneficiaries of their investments.

## Definitions and challenges

Definitions of impact investing can be complex and contested. There are two key reasons for this. First, people sometimes use different terms to describe the same things; second, there are fundamental disagreements about what impact investing is, specifically whether investments that achieve a market return and *also* have a social impact can be considered impact investments. Some people feel that impact investing should be distinct from investments made on a purely financial basis: others feel you can have both. This raises questions about the interaction between impact investing and other forms of ethical or ESG (environmental, social and governance) investing, and has also led to accusations of companies “impact washing” their investment products.

In this report we have adapted GIIN's definition of impact investing to define it as “Investments made with the intention to generate positive, measurable social impact alongside a financial return”. However, we recognise that there are many types of activity falling within this framework, and the boundaries between impact investments and “ordinary” investments are not always clear. It can be helpful to think of investing as a spectrum – from investments made purely on the basis of return, to investments made purely on the basis of social impact (see Figure 1). Different investments will fall at different points on the scale.

The government may also have levers available to influence investments that prioritise impact – for instance, by providing subsidy for “blended finance”, which mixes grants with repayable finance. However, there is a broad consensus that investments across the spectrum having a positive social impact should be encouraged.

**Figure 1: Spectrum of capital**

	Financial-only	Responsible	Sustainable	Impact			Impact-only
	Delivering competitive financial returns						
		Mitigating Environmental, Social and Governance (ESG) risks					
			Pursuing Environmental, Social and Governance opportunities				
				Focusing on measurable high-impact solutions			
Focus	Limited or no regard for environmental, social or governance (ESG) practices	Mitigate risky ESG practices in order to protect value	Adopt progressive ESG practices that may enhance value	Address societal challenges that generate competitive financial returns for investors	Address societal challenges where returns are as yet unproven	Address societal challenges that require a below-market financial return for investors	Address societal challenges that cannot generate a financial return for investors
Examples		<ul style="list-style-type: none"> <li>PE firm integrating ESG risks into investment analysis</li> <li>Ethically-screened investment fund</li> </ul>	<ul style="list-style-type: none"> <li>"Best-in-class" SRI fund</li> <li>Long-only public equity fund using deep integration of ESG to create additional value</li> </ul>	<ul style="list-style-type: none"> <li>Publicly-listed fund dedicated to renewable energy projects (e.g. a wind farm)</li> <li>Microfinance structured debt fund (e.g. loans to microfinance banks)</li> </ul>	<ul style="list-style-type: none"> <li>Social Impact Bonds / Development Impact Bonds</li> </ul>	<ul style="list-style-type: none"> <li>Fund providing quasi equity or unsecured debt to social enterprises or charities</li> </ul>	

Source: Bridges Fund Management, Spectrum of Capital.<sup>12</sup>

## 2. Impact investing in London



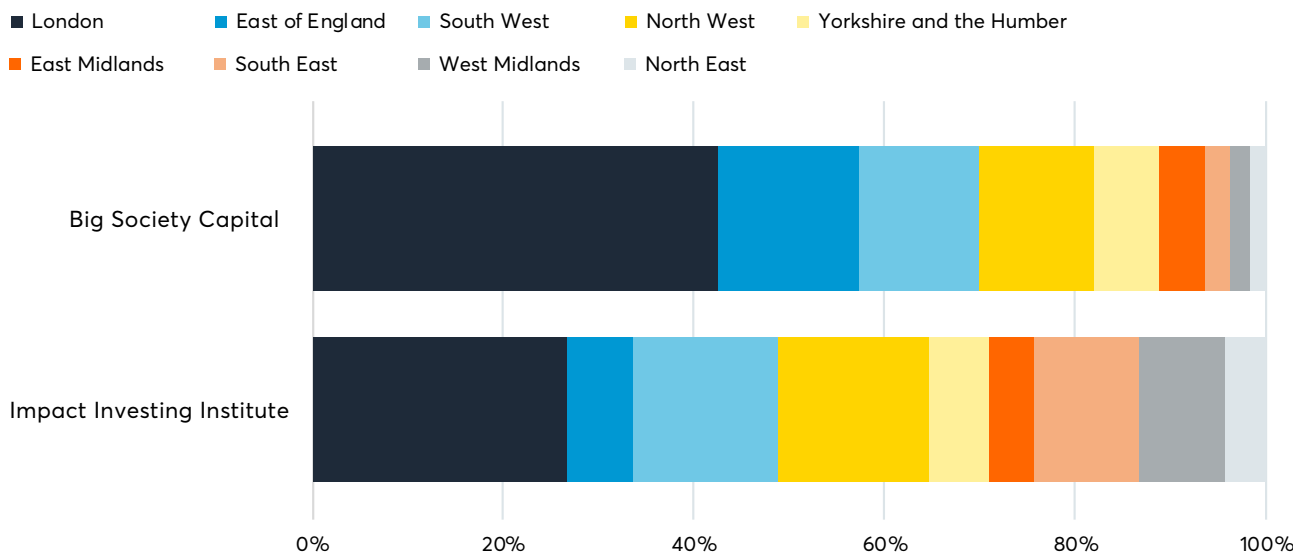
## How much impact investing is there in London?

Interest in impact investing has grown considerably in recent years, and the size of the market has also grown.<sup>13</sup> But getting data on how much money is invested, what activities are being carried out, where they are happening and what investors aim to achieve is difficult. This is partly because people mean different things when they talk about “impact investment” – there is no single definition. There are no obligations for impact investors to lodge information about their investments in a central repository, so the available information is all collected on a voluntary basis.

The best data we have on impact investing and place is from two key sources: Big Society Capital, which has a dataset on individual-level impact investment deals, and the Impact Investing Institute. This work has been immensely helpful to us and others in understanding the impact investment market, and having more data would make it possible to draw conclusions that could support further developments in the market – we discuss this further below.

From the available data, it seems that London receives between 5 per cent<sup>14</sup> and 13 per cent<sup>15</sup> of all impact investment in England – with the caveat that the higher figure (which is from the Impact Investing Institute) may include some organisations headquartered in London but active across the country. However, there are large gaps in the data where information on the geography of an investment is not collected or reported. Taking this into account, London would have between 27 and 42 per cent of all impact investment in England (see Figure 2).<sup>16</sup> From this, it seems that London receives more impact investment per person than the average for the rest of England, since Londoners represent just 16 per cent of the country’s population.

**Figure 2: Distribution of impact investment among regions of England, by data source**

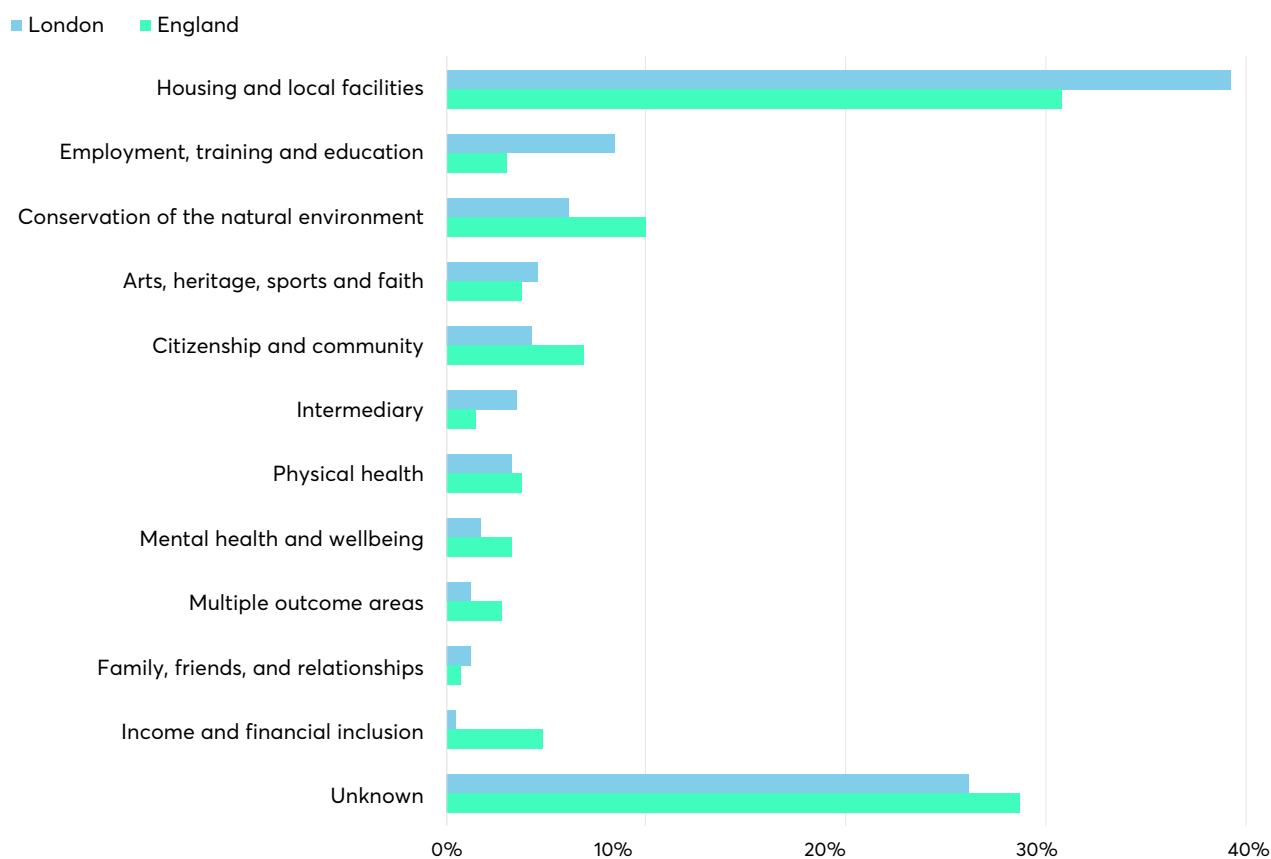


Source: Big Society Capital, Market data<sup>17</sup> and Impact Investing Institute, Estimating and describing the UK impact investing market.<sup>18</sup> Note: Data for Big Society Capital is averaged over five years (2016-20) to improve accuracy, but captures a small subset of all investments due to missing data. Data for Impact Investing Institute is for the year 2020.

Data from other sources on social investment (a subset of impact investment) show that London receives more investment than other regions. Access (The Foundation for Social Investment) finds in its most recent dashboard that London receives the most investment of any region.<sup>19</sup> Analysis from the Commission on Social Investment finds that, after accounting for the number of charities and social enterprises in each region of the UK, London is the region with the most social investment deployed.<sup>20</sup>

There are a few possible reasons for London’s higher levels of investment. It might be that investors are more likely to support projects in London because they live and/or work here – or it might be that London-based organisations are better at securing investments than their counterparts elsewhere. Alternatively, it could be due to projects requiring more capital given the higher prices in London.

**Figure 3: Distribution of investments by primary outcome allocation, London and rest of England**



Source: authors’ calculations based on data from Big Society Capital (2022).<sup>21</sup> Note: Data is averaged over five years (2016-20) to improve accuracy.

Data from Big Society Capital suggest that impact investments in London seek broadly similar outcomes to those in the rest of England, based on the amount of money invested in each outcome. However, there are some differences. “Housing and local facilities” makes up the largest group for both London and the rest of England, but is larger in London. This probably reflects both higher prices in London – meaning that building the same number of properties would cost more than in most other places – and the importance of housing costs as a driver of poverty. Similarly, employment support represents a larger share of investment in London than in the rest of England. “Conservation of the natural environment” makes up a lower proportion of spending in London than elsewhere, presumably because it is often focused on more rural areas – yet is still fairly high at six per cent of the total. As with regional allocations, there is a considerable amount of missing data – and we do not know if the missing sections are representative of the whole.

### What are London’s key challenges?

Impact investing is about generating “positive, measurable social impact”. This in turn raises the question of which impacts are most important, and how they

are categorised – particularly when thinking about place-based investing.

Investors who work across different countries often categorise their work according to the UN Sustainable Development Goals (SDGs). For example, an investment in training courses for young women might be described as supporting SDGs 4, 5 and 8 (gender equality, education, and decent work and economic growth).<sup>22</sup> The SDGs are not much used to describe UK-based activity, which can lead to confusion when international investors seek to work in the UK impact market. However, the London Sustainable Development Commission recently published a report summarising London’s progress towards meeting the SDGs – a useful resource for those seeking to understand the city’s key challenges.<sup>23</sup>

Within London, different groups use different terms and categories to describe impact investing work. At the beginning of our project, some people we spoke to felt that the Mayor of London’s coronavirus Recovery Missions should be the focus for impact investing in London, with work categorised and tracked against them.<sup>24</sup> But as our project continued this view became less widespread, as the challenges faced by the capital – particularly the cost-of-living crisis – felt less connected to the pandemic. It felt increasingly important that metrics could be translatable across the UK, rather than just within London.

Due to the limited data available on investment deals, and the difficulties of translating between the lists and categories used by different organisations, it is difficult to assess how far impact investment in London is meeting the capital’s key challenges. There may be a role for local and regional government to define these challenges so as to draw investment towards them, and we discuss this further below.

## Why impact investing matters now for London

We believe that impact investing is likely to play an increasingly important role in addressing London’s key challenges over the next few decades. This is partly because the market is growing and maturing – there is more capital available,<sup>25</sup> and some of our interviewees felt that it was now being used more effectively as people’s experience of impact investing has grown. Asset owners are increasingly interested in making their money do good, especially in meeting their Net Zero goals. (Although we consider environmental investing to be distinct from social impact investing, there is often overlap.) At a global level, Sir Ronald Cohen argues that the amount of state capital available is not enough to meet the challenges we face – we must mobilise more private capital to address them.<sup>26</sup> The huge costs of the coronavirus pandemic and now energy price inflation perhaps strengthen this argument.

There are also specific reasons to think that impact investment is likely to become more important in London. London is a key centre for impact investment and receives a lot of impact funding: it is also home to the City of London, one of the biggest financial centres in the world. It might be possible for the capital that flows through the city to do more in addressing London’s key challenges. At the same time, the government’s Levelling Up agenda risks diverting money away from addressing London’s critical challenges, leaving an increasing gap to be filled by philanthropy and private capital.<sup>27</sup> While it is likely that the “levelling up” language will not survive the next election, we believe the current political arithmetic means that London is unlikely to be an electoral priority for some time – so getting state support for social projects in London will be difficult.

At the time of writing, interest rates have risen and are expected to rise further, and the value of the pound is falling. Public spending is likely to fall and a prolonged recession seems likely. Times will be tough for small enterprises in particular, and some of these may struggle to achieve their impact goals. Impact investment may become increasingly important in this environment, but tough market conditions will test its ability to make a difference.

# 3. Opportunities for greater impact



## Build more connections in the network of stakeholders

A wide cast of actors play a role in London's impact investment market – from asset owners and investors, to grant-making organisations, local and city government bodies, and the communities that investments seek to benefit. A lack of communication between any of these actors can lead to gaps in the information that each has about the market, which can cause inefficiencies (such as investors failing to identify investment projects in the city, despite suitable projects existing).

In particular, we heard that investors face challenges in reaching:

- Organisations that are on their way toward being ready for impact investment.
- Organisations that are ready for impact investment.
- Projects that offer a lower rate of financial return or are less scalable, but still have high impact potential.



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London has a strong network of actors compared to other regions in the UK. The city is home to established networks of grant funders and investors. Such networks are especially important for the success of place-based impact investments, which benefit from cooperation between local actors. Nonetheless, we heard that different groups within London's network don't always speak to each other enough. For instance, one interviewee told us about networks of grant funders and local projects that meet regularly, but from which impact investors were mostly absent. However, others told us that there is no shortage of impact-investment-specific networks – including those organised by the Impact Investing Institute, Big Society Capital, and the Social Impact Investors Network.

The density of projects can mean that investors have to assess many potential opportunities, and some projects that offer big social impacts slip through the cracks. One interviewee told us that lots of activity exists but that it was not clear where to focus: "In other counties, there's less in the landscape, but it is quite clear where you would invest in or who the

community leader is”. It can be simpler to focus on a single local authority, but this can also limit scalability.

Government bodies such as local authorities and the GLA can also play an important role in bringing stakeholders together, as well as enabling access to complementary funding sources and helping remove local barriers to investments. We heard that while some local authorities have both the capacity and interest to play such a role, others do not, and some grant funders and investors experience this as “fragmented”. Local authorities’ appetite for financial risk and return with respect to investments varies considerably, often being set informally. There are also differences of skills and knowledge between local authorities. We were told that people working in city and local government would benefit from access to details of case studies that showed how investments worked (including how they were structured) – as well as opportunities to meet with other local authorities and impact investors.

Previous research by the Impact Investing Institute has found that there are gaps in information between key stakeholders for the purpose of bringing about place-based impact investments.<sup>28</sup> The researchers assessed whether a web-based platform for sharing information about potential investments and joining up stakeholders could help to mobilise private capital into place-based impact investing: they found that it was unlikely to be enough by itself. This is because institutional capital providers (one of the largest categories of asset manager) do not widely use web-based platforms, and such a platform would be costly to run. To build better connections between stakeholders, the researchers recommended information and networking events, as well as provision of support to local authorities to create and articulate “investment prospectuses” for their places. The Place-Based Impact Investing Forum offers one such network for pension funds and other asset owners in the UK; it is hosted by Pensions for Purpose and co-managed with The Good Economy and the Impact Investing Institute.<sup>29</sup>

### **Case Study: Bristol and Bath Regional Capital**

Bristol and Bath Regional Capital (BBRC) is a community interest group that offers place-based investment opportunities providing both a financial and social return.<sup>30</sup>

BBRC had a plan for a regional fund that involved securing funding from the EU to be matched by Big Society Capital. However, legislative difficulties meant the fund was not established. When Bristol Mayor Marvin Rees came to office he formulated the One City Plan, which called on public, private and third-sector partners to work together to make Bristol a fair, healthy and sustainable city.<sup>31</sup>

In light of this approach, City Funds was created – a stakeholder collaboration between BBRC, Bristol City Council and the local Quartet Community Foundation. It brings together investment, grant and local authority support in a place-based approach to tackling inequality in the city.<sup>32</sup>

Bristol City Council and Big Society Capital both invested £5 million into the Bristol City Fund, for a total of £10 million.<sup>33</sup> The fund offers loans of up to £1 million, or matched equity of up to £200,000.<sup>34</sup>

Examples of the impact BBRC has delivered include:

- Enabling a £9 million project to build a new community centre in an area that ranks among the 10 per cent most deprived nationally.
- Investment in a £6 million community-owned wind turbine that will provide clean energy to 3,000 homes.
- The development of 61 homes, including 21 at a discounted rent for key workers.<sup>35</sup>

**Case Study: Barking & Dagenham Giving**

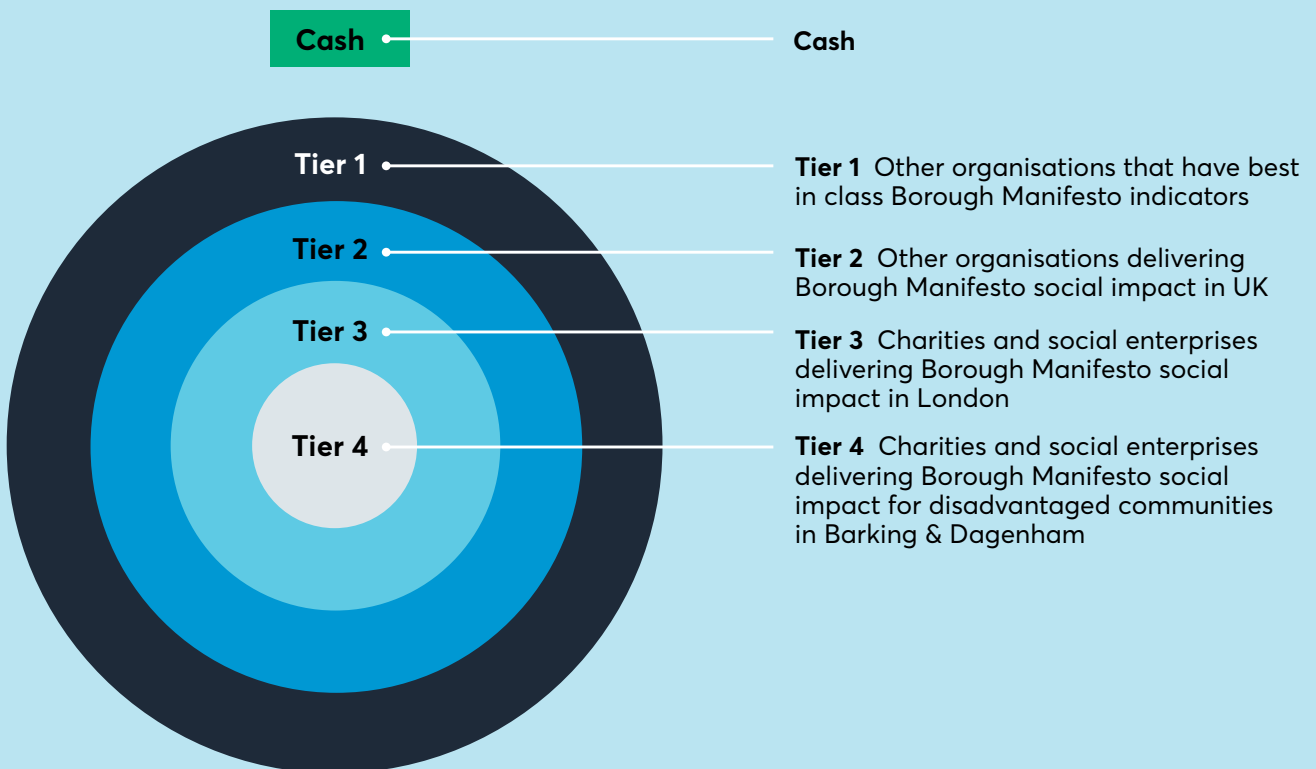
Barking & Dagenham Giving (BD Giving) is an east London charity that works on participatory grant-making and investment.<sup>36</sup> Among its initiatives is a Community Endowment Fund (CEF), now called the Growth Fund, worth £1.5m, funded by the local council. The Growth Fund’s investments are guided by a Community Steering Group made up of 12 local residents with no prior investment experience; members of the group are compensated for their time.

In active dialogue with BD Giving’s trustee board, the Community Steering Group designed a Community Investment Policy. The Community Investment Policy is based on a “bullseye” model, as shown in Figure 4, that provides a sliding scale of impact and locality. The Community Steering Group aims to maximise investments in the centre of the bullseye, scored against an investment proposal’s effect on risk, liquidity and return – while recognising that the entire endowment could not sustainably be invested within the borough or just within social enterprises and charities.

The Community Investment Policy is a sophisticated, participatory approach to place-based impact investment that provides one answer to the problems raised when investing purely into one deprived “place”.



**Figure 4: Barking & Dagenham Giving’s Community Investment Policy**



Source: Barking & Dagenham Giving (2022), Barking and Dagenham’s Community Endowment Fund Investment policy.<sup>37</sup>

## Assign capital to gaps in the market

It is difficult to accurately estimate the size of London's impact investment market from the available data, as we discussed in Chapter 2. However, in our interviews, we often heard concerns about the availability of impact capital to investees. The precise stage in an investee's development at which capital was lacking appeared to vary according to their sector and position on the spectrum of capital.

Early-stage capital appeared to be particularly lacking towards the social, lower-return end of the spectrum of capital. We heard that the "power law" of venture capital – that a small minority of early-stage investments produce the majority of returns – did not necessarily apply to all impact ventures. Since impact ventures are unlikely to scale so much or as fast as commercial investments, speculative early-stage investments are a harder proposition. One investee argued that many more socially oriented social enterprise founders struggle to gain initial investments because they have no track record to prove their competence and, compared to commercial VC, investing in early-stage organisations is seen as a greater risk. Founders without personal networks in finance may also have to meet higher thresholds to prove their track records than those with connections or experience in the area – though ventures, both in the commercial and impact markets, account for a relatively small proportion of investment activity. Blended finance, investment readiness grants and incubators all offer promising solutions to these issues, as discussed in the box below on connections between philanthropy and impact investment.

### ***The precise stage in an investee's development at which capital was lacking appeared to vary according to their sector and position on the spectrum of capital.***

An impact venture investor we spoke to argued that on the more commercial side of the spectrum, the "mid-stage capital gap" was a particular problem, with seed capital often not followed by growth-stage and buyout investments. An investee similarly told us that there were few investors providing the "missing middle" investments between small-scale seed capital and later stage, seven-figure investments in social enterprises – what they called "scalable social funding". Bridges Fund Management, whom we interviewed, focus exclusively on the growth stage as a result of this gap. Community Development Finance Institutions (CDFIs) – not-for-profit lenders that provide responsible finance and support to small businesses – show another way that greater funding could support the SME finance part of the impact investment market.

Place-based investments present their own distinctive problems. A stakeholder involved in a regional impact fund explained that being limited to a relatively small urban area with few investable social enterprises created a mismatch between the intended size of their investments and the small operating size of many potential investees. Problems of availability sit alongside problems with the suitability of available capital, whether in scale, flexibility, or terms – though funds with broader criteria (i.e. those that can invest in impactful for-profit firms) may experience fewer of these issues. Implementing the Levelling Up White Paper's<sup>38</sup> target for Local Government Pension Scheme funds to allocate five per cent of their portfolios to place-based investments would generate £16 billion in extra capital nationwide.<sup>39</sup>

Many projects rely on forms of public sector funding: investments in social and affordable housing, for example, rely on welfare benefits for much of the revenue income derived from the underlying asset. When social rents and public subsidies (such as Local Housing Allowances and affordable housing grants) are not commensurate with the real costs

of providing social and affordable housing, it can seriously affect how investable a project is, as well as impacting its day-to-day operations. One provider of blended finance told us that if local authorities learnt to “be a better buyer” of services like social care, it could create more reliable revenue streams and thus help develop the market. Of course, this is hard when central government funding is very limited.

## Connections between philanthropy and impact investment

Strong links often exist between the impact investment sector and philanthropic donors (including both private individuals and charitable trusts). An organisation might:

- Receive both grant funding and impact investment for different areas of their work – either from the same or different organisations.
- Receive time-limited grant funding specifically to help them get ready for impact investment – for example, by building their internal systems so they can meet the reporting requirements of investors. This sort of funding may be accompanied by in-kind support such as financial training or pro bono legal advice.
- Receive ongoing grant funding alongside impact investment – for example when an organisation provides a service which has elements that people are willing to pay for, alongside elements that will always require charitable funding.
- Provide concessionary capital to de-risk impact investment projects and make private sector capital more likely to invest.

The connection between philanthropy and impact investment may also happen at the investment strategy level, with grant-giving organisations or individuals deciding that they will take an impact investment approach with all or part of their portfolio. Some large grant-giving organisations are increasingly interested in this approach and are exploring the best ways to put it into practice.<sup>40</sup>

An example of this kind of funding is the Reach Fund, provided by Access (The Foundation for Social Investment), which provides small grants to enable charities and social enterprises to become investment-ready. An evaluation of the fund found that at least 36 per cent of all organisations that were granted funding for investment readiness later successfully raised an investment.<sup>41</sup>

There is evidence that some high-earning philanthropists – particularly younger people – are interested in impact investing as part of a portfolio giving approach.<sup>42</sup>

Organisations and individuals using blended approaches may have questions about how impact investment decisions sit alongside ethical investment. They may have to decide whether they are willing to accept a lower overall financial return on their investments, but not all impact investing is concessionary, and it may be possible to maintain commercial-level returns alongside greater impact.

## Make access to capital more inclusive

Unequal access to capital is one factor that several of our interviewees cited as preventing impact investing from reaching its full potential in London. We were informed that many projects which could benefit from impact investment struggle to access the finance that they need, particularly at early stages in the pipeline. This is often due to factors that are irrelevant to the impact or return these organisations could deliver – for example,

the individual characteristics of those leading them. Women, people of marginalised genders and racially minoritised groups may struggle to access capital due to a lack of networks, a lack of knowledge about and support through the investment process, or the demographic and cultural biases of those providing capital. One person we spoke to also argued that place can impact access to capital, with projects based in certain areas of London more likely to receive investment than others.

The Adebowale Commission on Social Investment reported earlier this year that “the evidence is clear that social investment continues to have a serious problem with inclusion and equity particularly, although not exclusively, in relation to race”.<sup>43</sup> Many of those we interviewed echoed this finding. One investment manager recounted a situation where two very similar female-led organisations approached another investment committee for finance:

“One was led by a White woman. One was led by a Black woman. When passing through the committee, a committee of five White men, the person in the organisation led by a White woman rarely got any questions and got approved immediately. The other one took two weeks, and they are still not decided.”

Some interviewees also said that there are not enough information resources available on the different types of capital and who provides it. Consequently, those without a business or finance background may not know about the financial instruments available to them and how to access them. This is true for those seeking social investment (such as social enterprises) as well as for others such as local authorities, which are used to bidding for grants in line with government guidelines but have less experience attracting impact investment. The process of obtaining impact investment may also be difficult for those with a non-finance background, due to the sector-specific technical language used by investors and the complex due diligence processes.

Mentorship on how to navigate financing options, access new markets, and learn managerial skills could help SMEs become ready to scale and approach impact investors. However, one of our interviewees argued that this type of support is in fact already widely available for underrepresented groups – the issue is that not enough finance is provided alongside support to allow these projects to be successful.

“There’s a saying that Black founders are over-mentored and underfunded... [this] is still very typical of the sector.”

One way in which asset owners and investors could redress the imbalances of investment is through the creation of funds targeted at supporting organisations led by specific underrepresented groups. One of a growing number of examples of this is Big Issue Invest’s Growth Impact Fund, which invests in “diverse-led social enterprises tackling inequality in the UK”.<sup>44</sup> There have been calls for these funds to also be led and overseen by diverse groups: the Adebowale Commission on Social Investment has argued that in order to increase the access to finance and levels of investment into Black-led social enterprises, a Black-led and overseen social investment fund should be created.<sup>45</sup>

Indeed, greater diversity among impact investors could help mitigate some of the biases in the distribution of capital. One of our interviewees stressed that “the lack of diversity in terms of stakeholders is a massive barrier to even starting the conversation in a way that’s going to lead to the right outcomes”. An impact investment manager observed that

“you don’t get as many people from lower socio-economic backgrounds working in impact investment because they are more likely to go into traditional investment, which makes more money”.

The fact that impact investment can be a prosperous career path for individuals as well as being socially beneficial might be better publicised. One impact investment manager told us that “[the] sector is really, really bad at making it enticing”. More education and publicity about impact investment being both a socially valuable and well-paid career path could ensure more diverse groups are attracted to the sector.

### **Talk more clearly about aims and impact**

We often heard in interviews that the language people use to describe impact investing – especially its aims and the impact brought about – varies considerably depending on who you speak to. Local authorities may describe impact investments as part of their “regeneration” or “community wealth building” efforts, while wealth management funds use different, often technical, language. While some investors talk about impact primarily through the lens of the UN’s Sustainable Development Goals, many locally or UK-focused civil society organisations may not know which SDGs their work applies to. What impact investing means to an organisation depends on who they are, where they are on the spectrum of capital, what type of organisation they are, or what sectors they invest in.

There are also a variety of ways to measure impact. In some cases, two impact investors may each use a different impact measurement framework because they are aiming for different kinds of impact: for instance, one might aim to bring about more jobs or digital skills, while the other aims to create sustainable transport infrastructure. There have been efforts to develop tools that measure and report impacts on people and the environment, but these have not been adopted universally. One of the most concerted such efforts is the Impact Management Project.<sup>46</sup>

***What impact investing means to an organisation depends on who they are, where they are on the spectrum of capital, what type of organisation they are, or what sectors they invest in.***

In other cases, two investors who are seeking similar kinds of impact or working within a particular asset class may be more likely to use similar impact measurement frameworks. There have been attempts within certain sectors to create a common way of talking about impact, such as the Sustainability Reporting Standard for Social Housing.<sup>47</sup> Investors with a place-based focus may wish to align their investments with local authorities. However, since not all local authorities measure impact in the same way, this may need to vary across areas.

As discussed earlier, investors prioritise different things: some seek social impact as well as a market rate of financial return, while some are willing to trade financial return for impact to a greater or lesser degree. Research in the US finds that about one in five impact investors don’t publicly share their targets for financial return.<sup>48</sup> We reviewed the websites of 15 investors that have made impact investments in London and found that few shared information about their return targets.<sup>49</sup> We also found little consistency between organisations’ statements on their impact goals. Some shared the SDGs they were aiming to contribute to, while others used their own categories of impact, and still others didn’t appear to give any indication of the social impact they were aiming for. This can make it difficult for investors, projects seeking investment, and other actors such as local authorities to navigate the system.

We heard arguments for and against using the SDGs as a framework for impact. One interviewee argued that they are helpful, but only when

considered in their entirety. For instance, focusing on the “climate action” goal only makes sense for some investments when also considering the “responsible consumption and production” goal. Another told us that they see the SDGs as “the best tool that we currently have to facilitate charity, private, [and] public collaboration as they signpost that people are operating in the same space”.

We heard that one barrier to making impact investments (or seeking them out) is a lack of understanding about what they entail. For instance, projects seeking investment may not understand the difference between social investment, impact investment and venture philanthropy, so they may be unaware of what the differences mean for them. We also heard that some entrepreneurs seeking investment are surprised that, in addition to social impact, “impact investors are as laser-focused on commercial potential and market size as other investors”. This disconnect between expectations and reality could be a barrier to impact investment.

### Reflect real needs

There were some excellent examples of engagement being done well, both by investors and by the organisations they supported. Although engagement is often baked into processes – for example, requiring businesses to show that there is a real need they are aiming to address as part of their due diligence – there are no clear standards for what this engagement should look like.

Investors working on the commercial side of the spectrum often implicitly or explicitly frame this process as beneficial to attaining “product-market fit”, ensuring that a product meets a strong demand. In this vein, Nesta Investments explained to us that they partner with local voluntary, community and social enterprise organisations, local authorities, housing associations and other public sector institutions to help inform product design. Bethnal Green Ventures, a tech-for-good impact venture investor, stressed that due diligence should include evidence of user research with beneficiary communities (including user testing) as well as building an advisory board of community members to inform product development. We heard of similar processes from several other investors, though these did not always involve direct contact with users.



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The Fair By Design Fund, an impact venture fund that works to tackle the poverty premium, has worked with Toynbee Hall to run focus groups that inform their investment strategies. Placing individuals with lived experience on investment committees could, we heard, also be a potential route to incorporating “user voice” into investment decisions – which can help to rectify power imbalances in the process. The Adebowale Commission on Social Investment recommended that all social investment institutions that receive public money, including dormant assets, should have binding targets for diversity and representation on their investment committees.

Organisations that offer both grant funding and impact investment are sometimes an exception to this – they tend to have a culture of involvement from their grant-making activity which carries over into their investment practice, and (as discussed above in the section on investment

and philanthropy) they may give grant funding and investment to the same organisation. The Access Foundation told us about their Local Access Programme in Greater Manchester, which works closely with GMCVO, the Greater Manchester Centre for Voluntary Organisations. The programme – funded by government subsidy and repayable finance from Big Society Capital – offers grant funding, social investment and free tailored training and business support to entrepreneurs. By working with GMCVO, which convenes a network of Black and minority-ethnic-led social enterprises, the Access Foundation can “reach far deeper into that community” and “build trust” to an extent that would otherwise be impossible – demonstrating how strong stakeholder networks can help improve public involvement.

***Although engagement is often baked into processes – for example, requiring businesses to show that there is a real need they are aiming to address as part of their due diligence – there are no clear standards for what this engagement should look like.***

Outside these cases, the generally low level of engagement is in sharp contrast to the healthcare, community/voluntary and property development sectors. Public investment in health research such as drug trials is almost always conditional on patients being involved with the study proposal and how the trial is run. Public involvement is baked into the planning application process. And engaging with the people who will use a service – whether it is a playground or a food bank – has long been an expectation of charitable trusts. These systems are by no means perfect, but there is a broad consensus that they are necessary and useful – and organisations which do not do public engagement well are often criticised for it.

There is a lot of variety among social investors and the organisations they invest in, which makes it hard to give a single reason that public or community engagement is unusual. It may be significant that there is overlap between the impact investing world and the broader startup market. This tends to have a focus on speed, “disruptive innovation”, and the vision of the founder – which can give little space for the group work that goes into public engagement. In some cases, people may simply feel that the market will determine what people need. One investor explained that incorporating user voice into the investment process can often be very costly, adding to fees that are already relatively high by comparison to traditional investment. They suggested that grant funders were best placed to meet this cost as part of blended finance activities.

Others may not know how to go about engaging people, or they may lack the time and money needed to work with communities (especially in the case of early-stage organisations). Another commercial-side investor argued that the best guide to making capital reflect real needs was third-party research and data analysis of the underlying challenges affecting the areas of investment – but that this had to be combined with investees collecting feedback from their customers. Many investors are also at several layers of remove from potential beneficiaries of their capital – they might invest into a fund, which invests into a business, which engages with communities directly.

Engaging with the people who are intended to benefit from a programme of work makes it more likely to meet their needs and so achieve its intended social outcomes. In the case of social property funds, we heard that good community engagement also had the positive by-product of reducing risk to investors by ensuring that locals wanted the project and would not object during the planning process. This engagement might happen at a variety of levels:

- Organisations that are running an investment fund might:
  - Engage with their fund’s intended beneficiaries to determine the social investment priorities of their fund.
  - Engage with their fund’s intended beneficiaries to decide how investment decisions should be made – for example by creating an assessment framework.
  - Engage with their fund’s intended beneficiaries to assess specific investment proposals that have been made to them.
  - Require the organisations they invest in to undertake public engagement, either during the application process or during the lifetime of the grant.
  
- Organisations that receive – or would like to receive – impact investment might:
  - Engage with their project’s intended beneficiaries to help shape their investment proposition and any funding applications that they make. In some cases they may be able to request funding from a grant-giving organisation to help support the cost of this.
  - Engage with their project’s beneficiaries to determine the project KPIs that they and their funders will be using to assess their success.
  - Engage with their project’s intended beneficiaries at key points during project delivery, to shape delivery and respond to changing needs within the community.

There is a broad and deep body of evidence and best practice on how public, private and voluntary organisations can engage with communities on decisions that affect them – so there is much for the impact investment sector to build on.

### **Case Study: Women in Safe Homes Fund**

Resonance, a social impact property fund manager, set up the Women in Safe Homes Fund with Patron Capital, funded by Big Society Capital. It is the world’s first gender-lens property fund, investing in affordable and safe housing for women and their children experiencing or at risk of homelessness. The housing is then leased to delivery partners, with rents funded by the benefits system. Due to the sensitivity of providing safe accommodation for women and children often escaping abuse, consultation and engagement are key to service design for the fund.

As part of the fund’s yearly social impact reporting process, a third-party research partner is contracted to consult with housing delivery partners – usually specialist charities in the field, who are then asked to consult with the women living in the homes provided to ascertain their satisfaction with the quality. Due to the traumatic experiences suffered by many of their clients, this process requires robust anonymisation and data protection processes, as well as flexibility on time.

Resonance fund managers are intentionally not directly involved in this research so as not to bias its findings – i.e. to prevent a situation where delivery partners feel unable to be candid for fear of affecting their funding relationship.

## How opportunities vary within the market: a comparison of two outcome areas

The impact investment market is heterogeneous, with variations on the risk and return expectations of investors, the asset classes invested in, and the type of impact sought. The opportunities for impact investment to achieve greater impact will vary along all these lines. In this section we summarise some of these contrasts with reference to investments in two outcome areas for London – employment, education and training (EET) on one hand, and housing on the other.

A wide spectrum of charities, social enterprises and businesses work to have a positive impact on EET. These include fully commercial platforms like Multiverse, commercial social enterprises like Get My First Job, and charities like Bounce Back. Big Society Capital's deal-level database shows EET to be the third most commonly targeted outcome area of impact investment in London between 2016 and 2020.<sup>50</sup> Get My First Job (GMFJ) is a technology platform that aims to improve the process of youth recruitment (particularly for apprenticeships) using digital recruitment and screening techniques. When looking for early funding, GMFJ's founder was connected through his network to Nesta Investments, which invested £500,000. This was followed by several more rounds from other impact investors, including a £1 million round from Nesta and The City & Guilds Group. As it is a technology platform, GMFJ operates nationally by default.

Compare this sector to another key part of the UK's impact investment market: social property funds. Social property funds use investors' money to develop, buy, or lease property on behalf of a not-for-profit organisation, whether public or third sector. Between 2016 and 2020, "housing and local facilities" made up 39 per cent of Big Society Capital's deal-level database, the single largest category by far. We spoke to several investors in social property with different aims and methodologies. The Women in Safe Homes fund, described above, is both a thematic and a place-based social property fund. London's real estate prices are famously much higher than many other regions in the UK: the same amount of money in a lower-priced real estate market could house significantly more people, but some of the greatest need exists within London. We were told by one fund manager that in the capital, the mismatch between government funding for local housing allowance and property/rent prices has created a situation where margins (and therefore returns on investment) are significantly lower for social property funds compared to elsewhere in the country.

Not only are operational costs significantly higher for London social property, but there is also significantly more risk of being outbid by non-impact-focused commercial investors. In more socially oriented impact investment, many funds see themselves as providing finance to difficult-to-fund but highly socially valuable organisations. Social property investment is increasingly attracting interest from mainstream commercial capital that can afford higher up-front costs than organisations providing a concessionary rate to third sector and local government clients. These characteristics are unlike those seen in the jobs and skills space, where an investee told us that their model was threatened by competition from charities and the public sector, which did not have to produce a financial return or build a sustainable business model that could operate without outside funding.

We have recommended that impact investors involve the proposed beneficiaries of projects in their design. In the case of a jobs- and skills-oriented platform, this could involve running co-design workshops with young people in schools and colleges to ascertain their needs. With a social property fund, this can be more difficult: funds mediate between investors, the delivery partner, and the future inhabitant of the homes

they buy or develop (who are usually not known to the fund before they move in). We were told that it is often best for the fund to coordinate its purchases and developments with its charity and delivery partners, rather than trying to engage directly with its ultimate beneficiaries.

As we have argued throughout, impact investment is not a single market or approach but many. Though the jobs and skills sector is a paradigmatic example of an area of interest to impact investors, it differs in important ways from the most common form of impact investment in London: housing. The policy responses to its challenges will also, therefore, differ.

# 4. Case studies of impact investing in cities



### **Case Study: The Social Impact Fund Rotterdam**

Rotterdam faces a range of social and environmental challenges, including high unemployment and high CO<sub>2</sub> emissions.<sup>51</sup> Individuals within the municipal government saw local impact investing as a means to address some of these challenges, leading to the creation of the Social Impact Fund Rotterdam (SIFR).

In 2014, Wim Hoogendoorn, Director of Social Affairs at the Rotterdam municipality, launched the first social impact bond in Rotterdam, which targeted youth unemployment. Buzinezzclub, an organisation that coaches and develops entrepreneurship among unemployed young people, was selected as the service provider. The programme aimed to help young people aged 17-30 find suitable study or employment opportunities and start their own companies.<sup>52</sup> The Start Foundation and Dutch bank ABN AMRO invested a total of €680,000 in the programme.<sup>53</sup> The Municipality of Rotterdam was the outcome payer.<sup>54</sup>

In 2016, Hoogendoorn started a working group on impact investing. This proposed creating the Voor Goed Agency to matchmake stakeholders and provide non-financial support, and Social Impact Fund Rotterdam to invest in social entrepreneurs. Both were launched in 2019, providing entrepreneurs and social enterprises with early-stage grants and repaying investments through results-based social impact contracts.

The fund focuses on three areas for social impact, three partners, three types of funding, and three types of targeted social companies.<sup>55</sup> SIFR's model combines two core characteristics: place-based impact goals and close cooperation with local partners, including the local government. Cooperation among different partners is facilitated by having many members with experience in both impact investing and local government, with partners located near to one another.

The fund has invested in social enterprises whose mission is to aid people seeking employment opportunities. One example is YoungUP, which has successfully supported over 400 young people to gain employment in a field that suits them.<sup>56</sup>

### **Case Study: Greater Manchester Pension Fund**

GMPF, managed by Tameside Metropolitan Borough Council, is one of the only pension funds to have an explicit allocation to local investment.<sup>57</sup> It has a five per cent allocation that promotes economic development by place-based impact investing, which includes private equity, private debt, and infrastructure and property investments.<sup>58</sup>

Paddy Dowdall, Assistant Executive Director, explained that their decision to create this allocation was “a political one in terms of strategy. We want to invest locally where possible. It has the clear aim of targeting these under-served markets to improve the economy.”<sup>59</sup> Local investing was thus originally defined as the Greater Manchester region: however, this has recently been extended to the North of England. As well as enabling greater diversification, this decision was made to support collaboration and pooling arrangements with Merseyside and other Northern Pool funds.<sup>60</sup>

Property investment has been one of the primary vehicles for the Fund to create social impact. GMPF makes direct investments in regeneration and property development schemes through joint ventures. The Fund's flagship development is 1 St Peter's Square, which was seen as a catalyst for further development and regeneration in Manchester. Other investments GMPF have made as part of their Impact Portfolio include the provision of supported living accommodation, renewable energy, loans to small- and medium-sized businesses, and private equity with a focus on impact investing.<sup>61</sup>

GMPF has faced some challenges in trying to invest locally. One is the added reputational risk should the investment not perform in line with the original aim. Efforts to counteract this have included putting arrangements in place to demonstrate the commerciality of the investment opportunity and limiting all local investments to an aggregate of no more than five per cent of the fund value.<sup>62</sup> Other challenges include the resource-intensive nature of impact investing, which is demanding from a governance and operational perspective.

### **Case Study: The GM Homes Partnership – Social Impact Bond**

In 2016 the Department for Communities and Local Government announced that Greater Manchester would be awarded a Social Impact Bond. The Greater Manchester Homes Partnership – a collaboration between local housing providers, social investors, and three homelessness charities – was awarded the contract. The goal of the programme was to work with 400 of the city's most entrenched rough sleepers, helping them to access accommodation and services as well as supporting them to build a new life over a three-year period.

Bridges Fund Management agreed to fund the upfront costs of the programme via its Social Impact Bond Fund, while the Department for Communities and Local Government committed to pay for any successful outcomes achieved. The funding allocation was up to £2.6 million.

The programme provided the wrap-around support needed to help individuals sustain a tenancy in one of the 300 homes made available by 18 Greater Manchester housing provider partners through priority allocation of void properties. The charities Shelter, Great Places and The Brick ensured individuals received the intensive emotional and practical support they needed to access appropriate health, training and employment services.

The Greater Manchester Social Impact Bond exceeded nearly all its outcome aspirations.<sup>63</sup> Key factors that the programme's success were attributed to include:

- The number of cross-sector partners brought together by GM Homes partnerships in the delivery of the Social Impact Bond.
- The flexible relationship between Greater Manchester Combined Authority and the partnership, which resulted in the development and delivery of several exciting pilots as well as changes to the structure of the Social Impact Bond.
- The involvement of people with lived experience.

### **Case Study: Community investment – lessons learned from the USA**

In 2019, Big Society Capital published a report exploring some lessons from US community investment that could inform the UK's efforts to scale the social and economic impact of community lenders and promote inclusive growth. Community investors in the US aim to expand economic opportunity in low-income communities by supporting small businesses to access finance and other non-financial support via Community Development Finance Institutions (CDFIs). CDFIs can offer loans, development services and private equity investments.

CDFIs in the US offer a broader package of financial and non-financial support, placing a greater emphasis on technical assistance than is usually found in the UK. Technical assistance may include networking opportunities, counselling, and educational services. Such support aims to help small business owners make informed financial decisions that lead to reduced debt, improved personal credit and the creation of assets. In the US, CDFIs offer lower interest rates than those in the UK due to greater availability of concessionary capital and subsidy, as well as cultural and legislative differences.

An example of a city that has benefited from CDFI presence in the region is Detroit. Detroit has experienced persistent population decline since the 1970s, which has led to increased housing vacancies, lower property values, and a diminished tax base for the city.<sup>64</sup> Both national and local CDFIs have made efforts to revitalise Detroit, investing hundreds of millions of dollars into projects that have supported local businesses and created jobs.

The business model of CDFIs in the US is often built on foundations of strong collaboration with government, funders, and community-based organisations. Such collaborations mean that there are many routes for CDFIs to reach small businesses and establish referral points. The fact that CDFIs are strongly rooted in the communities they serve means they are able to support some of the hardest-to-reach small businesses.

In the US, the public sector also plays a greater role in community investment than it does in the UK. There is a dedicated department in the US Department of the Treasury for CDFIs, leading to a clear alignment between CDFI activity and government policy. The government plays a key role in the community investment sector by providing the accreditation of CDFIs, providing capital and grants, acting as a referral point, and acting as a non-partisan data and research source.

# Recommendations

Impact investing is already achieving a lot in London, but it could do even more. Other research has focused on different ways to make impact investing better, as well as increasing the amount of impact investment overall. Based on our findings, we set out below the actions that the government, investors and others can take to make impact investing work better in London.

## **Make access to capital more inclusive**

To ensure that London's impact sector reflects the diversity of the city's residents, everyone who works in impact investment should make diversity part of their decision-making process:

- **Asset owners should consider** creating funds that specifically target disadvantaged or minoritised groups and/or have founders or teams from these groups.
- **Asset owners and managers should consider** partnering with organisations that have specific experience of working with minoritised or under-served groups. These might focus on particular demographics, particular geographical areas, or both.
- **To increase the diversity of decision makers, everyone who works in the sector** should try to promote impact investing as a career, particularly to groups that are currently under-represented. This might be through school, college or university outreach, through traditional or social media, or through shadowing or placement opportunities.

## **Reflect real needs**

To ensure that projects receiving impact investment reflect the full range of needs in London, the proposed beneficiaries of a project should always be involved in its design:

- **Organisations and projects considering seeking impact investment (and those that have received it)** should engage with their intended beneficiaries, both early in the creation process and throughout the work.
- **Local authorities and the GLA** should clearly articulate the needs of London on behalf of Londoners to help direct investment.
- **Asset managers** should ask organisations applying for investment (and those that have received it) for evidence that their project is based on the expressed needs of intended beneficiaries (for example by carrying out co-design workshops or surveys). They should not assume that if a founder or project lead comes from a particular group, their proposed project reflects the needs of all people in that group.
- As a stretch goal, asset managers and sector bodies should work together to create an agreed definition of good practice for public involvement in impact investing.

## **Assign capital to gaps in the market**

To enable more projects and organisations to deliver impact, investors and funders should focus particularly on gaps in the market:

- **Asset managers investing in SME finance projects** should focus particularly on early- to mid-stage projects and on those seeking to secure moderate amounts of money (about £100,000 to £300,000).

- As the predominant source of subsidy in England, **the government should continue to provide subsidy via blended finance** to unlock private capital in support of organisations generating social value.
- **Asset owners that can offer blended finance** should do so as much as they are able – particularly to projects that have potential for profound impact but that might also find it harder to scale. They should also offer investment readiness support where they can.
- **Asset managers** should consider sharing their investment data with Big Society Capital to improve the quality of deal-level data available and make it easier to identify gaps.

## **Build more connections in the network of stakeholders**

To better match potential investors to potential projects, all organisations involved in impact investing should focus on building connections in the sector:

- **People who run existing place-based networks of organisations** (such as London Funders and more local groups) should seek to include impact investment in their work.
- **The GLA** should use its convening power to provide spaces for organisations involved in impact investing (and those who might consider it, including local authorities) to network and learn from each other.
- **Local authorities** should be given the resources to invest in expertise that will enable them to create investable projects and interact with private sector finance on a more equal footing.
- **Organisations involved in all parts of the sector** should work together to build a movement or campaign for impact investment to address London's key challenges.

## **Talk more clearly about aims and impact**

To make it easier for people working in impact investment to understand each other, everyone who works in the sector (and especially those with power) should focus on using simple and consistent language:

- **Asset managers** should include a plain language glossary of terms, or a link to one, when they are making statements about their priorities or requirements.
- **Asset managers and sector bodies** should work towards common definitions of the types of goals they are seeking, what they mean by impact, and how they measure it – this would make it easier for investee organisations to apply for funding and report on their outcomes.

# Endnotes

1. We use GIIN's widely endorsed definition of impact investing, but focus on social rather than environmental impact.
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